EXPORT DEVELOPMENT CREDIT FUND

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

S. 2335

AN ACT TO AMEND THE FOREIGN ASSISTANCE ACT OF 1961, AND FOR OTHER PURPOSES

SEPTEMBER 6, 1973

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

20-954 O WASHINGTON : 1973

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Washington, D.C. 20402 - Price $1.55

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EXPORT DEVELOPMENT CREDIT FUND

THURSDAY, SEPTEMBER 6, 1973

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator Russell B. Long [chairman] presiding.

Present: Senators Long, Hartke, Fulbright, Ribicoff, Byrd, Jr., of Virginia, Mondale, Gravel, Curtis, Packwood, and Roth, Jr.

The CHAIRMAN. This hearing will come to order.

Other members will be here, I assure the witnesses, as the hearing goes along.

We are concerned today with section 16 of the proposed foreign aid bill reported by the Foreign Relations Committee. This section provides for the establishment of a new U.S. Export Development Credit Fund, financed by borrowings of the U.S. Treasury. The proposed fund would offer financing for U.S. exports to the lowest income countries, that is, those with per capital income of $375 a year or less. The loans will be provided on concessional terms with interest rates of not less than 3 percent per year, repayment within 30 years and a grace period on principal of not more than 5 years. The fund will be authorized to make loans of up to $3 billion during 3½ years between July 1, 1974, and December 31, 1977.

The interest subsidy on the loans, equal to the difference between the effective cost of borrowing and the concessional interest rate charged, would be financed by repayment made on past foreign assistance loans.

This proposal comes at a time when domestic interest rates are soaring. The prime rate is now 9¾ percent, the highest in this Nation's history, and there is no end in sight. Americans who have to borrow to pay medical bills, education loans, or for home mortgages are being squeezed unmercifully by inflation and ridiculously high interest rates.

The first major issue with respect to this proposal is: Is a $3 billion foreign aid fund needed? Is it a priority item at the time of raging inflation and soaring interest rates? If the answer to the first question is yes, then we must determine how such a fund can best be administered, what credit terms should be applied and so forth.

[The bill S. 2335, and the Committee press release announcing these hearings follows. Oral testimony commences on page 35.]

PRESS RELEASE

FOR IMMEDIATE RELEASE
August 9, 1973

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Bldg.

RUSSELL B. LONG, CHAIRMAN, COMMITTEE ON FINANCE ANNOUNCES COMMITTEE WILL HOLD A HEARING ON THE PROPOSED UNITED STATES EXPORT DEVELOPMENT CREDIT FUND ON SEPTEMBER 6, 1973

The Honorable Russell B. Long, (D., La.), Chairman, Committee on Finance stated that the foreign aid authorizations bill has been referred to the Committee on Finance for its consideration of section 16. The Chairman announced that the Committee will hold a hearing on this section of the bill on September 6. The hearings would focus on the ramifications of the proposed United States Export Development Credit Fund -- a "soft" export loan program, financed by public borrowings of the Treasury Department.

Summary of Proposed U.S. Export Development Fund

The proposed Export Development Credit Fund would offer financing for U.S. exports to the lowest income countries on concessional terms -- interest rates of not less than three percent per year, repayment within 30 years, and a grace period of not more than five years on repayment of principal.

The Fund would be authorized to make loans of up to $3 billion from the effective date of the new program (July 1, 1974) until December 31, 1977.

The interest subsidy on the loans -- the difference between the effective cost of borrowing and the concessional interest rate charged -- would be financed by repayments received by the U.S. government on past foreign assistance loans.

Questions for Committee Consideration

The Committee's inquiry will explore such questions as:

-- who will run the program?

-- what credit standards will be applied?

-- what nations and goods will be eligible for financing?

-- what effect would the fund have on the budget and management of the public debt?

-- how would the fund be coordinated with AID and Export-Import Bank financing?

-- what is the import absorption capacity of developing countries with per capita incomes of $375 a year or less?

-- what has been the level and composition of U.S. exports to these countries?

-- what is the level of private and public debt outstanding for these countries, who are the principal obligors, and what has been the history of debt rescheduling?

-- what are the export credit terms of other developed countries to the poorest of the developing countries?

-- what is the current and anticipated cost of borrowing by the Federal government?

-- what is the average interest rate that an American citizen must pay for a home mortgage, an automobile loan or an emergency loan for medical reasons?

Those who wish to testify should submit a request to Tom Vail, Chief Counsel, Committee on Finance, 2227 Dirksen Senate Office Building, by August 24. Because of time pressures, the Committee will not be able to schedule all the witnesses it would have liked to hear from, but will be happy to receive written statements for the record.

The Legislative Reorganization Act of 1946 requires that all witnesses appearing before the Committees of Congress file in advance written statements of their proposed testimony, and limit their oral presentations to brief summaries of their argument.

All witnesses who are scheduled to testify must comply with the following rules:

1. All statements must be filed one day in advance of the day on which the witness is to appear.

2. All witnesses must include with their written statement a summary of the principal points included in the statement.

3. The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted.

4. Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

Written Statements. -- Witnesses who are not scheduled for oral presentation, and others who desire to present a statement to the Committee, are urged to prepare a written position of their views for submission and inclusion in the printed record of the hearings. Five copies of these written statements should be submitted to Tom Vail, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building not later than Friday, August 31, 1973.

The hearing will be held in Room 2221, Dirksen Senate Office Building at 10:00 A.M., Thursday, September 6, 1973.

93D CONGRESS
1ST SESSION

S. 2335

[Report No. 93-377]

IN THE SENATE OF THE UNITED STATES

AUGUST 2, 1973

Mr. HUMPHREY, from the Committee on Foreign Relations, reported the following bill; which was read twice and referred to the Committee on Finance for consideration of section 16, under order of July 27, 1973, to be reported back not later than September 12, 1973

A BILL

To amend the Foreign Assistance Act of 1961, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Assistance Act of 1973".

POLICY; DEVELOPMENT ASSISTANCE AUTHORIZATIONS

SEC. 2. Chapter 1 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) In the chapter heading, immediately after "CHAPTER 1—POLICY" insert "; DEVELOPMENT ASSISTANCE AUTHORIZATIONS".

(2) In section 102, relating to statement of policy—

(A) insert "(a)" immediately after STATEMENT OF POLICY.—"; and

(B) add at the end thereof the following:

"(b) The Congress further finds and declares that, with the help of United States economic assistance, progress has been made in creating a base for the economic progress of the less developed countries. At the same time, the conditions which shaped the United States foreign assistance program in the past have changed. While the United States must continue to seek increased cooperation and mutually beneficial relations with other nations, our relations with the less developed countries must be revised to reflect the new realities. In restructuring our relationships with these countries, the President should place appropriate emphasis on the following criteria:

"(1) Bilateral development aid should concentrate increasingly on sharing American technical expertise, farm commodities, and industrial goods to meet critical development problems, and less on large-scale capital transfers, which when made should be in association with contributions from other industrialized countries working together in a multilateral framework.

"(2) United States assistance should concentrate in particular on the development of employment-intensive technologies suitable to the less developed countries.

"(3) Future United States bilateral support for development should focus on critical problems in those functional sectors which affect the lives of the majority of the people in the developing countries: food production; rural development and nutrition; population planning and health; and education, public administration, and human resource development.

"(4) United States cooperation in development should be carried out to the maximum extent possible through the private sector, including those public service institutions which already have ties in the developing areas, such as educational institutions, cooperatives, credit unions, and voluntary agencies.

"(5) Development planning must be the responsibility of each sovereign country. United States assistance should be administered in a collaborative style to support the development goals chosen by each country receiving assistance.

"(6) United States bilateral development assistance should give the highest priority to undertakings submitted by host governments which directly improve the lives of the poorest of their people and their capacity to participate in the development of their countries.

"(7) Under the policy guidance of the Secretary of

State, the agency primarily responsible for administering this part shall have the responsibility for coordinating all United States development-related activities. The head of that agency should advise the President on all United States actions affecting the development of the less-developed countries, and should keep the Congress informed on the major aspects of United States interests in the progress of those countries."

(3) At the end thereof, add the following new sections:

"SEC. 103. FOOD AND NUTRITION.—In order to alleviate starvation, hunger, and malnutrition, and to provide basic services to poor people, enhancing their capacity for self-help, the President is authorized to furnish assistance, on such terms and conditions as he may determine, for agriculture, rural development, and nutrition. There are authorized to be appropriated to the President for the purposes of this section, in addition to funds otherwise available for such purposes, $282,000,000 for each of the fiscal years 1974 and 1975, which amounts are authorized to remain available until expended.

"SEC. 104. POPULATION PLANNING AND HEALTH.—In order to increase the opportunities and motivation for family planning, to reduce the rate of population growth, to prevent and combat disease, and to help provide health services for the great majority, the President is authorized to furnish assistance on such terms and conditions as he may determine, for population planning and health. There are authorized to be appropriated to the President for the purposes of this section, in addition to the funds otherwise available for such purposes, $141,000,000 for each of the fiscal years 1974 and 1975, which amounts are authorized to remain available until expended.

"SEC. 105. EDUCATION AND HUMAN RESOURCES DEVELOPMENT.—In order to reduce illiteracy, to extend basic education and to increase manpower training in skills related to development, the President is authorized to furnish assistance on such terms and conditions as he may determine, for education, public administration, and human resource development. There are authorized to be appropriated to the President for the purpose of this section, in addition to funds otherwise available for such purposes, $94,000,000 for each of the fiscal years 1974 and 1975, which amounts are authorized to remain available until expended.

"SEC. 106. SELECTED DEVELOPMENT PROBLEMS.—The President is authorized to furnish assistance on such terms and conditions as he may determine, to help solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development. There are authorized to be appropriated to the President for the purposes of this section, in addition to funds otherwise available for such purposes, $47,000,000 for each of the fiscal years 1974 and 1975, which amounts are authorized to remain available until expended.

"SEC. 107. SELECTED COUNTRIES AND ORGANIZATIONS.—The President is authorized to furnish assistance on such terms and conditions as he may determine, in support of the general economy of recipient countries or for development programs conducted by private or international organizations. There are authorized to be appropriated to the President for the purposes of this section, in addition to funds otherwise available for such purposes, $28,000,000 for each of the fiscal years 1974 and 1975, which amounts are authorized to remain available until expended.

"SEC. 108. APPLICATION OF EXISTING PROVISIONS.—Assistance under this chapter shall be furnished in accordance with the provisions of titles I, II, VI, or X of chapter 2 of this part, and nothing in this chapter shall be construed to make inapplicable the restrictions, criteria, authorities, or other provisions of this or any other Act in accordance with which assistance furnished under this chapter would otherwise have been provided.

"SEC. 109. TRANSFER OF FUNDS.—Notwithstanding section 108 of this Act, whenever the President determines it to be necessary for the purposes of this chapter, not to exceed 15 per centum of the funds made available for any provision of this chapter may be transferred to, and consolidated with, the funds made available for any other provision of this chapter, and may be used for any of the purposes for which such funds may be used, except that the total in the provision for the benefit of which the transfer is made shall not be increased by more than 25 per centum of the amount of funds made available for such provision. The provisions of sections 610(a) and 614(a) of this Act shall not apply to this chapter.

"SEC. 110. SHARING OF COSTS.—No assistance shall be furnished by the United States Government to a country under sections 103–107 of this Act until the country provides assurances to the President, and the President is satisfied, that such country will provide at least 25 per centum of the costs in any fiscal year of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an "in-kind" basis.

"SEC. 111. USE OF RECEIPTS.—Not more than one-third of the receipts made available under section 203 of this Act may be used for purposes of any one of sections 103–107 of this Act in any fiscal year.

"SEC. 112. LIMITATION ON GRANTS.—Not more than 50 per centum of the aggregate of the funds appropriated each year under sections 103–107 of this Act shall be used for making grants.

"SEC. 113. DEVELOPMENT AND USE OF COOPERATIVES.—In order to strengthen the participation of the urban and rural poor in their country's development, not less than $20,000,000 of the funds made available for the purposes of this chapter shall be available during the fiscal years 1974 and 1975 only for assistance in the development of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life.

"SEC. 114. MULTILATERAL APPROACHES TO DEVELOPMENT.—Greater efforts should be made to promote and support sound multilateral approaches to the development of foreign countries. Therefore, the Secretary of State shall undertake consultations with multilateral organizations (including the United Nations) for the purpose of determining (1) how soon and which such multilateral organizations would be able to administer foreign assistance funds transferred to them by the United States Government for programs, projects, and activities for the development of foreign countries, (2) the kinds of such programs, projects, and activities which those organizations are able and will be able to administer, (3) likely methods for the administration of those programs, projects, and activities, and (4) the expectation of increased contributions by other countries to such organizations for those programs, projects, and activities. Not later than six months after the date of enactment of this section, the Secretary shall make a report to the President and the Congress with respect to his consultations, including such recommendations as the Secretary considers appropriate.

"SEC. 115. PROHIBITING POLICE TRAINING.—No part of any appropriation made available to carry out this or any other provision of law shall be used to conduct any police training or related program for a foreign country."

DEVELOPMENT LOAN FUND

SEC. 3. Section 203 of the Foreign Assistance Act of 1961 is amended by striking out "for the fiscal year 1970, for the fiscal year 1971, for the fiscal year 1972, and for the fiscal year 1973 for use for the purposes of this title, for loans under title VI, and for the purposes of section 232" and inserting in lieu thereof "for the fiscal years 1974 and 1975 for use for the purposes of making loans under chapter 1 of this part and for the purposes specified under part V of this Act".

AMERICAN SCHOOLS AND HOSPITALS ABROAD

SEC. 4. Section 214 of the Foreign Assistance Act of 1961 is amended by striking out subsections (c) and (d) and inserting in lieu thereof the following:

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"(c) To carry out the purposes of this section there are authorized to be appropriated to the President for the fiscal year 1974, $19,000,000, which amount is authorized to remain available until expended.

"(d) There are authorized to be appropriated to the President to carry out the purposes of this section, in addition to funds otherwise available for such purposes, for fiscal year 1974, $6,500,000 in foreign currencies which the Secretary of the Treasury determines to be excess to the normal requirements of the United States.

"(e) On or before the termination of thirty days after the convening of the second regular session of the Ninety-third Congress, the Secretary of State shall submit to the Congress, for consideration in connection with Department of State authorization legislation, such recommendations as he considers desirable for assistance to schools, libraries, and hospital centers for medical education and research, outside the United States, founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States."

HOUSING GUARANTIES

SEC. 5. Title III of chapter 2 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) In section 221, relating to worldwide housing guar-

antees, strike out "$205,000,000" and insert in lieu thereof "$349,900,000".

(2) In section 223 (i), relating to general provisions, strike out "June 30, 1974" and insert in lieu thereof "June 30, 1975".

ALLIANCE FOR PROGRESS

SEC. 6. Section 252 (b) of the Foreign Assistance Act of 1961, relating to authorization, is amended to read as follows:

"(b) There are authorized to be appropriated to the President for each of the fiscal years 1974 and 1975, $900,000 for grants to the National Association of the Partners of the Alliance, Inc."

PROGRAMS RELATING TO POPULATION GROWTH

SEC. 7. Section 292 of the Foreign Assistance Act of 1961, relating to authorization, is amended by striking out "1972 and 1973" and inserting in lieu thereof "1974 and 1975".

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 8. Section 302 of the Foreign Assistance Act of 1961, relating to authorization, is amended as follows:

(1) In subsection (a), relating to authorization, strike out "for the fiscal year 1972, $138,000,000 and for the fiscal

year 1973, $138,000,000" and insert in lieu thereof "for each of the fiscal years 1974 and 1975, $120,000,000".

(2) In subsection (b) (2), relating to Indus Basin development grants, strike out "for use in the fiscal year 1972, $15,000,000, and for use in the fiscal year 1973, $15,000,000" and insert in lieu thereof "for use in each of the fiscal years 1974 and 1975, $14,000,000".

CONTINGENCY FUND

SEC. 9. Section 451 (a) of the Foreign Assistance Act of 1961 is amended by striking out "for the fiscal year 1972 not to exceed $30,000,000, and for the fiscal year 1973 not to exceed $30,000,000" and insert in lieu thereof "for each of the fiscal years 1974 and 1975, not to exceed $23,500,000".

INTERNATIONAL NARCOTICS CONTROL

SEC. 10. Section 482 of the Foreign Assistance Act of 1961, relating to authorization, is amended by striking out "$42,500,000 for the fiscal year 1973, which amount is" and inserting in lieu thereof "$40,000,000 for the fiscal year 1974, and $30,500,000 for the fiscal year 1975, which amounts are".

PROHIBITIONS AGAINST FURNISHING ASSISTANCE

SEC. 11. The first full paragraph of section 620 (e) (1) of the Foreign Assistance Act of 1961 is amended by striking out "no other provision of this Act shall be construed to authorize the President to waive the provisions of this subsection." and inserting in lieu thereof "the provisions of this subsection shall not be waived with respect to any country unless the President determines and certifies that such a waiver is important to the national interests of the United States. Such certification shall be reported immediately to Congress."

EMPLOYMENT OF PERSONNEL

SEC. 12. Section 625 of the Foreign Assistance Act of 1961 is amended by adding at the end thereof the following new subsection:

"(k) (1) In accordance with such regulations as the President may prescribe, the following categories of personnel who serve in the agency primarily responsible for administering part I of this Act shall become participants in the Foreign Service Retirement and Disability System:

"(A) persons serving under unlimited appointments in employment subject to subsection (d) (2) of this section as Foreign Service Reserve officers and as Foreign Service staff officers and employees; and

"(B) a person serving in a position to which he was appointed by the President, whether with or without the advice and consent of the Senate, if (i) such person shall have served previously under an unlimited appointment pursuant to such subsection (d) (2) or a comparable provision of predecessor legislation to this Act, and (ii) following service specified in clause (i) of this subparagraph, such person shall have served continuously with such agency or its predecessor agencies only in positions established under the authority of sections 624 (a) and 631 (b) or comparable provisions of predecessor legislation to this Act.

"(2) Upon becoming a participant in the Foreign Service Retirement and Disability System, any such officer or employee shall make a special contribution to the Foreign Service Retirement and Disability Fund in accordance with the provisions of section 852 of the Foreign Service Act of 1946, as amended. Thereafter, compulsory contributions will be made with respect to each such participating officer or employee in accordance with the provisions of section 811 of the Foreign Service Act of 1946, as amended.

"(3) The provisions of section 636 and title VIII of the Foreign Service Act of 1946, as amended, shall apply to participation in the Foreign Service Retirement and Disability System by any such officer or employee.

"(4) If an officer who becomes a participant in the Foreign Service Retirement and Disability System under paragraph (1) of this subsection is appointed by the President, by and with the advice and consent of the Senate, or by the President alone, to a position in any agency of the United

States Government, any United States delegation or mission to any international organization, in any international commission, or in any international body, such officer shall not, by virtue of the acceptance of such an appointment, lose his status as a participant in the system.

"(5) Any such officer or employee who becomes a participant in the Foreign Service Retirement and Disability System under paragraph (1) of this subsection shall be mandatorily retired (A) at the end of the month in which he reaches age seventy, or (B) earlier if, during the third year after the effective date of this subsection, he attains age sixty-four or if he is over age sixty-four; during the fourth year at age sixty-three; during the fifth year at age sixty-two; during the sixth year at age sixty-one; and thereafter at the end of the month in which he reaches age sixty. However, no participant shall be mandatorily retired under this paragraph while serving in a position to which appointed by the President, by and with the advice and consent of the Senate. Any participant who completes a period of authorized service after reaching the mandatory retirement age specified in this paragraph shall be retired at the end of the month in which such service is completed.

"(6) Whenever the President deems it to be in the public interest, he may extend any participant's service for a period not to exceed five years after the mandatory retirement date of such officer or employee.

"(7) This subsection shall become effective on the first day of the first month which begins more than one year after the date of its enactment, except that any officer or employee who, before such effective date, meets the requirements for participation in the Foreign Service Retirement and Disability System under paragraph (1) of this subsection may elect to become a participant before the effective date of this subsection. Such officer or employee shall become a participant on the first day of the second month following the date of his application for earlier participation. Any officer or employee who becomes a participant in the system under the provisions of paragraph (1) of this subsection, who is age fifty-seven or over on the effective date of this subsection may retire voluntarily at any time before mandatory retirement under paragraph (5) of this subsection and receive retirement benefits under section 821 of the Foreign Service Act of 1946, as amended.

"(8) Any officer or employee who is separated for cause while a participant in the Foreign Service Retirement and Disability System pursuant to this subsection, shall be entitled to benefits in accordance with section 637 (b) and (d) of the Foreign Service Act of 1946, as amended. The provisions of subsection (e) of this section shall apply to participants in lieu of the provisions of sections 633 and 634 of the Foreign Service Act of 1946, as amended."

ADMINISTRATIVE EXPENSES

SEC. 13. Section 637 (a) of the Foreign Assistance Act of 1961, relating to authorizations, is amended by striking out "for the fiscal year 1972, $50,000,000 and for the fiscal year 1973, $50,000,000" and inserting in lieu thereof "for each of the fiscal years 1974 and 1975, $49,000,000".

PEACE CORPS ASSISTANCE

SEC. 14. Section 638 of the Foreign Assistance Act of 1961 is amended—

(1) by striking out "**Peace Corps Assistance**" and inserting in lieu thereof "**Exclusions**"; and

(2) by inserting immediately after the last semicolon thereof the following: "part V of this Act;".

COORDINATION

SEC. 15. Chapter 2 of part III of the Foreign Assistance Act of 1961 is amended by adding at the end thereof the following new section:

"SEC. 640B. COORDINATION.—(a) The President shall establish a system for coordination of United States policies and programs which affect United States interests in the development of low-income countries. To that end, the President shall establish a Development Coordination Committee which shall advise him and the Congress with respect to coordination of United States policies and programs affecting the development of the developing countries, including programs of bilateral and multilateral development assistance. The Committee shall include the head of the agency primarily responsible for administering part I of this Act, who shall be the Chairman; the Under Secretary for Economic Affairs, Department of State; the Assistant Secretary for International Organization Affairs, Department of State; the Assistant Secretary for Inernational Affairs, Department of the Treasury; the Assistant Secretary for International Affairs and Commodity Programs, Department of Agriculture; the Assistant Secretary for Domestic and International Business, Department of Commerce; the President, Export-Import Bank of the United States; the President, Overseas Private Investment Corporation; the Special Representative for Trade Negotiations, Executive Office of the President; and the Executive Director, Council on International Economic Policy.

"(b) The President shall prescribe appropriate procedures to assure coordination among representatives of the United States Government in each country, under the direction of the Chief of the United States Diplomatic Mission, and the President shall keep the Congress advised of his actions under this subsection.

"(c) Programs authorized by this Act shall be undertaken with the foreign policy guidance of the Secretary of State.

"(d) The Chairman of the Development Coordination Committee shall report annually to the President and the Congress, and at such other times as requested by the Congress or any appropriate committee thereof, on United States actions affecting the development of the low-income countries."

UNITED STATES EXPORT DEVELOPMENT CREDIT FUND

SEC. 16. (a) The Foreign Assistance Act of 1961 is amended by adding at the end thereof the following new part:

"PART V

"SEC. 801. GENERAL AUTHORITY.—(a) In the interest of increasing United States exports to the lowest income countries, thereby contributing to high levels of employment and income in the United States and to the establishment and maintenance of long range, growing export markets, while promoting development of such countries, the President shall establish a fund, to be known as the 'United States Export Development Credit Fund', to be used by the President to carry out the authority contained in this part.

"(b) The President is authorized to provide extensions of credit and to refinance United States export credits, for the purpose of facilitating the sale of United States goods and services to the lowest income countries which advance their development. The authority contained in this part shall be used to extend credit in connection with the sale of goods and services which are of developmental character, with due regard for the objectives stated in section 102 (b) of this Act.

"(c) Any extension of credit made under this part shall—

"(1) not be for a period exceeding thirty years from the date such credit is extended;

"(2) require that annual repayments of principal on extensions of credit commence not later than the first day of the sixth year after the credit is extended; and

"(3) provide for a rate of interest of not less than 3 per centum per annum payable annually during the entire period such credit is extended.

"(d) The receipts and disbursements of the Fund in the discharge of its functions shall be treated for purposes of the budget of the United States Government in the same fashion as the receipts and disbursements of the Export-Import Bank of the United States under section 2 (a) (2) of the Export-Import Bank Act of 1945, as amended.

"SEC. 802. FINANCING.—(a) As may hereafter be provided in annual appropriation Acts, the President is authorized to borrow from whatever source he deems appropriate, during the period from the effective date of this part through December 31, 1977, and to issue and sell such obligations as he determines necessary to carry out the purposes of this part. However, the aggregate amount of such obligations outstanding at any one time shall not exceed 15 per centum of the amount specified in section 7 of the Export-Import Bank Act of 1945, as amended, in effect on July 1, 1973. The dates of issuance, the maximum rates of interest, and other terms and conditions of the obligations issued under this subsection will be determined by the Secretary of the Treasury with the approval of the President. Obligations issued under the authority of this section shall be obligations of the Government of the United States of America, and the full faith and credit of the United States of America is hereby pledged to the full payment of principal and interest thereon. For the purpose of any purchase of the obligations issued under this part, the Secretary of the Treasury is authorized to use as public debt transaction the proceeds from the sale of of any securities issued under the Second Liberty Bond Act, as now or hereafter in force, and purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include any purchases of the obligations issued under this part. The Secretary of the Treasury may, at any time, sell any of the obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of such obligations shall be treated as public debt transactions of the United States.

"(b) Except as otherwise provided in section 806, the amounts borrowed under subsection (a) of this section shall be paid into the Fund and used to carry out the purposes of this part. Any difference between the interest to be repaid on export credits made under this part and the interest paid by the Fund on obligations incurred under subsection (a) of this section shall be paid into the Fund out of receipts specified in section 203 of this Act.

"(c) Receipts from loans made pursuant to this part are authorized to be made available for the purposes of this part. Such receipts and other funds made available for the purposes of this part shall remain available until expended.

"SEC. 803. LENDING CEILING AND TERMINATION.—(a) The United States Export Development Credit Fund shall not have outstanding at any one time loans in an aggregate amount in excess of 15 per centum of the amount specified in section 7 of the Export-Import Bank Act of 1945, as amended, in effect on July 1, 1973.

"(b) The Fund shall continue to exercise its functions in connection with and in furtherance of its objectives and purposes until the close of business on December 31, 1977, but the provisions of this section shall not be construed as preventing the Fund from acquiring obligations prior to such date which mature subsequent to such date or from assuming prior to such date liability as acceptor of obligations which mature subsequent to such date or from issuing either prior or subsequent to such date, for purchase by the Secretary of the Treasury or any other purchasers, its obligations which mature subsequent to such date or from continuing as an agency of the United States and exercising any of its functions subsequent to such date for purposes of orderly liquidation, including the administration of its assets and the collection of any obligations held by the Fund.

"SEC. 804. REPORTS TO THE CONGRESS.—The President shall transmit to the Congress semiannually a complete and detailed report of the operations of the United States Export Development Credit Fund. The report shall be as of the close of business on June 30 and December 31 of each year.

"SEC. 805. ADMINISTRATION OF FUND.—The President shall establish a committee to advise him on the exercise of the functions conferred upon him by this part. The Committee shall include the Secretary of Commerce, the Secretary of Agriculture, the Secretary of the Treasury, the Secretary of State, the President of the Export-Import Bank, and the head of the agency primarily responsible for administering part I of this Act.

"SEC. 806. PROVISION FOR LOSSES.—Ten per centum of the amount authorized to be borrowed under subsection 802 (a) shall be reserved and may be used to cover any losses incurred on loans extended under this part. Receipts specified in section 203 of this Act may also be paid into the Fund for in section 203 of this Act may also be paid into the United States Export Development Credit Fund for the purpose of compensating the Fund for any such losses.

"SEC. 807. EXPORT-IMPORT BANK POWERS.—Nothing in this part shall be construed as a limitation on the powers of the Export-Import Bank of the United States.

"SEC. 808. PROHIBITION ON LOANS FOR DEFENSE ARTICLES OR SERVICES.—The authority contained in this part shall not be used to extend credit in connection with the sale of defense articles or defense services. This provision may not be waived pursuant to section 614 of this Act or pursuant to any other provision of this or any other Act.

"SEC. 809. DEFINITION, EFFECTIVE DATE, AND PLAN OF IMPLEMENTATION.—As used in this part, 'lowest income countries' are those countries with per capita national product of less than $375 a year which need concessional foreign exchange financing from the United States or other international donors to finance goods and services on terms they can reasonably afford, with particular emphasis on countries in which per capita national product is less than $200 a year."

(b) The amendment made by subsection (a) of this section is effective July 1, 1974.

(c) The President shall, not later than April 15, 1974, submit to the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House of Representatives a detailed plan describing the proposed organizational and operational methods for implementation of the United States Export Development Credit Fund established by the amendment made by subsection (a) of this section.

POSTWAR RELIEF AND RECONSTRUCTION IN SOUTH VIETNAM, CAMBODIA, AND LAOS

SEC. 17. The Foreign Assistance Act of 1961 is amended by adding after part V thereof, as added by section 16(a) of this Act, the following new part:

"PART VI—POSTWAR RELIEF AND RECONSTRUCTION IN SOUTH VIETNAM, CAMBODIA, AND LAOS

"SEC. 901. GENERAL AUTHORITY.—The President is authorized to furnish, on such terms and conditions as he may determine, assistance for relief and reconstruction of South Vietnam, Cambodia, and Laos, including humanitarian assistance to refugees, civilian war casualties, and other persons disadvantaged by hostilities or conditions related to those hostilities in South Vietnam, Cambodia, and Laos.

"SEC. 902. AUTHORIZATION.—There are authorized to

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be appropriated to the President to carry out the purposes of this chapter, in addition to funds otherwise available for such purposes, for the fiscal year 1974 not to exceed $376,000,000, which amount is authorized to remain available until expended.

"SEC. 903. ASSISTANCE TO SOUTH VIETNAMESE CHILDREN.—(a) It is the sense of Congress that inadequate provision has been made (1) for the establishment, expansion, and improvement of day care centers, orphanages, hostels, school feeding programs, health and welfare programs, and training related to these programs, which are designed for the benefit of South Vietnamese children, disadvantaged by hostilities in Vietnam or conditions related to those hostilities, and (2) for the adoption by United States citizens of South Vietnamese children, who are orphaned or abandoned, or whose parents or sole surviving parent, as the case may be, has irrevocably relinquished all parental rights.

"(b) The President is therefore authorized to provide assistance, on terms and conditions he considers appropriate, for the purposes described in subsection (a) of this section. Of the funds appropriated pursuant to section 902 of this Act for the fiscal year 1974, $7,500,000 shall be available until expended solely to carry out the purposes described in such subsection (a). Not more than 10 per centum of the funds made available to carry out such subsection (a) may be expended for the purposes referred to in clause (2) of such subsection. Assistance to carry out the purposes referred to in such subsection (a) shall be furnished, to the maximum extent practicable, under the auspices of and by international agencies or United States or South Vietnamese voluntary agencies.

"SEC. 904. CONSTRUCTION WITH OTHER LAWS.—All references to part I of this Act, whether heretofore or hereafter enacted, shall be deemed to be references also to this part unless otherwise specifically provided. The authorities available to administer part I of this Act shall be available to administer programs authorized in this part. The provisions of section 655(c) of this Act shall not apply with respect to funds made available for fiscal year 1974 under parts I and VI and section 637 of this Act."

TERMINATION OF INDOCHINA WAR

SEC. 18. No funds authorized or appropriated under this or any other law may be expended to finance military or paramilitary operations by the United States in or over Vietnam, Laos, or Cambodia.

LIMITATION ON USE OF FUNDS

SEC. 19. No funds authorized or appropriated under any provision of law shall be made available for the purpose of financing directly or indirectly any military or paramilitary operations by foreign forces in Laos, Cambodia, North Vietnam, South Vietnam, or Thailand unless (1) such operations are conducted by the forces of the government receiving such funds within the borders of that country, or (2) specifically authorized by law enacted after the date of enactment of this Act.

WEST AFRICAN FAMINES

SEC. 20. In regard to the famine in West Africa, the President shall consult with international relief organizations and other experts to find the best way to forestall future famine conditions in West Africa, and he shall report to Congress as soon as possible on solutions to this problem of famine and further propose how any of these solutions may be carried out by multilateral organizations.

POLITICAL PRISONERS

SEC. 21. It is the sense of Congress that the President should deny any economic or military assistance to the government of any foreign country which practices the internment or imprisonment of that country's citizens for political purposes.

TERMINATION OF ASSISTANCE IN INDOCHINA

SEC. 22. (a) It is the sense of the Congress that the Agreements on Ending the War and Restoring Peace in Vietnam, and protocols thereto, signed in Paris, France, on January 27, 1973, will be effective only to the extent that the parties to such agreements and protocols carry out the letter as well as the spirit of those agreements and protocols. It is further the sense of Congress that the United States should not furnish economic or military assistance to any such party, or make any sale, credit sale, or guaranty to or on behalf of any such party, unless that party agrees to comply, and does comply, with those agreements and protocols.

(b) This section shall not apply to the provision of food and other humanitarian assistance which is administered and distributed, under international auspices or by United States voluntary agencies, directly to persons and not through any government.

ACCESS TO INFORMATION

SEC. 23. (a) After the expiration of any thirty-five-day period which begins on the date the Committee on Foreign Relations of the Senate or the Committee on Foreign Affairs of the House of Representatives has delivered to the office of the head of the Department of State, the United States Information Agency, the Agency for International Development, the United States Arms Control and Disarmament Agency, ACTION, or the Overseas Private Investment Corporation, a written request that it be furnished any document, paper, communication, audit, review, finding, recommendation, report, or other material in its custody or control relating to such department, agency, or corporation, none of the funds made available to such department, agency, or corporation, shall be obligated unless and until there has been furnished to the committee making the request the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested.

(b) The provisions of subsection (a) of this section shall not apply to any communication that is directed by the President to a particular officer or employee of any such department, agency, or corporation or to any communication that is directed by any such officer or employee to the President.

(c) Subsection 634 (c) of the Foreign Assistance Act of 1961 (22 U.S.C. 2394 (c)) is amended—

(1) by striking out " (1) "; and

(2) by striking out all after the phrase "so requested" and inserting in lieu thereof a period and the following: "The provisions of this subsection shall not apply to any communication that is directed by the President to a particular officer or employee of the United States Government or to any communication that is directed by any such officer or employee to the President."

The CHAIRMAN. Our first witness today is the Honorable Hubert Humphrey, Senator from the State of Minnesota. We do have a number of witnesses to hear, and I will ask each Senator to observe the 5-minute rule on the first round of questions so that we can move on with the hearing and hear all of the witnesses scheduled.

Senator Humphrey, we are pleased to have you and look forward to your testimony.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator HUMPHREY. Thank you very much, Mr. Chairman.

I would like, for the purposes of time, to file with the committee the full statement that I have prepared in reference to the Export Development Credit Fund, section 16 of S. 2335.

The CHAIRMAN. All right.

Senator HUMPHREY. And I will use this time, Mr. Chairman, because I know you have a number of witnesses, to summarize what I believe are some of the features of the Export Development Credit Fund as we have prepared it in S. 2335 which now is on the Senate calendar.

The Export Development Credit Fund, Mr. Chairman and members of this committee, as I have indicated, is section 16 of S. 2335, a congressional initiative. It was first developed by members of the House Foreign Affairs Committee and reported to the Foreign Relations Committee by a vote of 12 to 3. The whole purpose of the Export Development Credit Fund is to provide this country and its economic structure with the tools which some of us believe are necessary in the competitive struggle for world trade and to fortify the programs that we have of assistance to the less-developed countries.

I think it is quite obvious now that despite the strength and wealth of the United States that we do not live alone nor can we live in a vacuum, nor can we solve our problems all by ourselves. Even our internal problems are affected greatly by what transpires or takes place elsewhere.

America has become dependent as no other nation on the resources of the developing world, such as oil, copper, tin, natural rubber, bauxite, timber, coffee, and a number of other products, and most of these products are found in the countries to which the Export Development Credit Fund is directed.

Now, American direct investment in the developing world is valued at around $23 billion and this investment yields about 5 percent today of our corporate profits. I believe it is fair to say that you cannot expect the nations of the developing world to cooperate in our own enrichment if we remain indifferent to their needs. In fact, these poor countries, and the Export Development Credit Fund is directed to countries that have per capita income of $375 a year or less, primarily to those with per capita income of $200, represent over a billion people exclusive of China. Now, if these countries can use, and some of them have indicated they will use, their growing economic power as a lever to force a change in American policy, they do possess strategic market power and they can exert influence on world money markets, in fact, they can exert influence even on the revision of the International

Monetary Fund and they could and they do even confiscate investments. What I am saying, in other words, is that it is important for us to have good, sound political and economic relationships with them and they are prepared to exploit economic disputes between the United States, Europe, and Japan if our relations with them are not based on constructive cooperation.

I believe that we can aid these very poor nations by making our exports available to them on terms that they can afford and I want to emphasize this point. It is not again as if we are in charge of the ball game. We have competitors who are our friends, the French, the Japanese, the Germans, the British, the Dutch, the Belgians, the Italians, and every one of these countries has a program similar to the one that I am talking about here in the Export Development Credit Fund. Every one of them is getting a bigger share every year of the market in the less-developed countries. And in my testimony I present solid evidence showing that in the countries with per capita income under $365 a year our percentage of growth of exports is very modest while the percentage of growth for the other countries is growing very, very rapidly.

For example the United States is losing an important share of the vast markets in the developing world to the Europeans and Japanese who have developed export credit systems at concessional rates. From 1965 to 1971 the U.S. share of these markets increased 30 percent from $3,700,000,000 to $4,800,000,000. The exports of the other 15 OECD members; namely, the industrial countries, increased 143 percent, $9 billion to $21.9 billion. Now, who? Because these countries have a program of—the Japanese, for example, the French, the British, the Germans, just to mention some, have programs that are designed in terms of credit terms, time to repay interest rates, et cetera, that get into these markets. What these poorer countries need are proper credit terms.

We have the Export-Import Bank loans that take care of countries like Brazil, but they have a higher than $365 per year capita income.

We have developed some very big markets through Export-Import Bank. The purpose of this loan fund is to put an extra level of credit over and beyond what we call the commercial market in Export-Import and the developing loan fund, which is 40 year terms, 2-percent interest, 10-year grace period to have an interest need where you have a floor of 3 percent, does not necessarily have to be 3, but it is a floor of 3 percent, 5-year grace period on principal and 30-year period for the full repayment in dollars to the American Treasury.

Now, the total cost of this program is authorized at $3 billion for 4 years, $750 million a year. It will be a budgetary item, it will be included in the budget. I shall offer such an amendment to make it a budget item. The Congress will exercise control over, the Appropriations Committee will set the level of amount of fund that can be made available and borrowed each year to operate the fund. It will not be a wide-open Treasury raid with no control from the Congress. The Congress also will provide the funds for what we call reinvestment or to use the funds that are coming in from the former loans on AID programs, the Congress will have to authorize each year how much of those funds shall be available for what we call interest subsidy.

There is no demand in this program for new taxes or from the taxpayer. The funds that are used for this program will be funds that are available from repayment on old foreign aid development loans fund repayments. And the amounts will vary depending on the amount of money that the Congress authorizes for the Export Development Credit Loan Fund each year running anywhere from $30 to $70 million a year will be the total outlay of funds that will be necessary for purposes of subsidy.

One other point I would like to make on this program, Mr. Chairman, and then I know that you have some questions.

This program is for American products, manufactured products, what Public Law 480 has been for American agriculture. Now, this program will be under the control of an advisory committee. The chairman of this committee will undoubtedly be, and I shall offer such an amendment, the Secretary of Commerce, so the business aspects of export policy will have proper representation. Also, I believe the Secretary of Labor should be included as a member of the advisory committee. This program will be operated not on the basis that you are going to loan out $750 million a year but on the basis of what is needed every year, not more than what the Congress will authorize, and the Congress cannot authorize more than $750 million a year for a 4-year period.

Now, somebody might say here we are today, we have got tight money. I believe I heard the chairman say this. We have high interest rates. Is this the kind of time that we ought to go into a program of loans to countries that are less developed when we have our own problems here at home? Well, let me just simply say that the amount of money, No. 1, is not overwhelming in terms of a trillion-dollar economy; $750 million plus maximum is not the biggest item in our budget but it is a substantial item.

Second, there will be proper management of this fund which can be carefully supervised by the Congress. We are not going to finance goods that are in short supply, like lumber, for example, and food and machine tools. We do not have to step in and borrow if we do not want to, and if we do have a slack in the economy, which some people are predicting—I think most people today are predicting there could be some modest recession—I hope it is no more than within the next year or following year. This program offers us some opportunity to pick up that slack. We have to increase our exports according to projections from the present of $50 billion a year to $100 billion a year by the year 1980. This is one of the tools that we can use.

Now, I want to repeat again that the floor of interest is 3 percent. You do not have to stick to 3 percent, that is, you cannot go lower than that. You can go higher.

It leaves flexibility for the administrator or advisory committee that manages this fund. The maximum period of time is 30 years. You do not have to go to 30 years. You give flexibility. And the important part of it is this will finance programs—and let me say this because I have gone into this with meticulous care. Products made in America, in American factories, in American towns, by American workers with American labels, sent to other countries to develop a market. Anybody that knows anything about merchandising knows that getting the commodity with your label, with your source of distribution, with your source of manufacture, into a country means long-term market development. These countries today that I am speaking of with the $200 a year per capita income or less are not necessarily big buyers, but it is fair to say that the less-developed countries that we speak about sometimes, such as Brazil, to use an example, and others, the so-called less-developed countries, purchase more in our exports than Europe and Japan put together. So less-developed countries which are poor countries have millions and millions of people. Hundreds of millions of people. They represent as we have learned over the long period of time the real growing market. Now, we are going to be competing in these markets and I think the question before this committee is do you want to compete in a game in which the rules by which you are playing are different than the other fellow?

We have a man in the White House who likes to use the term football. Let me use it. We have decided to play the game of economic competition. If you are looking upon ours like a football team by denying ourselves the right to pass, we live on nothing but the ground game. We have normal commercial terms yet we find that every other major country that is in business around the world has concessional credit terms, low interest rates, 3 percent, 30, 40-year terms, and they have been getting those markets. We are not only denying ourselves the right to pass but they have rules that say if you pass and touch the ball you score. I think the time is at hand for this country of ours to get itself in shape to meet the competition that we have to face abroad, and that is the whole purpose of this, plus may I say to do so is very helpful in the long run.

For example, in many countries if we want their natural resources, which we are going to need, there has to be a way for them to build roads, to build railroads, to have tractors, to get the things out, the product out that our great industrial system needs. This program provides some of that help. This program does not build factories abroad to compete with American goods. This program is designed to bring to those countries the products from the American factories so that they can lift their standard of living, and if we do not do it somebody else is going to do it.

I cannot imagine that the Germans and Japanese, in particular, two great nations and two great competitive peoples are going to play dead because we decided we did not need to do business with these people, and, furthermore, this is a part of our foreign aid program which I think makes an awful lot of good sense. It is not a giveaway. It is repayable and it is under the control of the Congress of the United States.

I believe that pretty well covers some of the points. I should say there is some difference that will be between myself and possible witnesses from the administration. I thought the startup time ought to be presenting to the Congress the proposal for the structure of this program by April 15, 1974, with the startup July 1, 1974. I have been told that the administration spokesmen will suggest that they present to the Congress their plan of administration in November and start in January. Now, the reason that I wanted it a little later, to give our committees of the Congress a chance to look at it after November. Not too many of us are apt to be around here at least much more than a month and to start up in January would give the Congress very little opportunity to really monitor or survey what this program is all about.

I suggested in the bill and the committee reported the bill that starts it at April, I mean as the administration presents its plan by

April and start in July. It may be a reasonable compromise to have the administration present its plan in January and start in April, but I think committees like this and other committees ought to have a chance to take a look at this program before it is really authorized.

The CHAIRMAN. We will consider that suggestion, Senator.

Are you through with your presentation in chief?

Senator HUMPHREY. Pardon?

The CHAIRMAN. Are you through for the moment?

Senator HUMPHREY. Yes, sir; I thought you might want to go to the questions.

The CHAIRMAN. I would like to remind Senators who have come in the room while Senator Humphrey was testifying that we will have a 5-minute limitation on the first round of questions. I will ask the staff to keep time, starting with me.

Senator Humphrey, you have made the point that we must do something about our devastating and disastrous unfavorable balance of payments. Now, I regret to say that our State Department and our Commerce Department have for the last 10 years or more been giving us what I regard as completely fraudulent and misleading good news announcements every 3 months about our balance of trade. I raised this question down at the White House; Senator Fulbright seemed sort of surprised to hear that I thought it was that bad, and he asked the President if he thought so. The President did not see it in quite those terms when he was talking to the whole group of us. But he did not deny it, and he has conceded to me that I am right.

These departments are misleading us when they say we have a favorable balance of trade, because they leave out the ocean freight, which is a very unfavorable item. You cannot trade with somebody without hauling the goods.

It reminds me of the experience of a friend I knew in the airplane business. I loaned him $600 to make a down payment. Every month he had a profit on a cash-in, cash-out basis, but in 3 years he was broke. He had not heard about depreciation. When the airplane had worn out you are out of business, unless you have something to buy a new airplane with.

That is about just how much sense it makes to have a great big favorable balance of payments that do not take into account one of your great big unfavorable items, the cost of transportation, and that does put in all of the aid items as though we were being paid for them, instead of this being outright gifts and grants.

We all agree that on an overall basis, we are in very bad shape as far as our balance of payments are concerned.

Senator HUMPHREY. Yes, sir.

The CHAIRMAN. You made this point that we ought to be competing in this ball game. Can you explain why we ought to have a Sugar Act which gives a favorable advantage to all those people selling us sugar, an assured market, and generally speaking, a favorable price—9 years out of 10 advantageous price. Why ought we to have that and not ask something in return of those people?

For example, there were years when we did not insist that they sell it. As long as our price was above the world market, they would be privileged to sell in our market. When you come to that very situation you are supposed to have the Sugar Act to protect you against, the one time when the world market was way above our price, why should

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they not be required to deliver? Even if we have to pay the world market price when this eventuality occurs, they should make it available to us? I finally got that in the act.

They agreed that we get something out of it, small though it may be. But with as good a deal as this is to the other countries, why should we not require those people to give us the advantage in buying sugar machinery. We are giving them an advantage in selling sugar to us. We can make manufactured sugar cane, harvesting, planning, and refinery machinery, including the millets, cheaper and better than anybody in the world. Why should we not insist that they give us the break in that which we have best? I am told by our people that they have been over there and have not even been offered the opportunity to bid, and that our State Department could not be concerned about it. That is none of their business. We have to take the overall international point of view, better for Japan to get the business than us.

Senator HUMPHREY. I do not agree with that. I think we have a right to expect fair treatment and not only that, when we give concessions to others we have a right to expect some concessions to ourselves.

The CHAIRMAN. If we are going to give the other guy an advantage, why should we not ask for an advantage in return?

Senator HUMPHREY. A very reasonable way to look at it, I think.

The CHAIRMAN. If we can get together on some of those things maybe we can get together on this bill, because I think that is very important.

I want to ask this: Could we not make these loans on better terms? We are asking 5 percent for our disaster loans in this country right now, which is half of what the prime rate is. Why should we not make it 5 percent rather than 3?

Senator HUMPHREY. Senator, again, I want to say I am sure there will be many loans that would be made under this authority that would be 5 percent. The floor in this one is 3 percent. This is 1 percent above what is presently in the development loan fund and I was noticing here in other countries, for example, that Canada has a program like this at 3 percent with 30 to 50 years maturity. France has one at 4 percent, Germany 3 percent with 22 to 30 years maturity. And Japan has one at 3 percent, 25 years maturity.

So I guess what I was trying to get at, and I want to be frank with you, I do not think the figure 3 is magic at all. I was trying to get at a rate which I thought was competitive. Actually the House, the original House bill was more generous, more liberal in terms than the one we finally reported out of the Senate committee. But again, I would hope the committee that administers this program, and I want to help build some legislative history, recognizes it is not a mandatory 3-percent program, it is merely to be 3 percent if we are going to meet competitive conditions and if we are, the country can afford to pay better where the competition does not require us to do any better we ought to get the interest rate up to 4 and 5 percent on these loans. I think that makes sense and I think your suggestion merits very serious consideration. I just want to get ourselves equipped to do the job, compete and also to help. It is not to compete but to help. And one final comment. Merchandising requires, as a manufacturer and merchandiser knows, to make an original investment that may not be an immediate payoff but down the line it pays off. And I am here to tell you, I know that certain companies have—the Caterpillar Tractor Co., and General Electric Co., and others have expressed their support of this bill. I know there is no unfavorable comment from industry on this bill.

I know that many of—the Journal of Commerce, Christian Science Monitor, Washington Post, Minneapolis Tribune, Los Angeles Times, and others have commented favorably about this particular proposal. Interestingly enough, no adverse, pointed adverse comment. What I am talking about is the year 1980, the year, hopefully maybe a little sooner, but at least in the year 1980 I want to see some American-made goods with American labels from American factories manufactured by American workers in the United States of America in these countries. Today we provide a way so that you can export our capital, private capital to these countries under guarantees with concessional tax programs so that American capital can vault over the Pacific or the Atlantic, can vault over any of these jurisdictional lines and put American capital there to develop a factory that is supposedly owned by Americans in that country. Why not have some goods produced in Louisiana, or Minnesota, or Nebraska, or Arkansas, or Connecticut, why not have some goods produced here by American workers exported to those countries rather than just exporting our capital? I think that is one of the ways that we can help our balance of payments and our trade picture. That is what Hubert Humphrey is trying to do.

The CHAIRMAN. My time has expired. Senator Curtis.

Senator CURTIS. Senator, we appreciate your comments here.

What programs do we have now for financing exports of American goods?

~~Senat~~or HUMPHREY. We have, Senator, of course, the Export-Import Bank, which is a phenomenal success, from what all I know. We do have the Development Loan Fund which is the very low rate of interest at 2 percent, with the grace period and the 40-year terms.

Senator CURTIS. That is our own program, it is not an international——

Senator HUMPHREY. Those are our own programs, yes, sir.

Senator CURTIS. How about Public Law 480?

Senator HUMPHREY. And we have for agriculture, 480, and again, I think that program shows how you can manage it. It is made available when the supply is available, and we made that program, as you know, Senator, primarily a great deal through your help, so we not have a giveaway but where it is on long-term credits to be repayable in dollars.

Senator CURTIS. Is there not a further program whereby the Commodity Credit Corporation can extend liberal credit to a foreign country purchasing agricultural products.?

Senator HUMPHREY. That is correct. As a matter of fact, part of the so-called food sale of late to the Soviet Union had some credits from commodity credit. I am not sure how many of those were used but Commodity Credit does have a program for sales.

Senator CURTIS. In your summary you say S. 2335 provides for fund coordination through an advisory committee.

Senator HUMPHREY. Yes, sir.

Senator CURTIS. Domestic food prices are related to the demand of the hungry ~~poor nati~~ons unable to feed their people. We must aid them in the production of food in their own interest—well, in our own interest as well as theirs.

Senator HUMPHREY. Yes, sir.

Senator CURTIS. If I correctly interpret, the objective and the guidelines of this legislation provide that exports, Government-encouraged exports, will not be used to increase the price of farm commodities.

Senator HUMPHREY. No, Senator, there will be in times of short supply, such as we have for the immediate period, it would be my hope that the agency administering this would not be tightening up the market and tightening up the supply situation by subsidized exports under this program. We have a program for agricultural exports, it is called Public Law 480, and it is well administered and it has a long history. We also have the commodity, Commodity Credit Corporation, which is likewise reasonably well administered, therefore, the purpose of this program is primarily for industrial products rather than the agricultural products.

Senator CURTIS. Well, I realize that just a selective sentence here and there is not quite fair, but I was disturbed about the implication of it because at the present time we do have agitation against the export of any agricultural products.

Senator HUMPHREY. Yes, you know, I do not agree to that, I think you know I believe we must have exports in agricultural commodities.

Senator CURTIS. Actually, there are no farm prices that are too high.

Senator HUMPHREY. Not in my judgment, sir.

Senator CURTIS. They are not.

There are some prices quoted on the market that are rather outlandish but no farmer has any of them to sell.

Senator HUMPHREY. Those are speculative prices based on futures.

Senator CURTIS. Paper prices where there are no more soybeans to call in from farmers.

Senator HUMPHREY. Correct.

Senator CURTIS. And the prices actually paid to farmers have been low for so many, many years that bringing them up does have an impact on our economy, but it should not be regarded as an evil. We cannot accept the premise that our whole price level continues to move up and not have it affect the production of food. It has got to. But it is also a lot of demogoguery for writers, politicians and others not to include all of the facts and all of the inequities that should be mentioned in connection with food prices.

Senator HUMPHREY. Absolutely right, and I am happy to recite once again that the American worker or the person, the American people spend a smaller share of their income to date for food than any other person in the world. So that despite the high cost of, what some people attribute to be high cost, the market basket that we take home today for the American family takes a smaller percentage of the total income than any other family in the world.

Senator CURTIS. I will not take time. That is the bell. I would like to insert this in the record. You state that the Fund will create jobs in the United States, as many as 50,000?

Senator HUMPHREY. That is an estimate.

Senator CURTIS. That would be at a cost of $60,000 a job, and I am told that in our general economy an investment of $20,000 produces one job.

Senator HUMPHREY. Could be, Senator. What I am getting at more importantly than anything else here is this is not the export of American jobs, this is the export of American goods, and it ought to have a stimulating effect, particularly in some industries that may be lagging. The purpose of this program in a very real sense is both standby and present. In other words, I would hope that those who administer the program would not go gung ho, so to speak, at a time when in tight money and tight supply, and that is why I want the Congress to have this monitoring and that is why I want to have this advisory committee include the Secretary of Labor as well as the Secretary of Commerce and other secretaries, and then when we get a slack in the economy, if we do get one, and I hope it is not great, we can use it more fully than we do at other times. We have done that with Public Law 480 and I think that is exactly the way it ought to be here in the industrial sector.

My staff assistant just noted to me at the time Export-Import Bank calculate each $12,500 of exports creates one U.S. job and makes use of funds authorized for the Export Development Credit Fund here could mean an additional 50,000 American jobs. That is a calculation. I even hesitated to put it in the summary because those predictions sometimes do not come through. All I am saying, it is not going to hurt American jobs and it ought to help.

The CHAIRMAN. Would you restate that multiplying factor?

Senator HUMPHREY. The Export-Import Bank calculates that each $12,500 of exports creates one U.S. job. Maximum use of the Fund authorized for the Export Development Credit Fund in this proposed legislation could mean, therefore, an additional 50,000 American jobs.

Senator CURTIS. There is something wrong with the mathematics. Three billion dollars by $12,500, will make more than 50,000 jobs.

Senator HUMPHREY. Let me point out the $3 billion actually is available for the purpose of loan at about $2,700 million because there has to be some money set aside for bad debts, et cetera. Maybe I was not very good in mathematics anyway, it may be very wrong.

Senatur CURTIS. Computers are cheap now, you can get some help.

The CHAIRMAN. I would be curious to know how much import does it take to lose us one job. Would you mind giving us that figure?

Senator HUMPHREY. I do not know.

The CHAIRMAN. We would like to know how many jobs we are losing.

Senator HUMPHREY. I do not know but I am sure we are losing some.

The CHAIRMAN. I would be curious as to how many millions we are losing on a $20 billion yearly adverse balance of payments.

Senator FULBRIGHT. Mr. Chairman, I would like just a few points. I think this proposal should be considered on its own merits and not as a part of the foreign aid bill. This proposal was not in the original administration request. It was worked up in order to circumvent Congress' growing opposition to, and the reductions it has made in the economic aid program. Under the development loan program we have been financing exports to foreign countries under loans over a 40-year period, at 2 percent for the first 40-year grace period and 3 percent for the remaining 30 years. This program has been losing its appeal, so this proposal was brought in as a kind of a way to evade the restrictions which the committee and Congress has been seeking to make in the regular foreign aid program. This is a foreign aid program primarily estimated to cost about $40 million a year, at least for every $1 billion loaned, in direct subsidies because of the interest rates. It should not be in this bill. It should stand on its own merits. Personally, I do not think it has any merits. It has not been given a thorough examination; the time spent upon it in the period of 2 days of hearings was negligible.

In my opinion, it is but a device to evade the gradual effort to restrict the regular economic foreign aid program. This is an attempt to give that program new life. It is the same approach they are using on Radio Free Europe. It was running down. It was obsolete so they come in with a completely new approach doing the same thing under a new committee to give it an indefinite life. This committee should recommend that the proposed export subsidy program be considered on its merits as a separate bill, going into it thoroughly as to how it is administered. The guidelines the Senator from Minnesota has spoken of, with all respect, are his views the way it should be run. There is nothing in the bill to require that it be administered that way. Under the bill he has presented all of this money could be used to equip factories in one country. It could equip shoe factories or textile factories or any other thing in practically any country in the world the administrator wishes to do it. I am not sure whether it is intended to be foreign aid or domestic aid or whether it has short range foreign policy objectives, all of them are involved. My recommendation is that the section be taken out of this bill and considered on its own merits; then the Senator from Minnesota and the others can make the case for it.

The Wall Street Journal is rather interested in these matters and I wish to put in the record an article of May 21, 1973, not on this particular bill but on the general field inducing underdeveloped countries to borrow money. It states that the outpouring of credit to developing nations is seen as spelling trouble and that, despite misgivings, banks rush to make such loans. Will the debts get repaid, it asks.

This demonstrates the danger of continuing to burden the underdeveloped countries with more loans. It says here, already debt service takes 15 to as much as 25 percent on export earnings of many country's earnings, according to World Bank figures.

Another article of July 13 quotes Mr. Kearns as saying it is safe to anticipate an increase in U.S. exports of 15 to 20 percent each year through fiscal 1976. That is coming about because of the devaluation of the dollar and I do not think we need this new program.

[The following articles were submitted by Senator Fulbright:]

[From the Wall Street Journal, May 21, 1973]

UNEASY MONEY—OUTPOURING OF CREDIT TO DEVELOPING NATIONS SEEN SPELLING TROUBLE

DESPITE MISGIVINGS, BANKS RUSH TO MAKE SUCH LOANS; WILL THE DEBTS GET PAID?

'Beware of Shylock Syndrome'

(By Charles N. Stabler)

NEW YORK.—Rivers of easy credit are flowing out of international money markets into Africa, Asia and Latin America, and the outpouring is stirring deep misgivings among lenders and debtors alike.

The problem is that the money may not come back as readily as it is going out. Fears are rising that repayment of debts of some of the so-called "developing" countries will be delayed or even defaulted. Or, in cases where countries do try to meet their obligations, there's fear that heavy debt payments will strain skimpy national budgets and slow development of these impoverished parts of the world.

Either way, the situation spells intensified political friction between rich nations and poor ones as well as financial anguish for some private lenders, many of them U.S. banks and financial firms.

"We are deeply concerned," says Gerassimos Arsenis, chief of the external financing branch of the United Nations Conference on Trade and Development. He warns of soaring annual interest and amortization costs, perhaps a doubling in the next five years, for many low-income nations. And they owe an increasing portion of this debt to private lenders rather than other governments or international institutions that are better able to wait for their money.

"The only question is whether they can roll over this debt—cover it with new borrowings—as it comes due," says Mr. Arsenis gloomily. "They can't pay it."

AWASH IN MONEY

Some bankers themselves voice increasing worries about the risks they are taking on low-profit, relatively long-term loans of Eurodollars, which are dollars on deposit in their foreign branches. But the Eurodollar market is currently awash with funds, and 200 or more international banks are competing aggressively to attract borrowers. So, like it or not, they feel they must accommodate the poorer nations.

"There's such an intense desire to get into international banking, such a rush to build this capacity, that a lot of banks are doing things internationally that they wouldn't dream of doing domestically," says one New York banker. "I'm afraid what has developed is a dual credit standard, one domestic and one international."

The Federal Reserve Board is known to be taking a closer look at the credit standards of foreign branches of U.S. banks. The lending officers themselves through the Bankers Association for Foreign Trade, have formed an international credit standards committee. It has held two meetings with top executives of various banks "to talk about the problem," says a member of the group.

"Some of these people (bank presidents and directors) are on some sort of ego trip, seeking the prestige of being an international bank with a branch in London and all that," complains one middle-rank international loan officer of a Philadelphia bank. But a London branch is costly to operate, around $500,000 a year, and this forces some banks to reach for customers they wouldn't touch at home, in hopes of earning a return on their investment.

THE SHYLOCK SYNDROME

In an address to the recent annual meeting of the Bankers Association for foreign trade, Richard H. Cummings, senior vice president of National Bank of Detroit, blasted what he described as "the rapidly deteriorating situation in international credit standards." And Guido Hanselmann, director general of the Union Bank of Switzerland, warned of political risks ahead when loan payments become overdue.

"Watch out for the Shylock syndrome," he said, "when the friendly banker of the past is seen as bossy and is resented."

Accurate, up-to-date reports on the external debt position of many nations are impossible to come by, a fact that doesn't help mitigate the rising agitation of the creditors. Staffers at one international institution put the debt now owed by governments of 80 developing countries at around $100 billion, with half of that coming due in the next five years. That's up 19% from the $84 billion level of 1971, estimated by the Organization for Economic Cooperation and Development, an international body made up of the major nations.

Debt-service payments, interest and amortization, naturally, also are rising at an accelerating pace. Irving S. Friedman, an economist at the International Bank for Reconstruction and Development (World Bank), says in a 1971 analysis, "Given the erratic behavior of private investment, it would not be surprising to find at some time in the 1970s that the servicing of external debt was pre-empting 50% or more of the flow of financial resources to the developing countries."

CHANGING DEBT PATTERN

Already, debt service represents a lien of 15% to as much as 25% on export earnings of many countries, earnings that are a key source of foreign currencies, according to World Bank figures.

Financial problems of developing countries have been chronic for years, of course. What is significant now isn't only the rapid rise in debt but also a change in the pattern of the debt.

"We are seeing a dramatic switch from public to private sector financing," says the UN's Mr. Arsenis. Using 1970 figures, the World Bank reports, "Debt to private banks and all other private lenders, which represented a relatively small proportion of public debt until very recent years, rose by 67%. Their share of total debt increased from 13% to almost 16%."

The portion of debt owed to private institutions, including credit extended by corporate suppliers of foods, clearly has grown further since 1970. Much of this kind of borrowing isn't reported anywhere. But, counting only publicly announced government bond issues in the Eurodollar market, one major New York bank calculates such financing increased fivefold from 1970 through 1972.

In 1970, countries like Argentina, Brazil, Mexico and Venezuela announced Eurobond issues of about $455 million. In 1972 developing countries borrowed over $2.5 billion by this route, and a whole lot of new names were on the list of credit-worthy nations—including Algeria, Indonesia and Peru. Then, in the first quarter of this year alone, borrowings skyrocketed to over $1.3 billion, compared with $522 million in the first quarter of 1972. Among the 1973 borrowers were the Ivory Coast, the Phillipines and Senegal and Zaire in Africa.

More than 40% of all publicly announced Eurodollar loans from private sources last year went to developing countries, compared with 10% in 1970 and 35% in 1971, say economists at New York's Morgan Guaranty Trust Co. "Of course," the bank adds in a recent report, "there were many other Eurocurrency bank credits to these and other areas that weren't publicly announced."

Analysts caution against generalizing about the financial health of developing nations. Many appear to be entirely capable of taking on new debt in order to boost their economies. Some, like the nations of the Middle East and some Latin American countries, have oil or other natural resources to export. Others, like Brazil, Korea and Taiwan, have a rapidly growing manufacturing base for exports. And others, like Mexico, have important income from tourism; Mexico's external debt is large and debt-service payments run over 20% of its export income, but bankers consider the nation an excellent credit risk.

Some Latin American countries are "going toward a much more guided type of economy, with better collection of taxes, and looking to their long-term problems," says Larry Glenn, a vice president at First National City Bank of New York.

But even where the fiscal picture looks considerably less rosy, the bankers are shoveling out money. Referring to the growing practice of syndicating loans, in which a lead bank sells shares in a loan to other banks, a top executive of a major New York institution says, "We could sell just about anything." He doesn't look happy about it.

A SELLOUT FOR PHILIPPINES

Last September, the investment banking firm of Kuhn, Leob & Co. put together a comprehensive financial program for the Philippines, including a $50 million loan on promissory notes of the Development Bank of the Philippines. On the morning the firm sent out invitations to other financial institutions to join in the financing, Philippines President Ferdinand E. Marcos declared martial law in the troubled nation.

One might think this would give investors pause. But, according to Yves-Andre Istel, a Kuhn-Loeb executive, the notes were all sold within a month. The firm has done many other financing deals for developing nations and just recently was a co-manager of a $15 million loan to Gabon, an African republic. (Among the suppliers of credit was Moscow Nardony Bank Ltd., the London-based commercial bank of the Soviet Union.)

Gabon, Mr. Istel concedes, is a rather small nation, but its foreign debt also is still rather small, and its foreign exchange reserves have been rising.

But, without referring specifically to any nation, a New York economist cautions, "Some countries seem to be in the same position as a family without much in savings taking on a large, minimum-down-payment mortgage. You can figure the payments will be met because the husband has a good job, but what if he loses his job, loses his health or whatever? Lots of things can happen."

A REVOLUTION AND A MORATORIUM

Some nations in recent years have already run into severe financial trouble and have apparently been able to correct it. But that's a painful political process, often involving import cutbacks, increased taxes and other measures that may not be popular with the citizens.

For example, Ghana under the rule of Kwame Nkrumah in the 1960s ran up large overseas debts, often spending the money on prestige buildings and Cadillacs for government officials. "Getting out of that bind took a revolution and two changes of governments," says an official of an international institution. A moratorium on the debts was agreed to by creditors, carrying repayment forward to 1981. Most recently, the Marxist government of Chile has had to seek renegotiation of its external debt.

In many cases, international economists say, the developing countries are well aware that they are storing up trouble for themselves by increasing their external debt. "But," says one analyst, "you can hardly expect a country like the Ivory Coast to turn down money when the bankers are offering it, even though the finance minister knows the country could be in trouble 10 years from now. Is he going to tell the minister of agriculture he can't buy tractors because it will mean trouble 10 years from now?"

As for the lenders, they are under competitive pressures to make loans. "The London branch of a New York bank, say, knows that if it doesn't take the business, a Japanese bank or a French bank will," says the UN's Mr. Arsenis. Also, he says, much of the debt goes to pay suppliers of goods and services—Japanese, German, British and American multinational corporations. "Much trade now is done on the basis of financing terms offered the customers, rather than price," he says.

It's far from clear where this trend will lead, most analysts agree, Studies are under way in a variety of international organizations, but so far, says one insider, "the governments have agreed only that there is a problem; they haven't come around to doing anything about it."

[From the New York Times, July 13, 1973]

Rise of 15 Percent Is Seen for U.S. Exports by Eximbank Head

(By Edwin L. Dale Jr.)

WASHINGTON, July 12.—Henry Kearns, chairman of the Export-Import Bank, said today that there were "potential" United States exports in the next five years of between $9.75-billion and $12.5-billion in the single area of "collection, liquefication and storage facilities" for natural gas abroad.

Mr. Kearns cited projects now being discussed in 10 countries involving natural gas, including the Soviet Union. He also said at a news conference that major minerals and other projects, together with natural gas, would need between now and mid-1976 "between $30-billion and $40-billion of export financing support."

Based in part on the Export-Import Bank's preliminary commitments to finance exports, Mr. Kearns said, "I believe that it is safe to anticipate an increase in United States exports of from 15 to 20 per cent each year through fiscal year 1976."

He said this would mean an equally large jump in Export-Import Bank financing with exports "supported" by the bank's various programs rising from the record programs rising from the record $10.5-billion of fiscal 1973, just concluded, to as much as $15.5-billion in fiscal 1976.

OTHER POINTS MADE

Mr. Kearns made these other points:

¶His agency is "examining" the possibility of offering insurance against foreign exchange rate fluctuations to aid the nation's export trade, but he cautioned against any assumption that such a program was imminent. He said France had not had a "happy" experience with a program of this sort.

¶Given the likelihood of a big increase in the volume in the bank's export financing, there will be a "gradual" increase in the years ahead in its borrowings in the United States capital market—borrowing which amounted to about $800-million last year.

Senator FULBRIGHT. Finally, this is simply a device to try to increase our foreign aid, economic aid program when we cannot afford it. The interest rate, as you well know, we will have to pay on money borrowed to service these loans are very high. Treasury now pays over 8 percent, the prime rate is 9¾ and you are offering here to lend that money at 3 percent. As a matter of fact, my calculation of 40 million is based upon borrowing at 7 percent, less than it presently is.

I think it would be a great mistake for this committee to approve this scheme without much more thorough examination and insuring that tight, detailed guidelines are laid down if such a plan is found to be desirable.

The CHAIRMAN. We are going to get both sides of the argument. I have added Congressman Otto Passman to the witness list. If he supports the Treasury, I think I will probably support it.

Senator HUMPHREY. May I comment, my distinguished chairman and friend, the Senator from Arkansas, Mr. Fulbright and I have not agreed on the whole subject of foreign aid. We agree on many things and I respect him greatly. First of all, this was not born overnight, this initiative came out of the House, men like Congressman Zablocki, Congressman Fraser, and others over a long period of time, it was not an administrative initiative, and I am happy to say that the administration does support it. I am not known as the patsy for the administration. I think it has merit and, therefore, I am delighted that we have support from the administration as well as from Members of Congress. The fact we only had 2 days of hearings is not due to this bill. I think we ought to have had many more days of hearings so it was not suddenly born. As to guidelines, I realize that the guidelines are not too specific but I do presume that there are some people in the Government that have enough sense not to want to take all of this in one country for factories in one country.

The aid program presently under its Development Loan Fund restriction covers loans to countries that will not export any more than 20 percent of the output of a factory. In other words, they do not make loans presently under the 2-percent loan fund, to a country that is going for a factory in a country that will have over 20 percent of its exporting to the United States. So that there are people that are going to be concerned about this. I do not believe that the Secretary of Labor, for example, if added to the advisory committee, and the Secretary of Commerce, who is vitally concerned about American industries, is going to sell out under some ridiculous guideline procedure the interest of the American industry and the American worker. I just do not believe it, nor is Hubert Humphrey, nor is Senator Fulbright. We are not going to let that happen. If the guidelines need to be more specific we can do that. For example, one reason the House turned this bill down was because it was not included in the budget. I want to amend this bill and will offer such an amendment that will see that it is a budget item.

Second, we are making sure this procedure goes through the Appropriations Committee process so that the Appropriations Committee will set the limits on how much you can borrow. The $3 billion for 4 years is the maximum. It is the authorization. The Appropriations Committee may say you can only get $200 million for 1 year, or maybe for 1 year you did not get anything. The Congress maintains its control over this. This is not some fly-by-night scheme that has been concocted up here to bail out a foreign aid program. I just happen to believe that it is to our national interest to get American products made by American workers in American factories and American towns into countries that are sometime down the road either going to be buying goods from us or from somebody else. You are going to make up your mind you want to buy it all from Japan or Germany because they have programs to finance this. Or are we going to have a program that will make us competitive?

If we are going to be in the economic competition for exports, I want to be able to compete, and I do not want to stand on some kind of old-fashioned theory that we have to pay so much interest. If the other guy—listen, I have been running a drugstore in my life—when the guy down the street is selling Bayers aspirin for 16 cents it does me no good to say you have to pay a quarter. You may be able to get by with this up in Congress, but you cannot do it in business.

The CHAIRMAN. Senator Ribicoff.

Senator RIBICOFF. Two questions. What has been the general composition of U.S. exports to these countries listed, the 70 countries?

Senator HUMPHREY. Senator, I cannot give you the specifics on it, but it is my understanding it is mostly what we call industrial component parts for dams, machinery for their roads, for their railroads, and we have been losing those markets, to be frank about it.

Senator RIBICOFF. What do you think the import absorption capacity would be for countries with a per capita income of $375?

Senator HUMPHREY. Well, the other competing countries with which we must deal in the marketplace today found that they have been able in these years, as I indicated, 15 OECD members increased their exports to these countries with $375 a year per capita income or less, by 143 percent in the period from 1965 to 1971, from $9 billion to $21 billion. Now, that is in a period of 6 years, and they increased in a period of 6 years $12 billion. It was about $2 billion a year for their increase of exports. I do not want to make a prediction, but I do think that is the prediction on the amount. I do think, however, as these countries get along, that the opportunity to increase this. Our exports there is rather substantial. It surely would run as much as the European countries have been able to demonstrate.

Senator RIBICOFF. As I look at these countries, they seem overwhelmingly to be in the southern half of the globe.

Senator HUMPHREY. Yes, sir.

Senator RIBICOFF. There has been a pattern developing around the world. As soon as a nation raises its wages, its factories start moving toward the southern half of the globe where wages are much lower, often just a few pennies an hour. Then these plants compete with the developed countries where the wage rates are higher.

This process has witnessed industry moving from the United States to Japan, to Hong Kong, to Korea. Now they are going into the South American and African countries. So we have a flight of industry and production facilities, not only from the United States, but from other relatively high wage-rate countries to the Southern Hemisphere countries. What impact do you think your proposal would have on this?

Senator HUMPHREY. That, Senator, is my understanding—what is happening there is the flight of capital investment to those countries for the purposes of manufacturing or development, which obviously is of aid to those countries, and some of those profits do come back here, but I recognize some of the competitive problems. For example, as this happened in textiles in the instance we are aware of, and shoes, and others.

Senator RIBICOFF. You see——

Senator HUMPHREY. May I just say that here we are talking about not the export of capital per se, the only purpose of this capital loan and its Government to Government, is to purchase American goods from the United States of America, not even from an American corporation based overseas, but the U.S. corporations right here in our own country.

Senator RIBICOFF. It would include, would it not, high technology items, machinery, and equipment, that could be used to set up factories in these low wage-rate countries.

Senator HUMPHREY. It could. It could be used for that. However, as I have said earlier here, that the committee or the administrator that administers this program with the advisory committee, would surely, I would hope, follow at least the guidelines that AID presently has, and it is my judgment that this program ought to be administered through AID, and that program, as I recall, or those guidelines as I recall, state something like this.

That a development loan would be made to a company provided that that company did not export over 20 percent of its product into the U.S. market. Now, we would not have any less standards than this, and it would be my hope that out of the legislative history here, we would come to understand we are not trying to bypass or we are not trying to set up competitive industries, as I said here in my summary statement. The whole purpose is not to set up competitive industries to American-based companies, but rather to help those countries to develop their own economy.

Senator RIBICOFF. That may be the objective you have, but in practice would it work out that way? Labor, today, is the least important factor in the entire trade picture. Technology, capital, and management are the key factors, because it is so easy to shift these three factors from one nation to the other, while utilizing and training very rapidly labor in countries where their wage rates are only a pittance in comparison with the wage rates in the United States.

Perhaps Senator Humphrey has a good proposal here, Mr. Chairman, but I do think we have to look at the whole international trade picture and the impact that this proposal would have on it in its entirety. I would imagine that when the trade bill gets to the Senate from the House, these are some of the factors that you would want to go into, Mr. Chairman.

Senator HUMPHREY. Might I just say this, Senator Ribicoff?

We are ~~not in~~ control. It is not as if we do not do this that a factory will not be set up, let us say, in one of the countries. I have a list of 70 countries that would qualify.

The CHAIRMAN. Put that list in the record.

Senator HUMPHREY. Yes, sir. I want to include that in the record.*

It is not, for example, as if that Kenya, that has a per capita income of $150 a year would not be able to get exports of parts that could be put into a factory, because if we do not at least have a chance to compete in the area, to send American-made goods to this country, the British will, the Canadians will, the Japanese will. I read the terms that they have. They are every bit as generous and some more

* The list is printed in this hearing at pages 200 and 201.

so than ours. So it is not if somehow or other if the United States says you boys do not play, the game stops. The question is, are we going to be in the game?

Senator RIBICOFF. My feeling is if these developed countries in the past, Mr. Chairman, had given large infusions of aid to many of these so-called backward countries, we would not have $100 billion floating around the world and maybe our monetary position would be better. I think we ought to encourage other nations to contribute more for development. I do not think this approach in any way reflects upon the United States, which should have learned a lot from the past 20 years' experience.

Senator HUMPHREY. I would surely agree to that. May I say this is not a gift, this is not a contribution. When you go to the savings and loan company and get a 30-year mortgage, they are not giving you the money, you have to pay it back. When you go to this, let us say that this legislation is adopted and a company and a country gets a loan, it has got to pay it back. It is paid back in dollars. It is not a grant.

The only concession in this is a concession on interest. That interest is variable and flexible. It is a part of the total package that we have to implement the national policy of assistance to other countries on export development. You bring both of them together. Assistance to other countries, that is why I put it under the aid program and export development and I believe that in the long run, as we have said, we have had a slogan here, trade, not aid. This is trying to stimulate trade and in due time I think fortify and maximize the effect of any aid and hopefully can help do away with the necessity of aid. I do not think in the foreseeable future we are going to see the end of assistance programs to less-developed countries. It is my judgment that that program will have to go on for a long time, not just by us but by others, and others are making substantial contributions. Our friends to the north, Canada, give a much larger share of their national budget to aid than we do in the United States.

Senator RIBICOFF. But their balance of trade with the United States is so substantial, something like $2½ billion last year. They can afford to do it. I would be very happy to see Canada and Japan and West Germany and France giving more substantial sums. Maybe that will help right the financial balance in the world. It certainly does not bother me to see them give more.

Senator HUMPHREY. This does not hurt our balance of payments. This helps our trade picture. This improves it. And I noticed you ask the question about the capacity, the import absorptive capacity. I have received some information that the total merchandise imports in 1972 in these less-developed countries with per capita income under $375 was approximately $30 billion. If import absorptive capacity is defined as the capacity to utilize increased imports, productively there can be little doubt that the 675 million average annual flow which this program would authorize could be absorbed since it would constitute less than 3 percent of the existing import level, and I believe that the increase in exports from the old, the industrialized countries, OCED countries, indicates that there is a great absorptive capacity there, and I have never noted that either the Japanese or the Germans were poor businessmen. They seem to be able, the yen and the Deutsche mark are both good currencies, and they have had a program like this for years. Maybe this is one of the reasons when we go to these countries we look around and we see Dutch, German, Japanese, goods, with labels on them all over the place. And frankly, one of the reasons we insisted that the Development Loan Fund have at least 80 percent, about an 80-percent repurchase back in the United States was because we began to see that. They were in days gone by we would make grants and loans to other countries only to find out that they are going to Britain or some place else to buy their turbines, to buy their goods. This program is designed, I repeat, to do one thing above all, to see that the goods that are purchased under this program, under a businesslike operation, will be American-made by American workers in American factories in the United States of America, shipped from the United States to the countries that are the recipients to be repaid in dollars under terms which are competitive with our competition.

Now, unless I misunderstand business principles as well as humanitarian concerns, that is a pretty good program.

The CHAIRMAN. Senator Mondale.

Senator MONDALE. You mentioned, Senator Humphrey, the export promotion programs of other developed countries for lending on favorable terms to less-developed nations. Could you be a little more specific? For example, do you know at what terms German, Japanese, and other exporters are able to compete in these less-developed countries?

Senator HUMPHREY. Two to three percent. Mostly 3 percent for 22 to 30 years. That is Germany.

Senator MONDALE. Do you have so-called grace periods?

Senator HUMPHREY. Yes, sir. Some of the grace periods went up to 10 years. This grace period has been cut to 5 and the the grace period in some of the countries, for example, no payment on either interest or principal for the first 5 years. And we have payment at least on interest. I was opposed to any kind of grace period that would eliminate the payment of interest in the first years. And again, may I say to the chairman, in the House bill the terms were 2 percent, 40 years, and a grace period much longer than the one that we have provided both on interest and principal.

So the Senate bill is a tighter bill, to use a word I guess, that we understand.

Senator MONDALE. Last year I was Chairman of the Subcommittee on International Finance which reported out the liberalized Eximbank proposals. I was concerned at that time, and still am concerned, that the foreign equivalents of our Eximbank are always outcompeting us in Eastern Europe with favorable terms.

I gather that this is even truer when it comes to competition for exports to the less-developed countries.

Senator HUMPHREY. Senator Mondale, that is exactly right. Now, the export credit agencies for what you might call the Eastern European countries and the countries above the $375 a year, our Eximbank with your legislation, has become more competitive and I think that the Eximbank is great, has been a great asset to America, but we have faltered except on the development loan and the development loan is the 2 percent, 40 years, but the program is tied not only to developments, the development, but the export development, and I am trying to emphasize in this bill and the committee is trying to

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emphasize the relationship between effective use of aid funds on the one hand and the development, long-term development of exports from the United States on the other, and it is the matter of getting a hold, getting a foothold in a market.

Senator MONDALE. As we meet here today the so-called Third World countries are meeting in Algiers. One of their consistent complaints is that the major powers have ignored their best interests. It has been my impression that during the last few years our policies have been preoccupied with what you might call great power politics—our relations with the Soviet Union and China—and, of course, the normalization of these relationships are critical. But I do believe that there has been a deemphasis of the problems of the less-developed countries. I think we have seen some of this in West Africa during the tragic drought and starvation. Yet we seem to be very active in peddling arms to less-developed nations.

Do you not see the proposal as a means of stepping up U.S. concern and help in an enlightened way? Should this not be an important element in our foreign policy as well?

Senator HUMPHREY. I do, I surely do. Just as you, Senator, took the load amongst with others here in trying to open up the Eastern European markets, which was a sensible, responsible approach both to the international diplomacy and our domestic economic needs, we will at our peril ignore these less-developed countries. I tried to indicate in the beginning just from a very selfish point of view many of these less-developed countries are treasure houses of natural resources.

We are not going to be able to go in and grab them by brute power, as in the past other countries did. We frequently have not had relationship with these countries on the basis of colonial relations such as the French, Japanese, Italians, or British, so we have to find a way to show our deep concern for their well-being on the one hand and on the other hand a sensible financial fiscal responsibility for our own needs here at home, and what I believe that this Export Development Credit Fund does is to show that we are prepared to help these countries with reasonable and indeed, concessional credit terms so that they can get some of the things that they need, and we show our concern for those needs. But on the other hand, Senator, it does not hurt us a bit. As a matter of fact, it is wise merchandising and good long-term investment because if these countries all fail in terms of their economic system, it is going to promote a world disaster and we cannot exclude ourselves from this world. If these countries slowly develop or even more rapidly develop it is to our benefit providing that we have shown them some interest. Now, we have to serve with these countries and work with these countries in the United Nations. The Committee of Twenty that is working on the International Monetary Fund has representatives of these countries, it is not as if somehow or other we are going to write the rules for the International Monetary Fund without their consideration or help or cooperation. Everything in which we are involved includes these countries. And I would think a country that is oil short, metal short, timber short, and with a few other shortages that we have, that we would be deeply interested in how, what our relationships are with the less-developed countries.

Senator MONDALE. I thank the Senator for what I thought was an excellent answer.

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Mr. Chairman——

The CHAIRMAN. I believe the bell has rung on——

Senator MONDALE. I did not hear it. I was going to make one request. Could the staff prepare for us an analysis of similar credit banking institutions on the part of the developed countries which assist their exports into less-developed countries, and an analysis of our current credit instruments, whether it is——

The CHAIRMAN. I will ask the staff to obtain that information for you. They will, of course, need the cooperation of the executive branch, but I am sure they can obtain it.

Senator MONDALE. Could we get the same figures on what kind of credit instruments we have for sale of U.S. arms overseas? I would also like figures on the guarantees of U.S. capital overseas in the construction sector. That would be a helpful document.

Senator HUMPHREY. Very helpful, and might I add I remember the argument in the Congress about the sale of arms and here it is. If we do not sell it to them under these terms somebody else will.

Senator MONDALE. That is right.

The CHAIRMAN. I would like for the representatives of Treasury, State, and Commerce present to take note of it and to provide us with what they have on the subject. We will try to help you get that information.

Senator MONDALE. Thank you.

(The following was subsequently supplied for the record:)

Comparative terms of economic assistance programs of the United States and other industrialized countries

Country and agency	Interest rate (percent)	Maturity	Average grace period (years)	Net bilateral grant and loan disbursements in 1971 (millions of dollars)
United States: Agency for International Development	2.0–3.0	Up to 40 yrs	9.7	[1] $2,900
Canada: Canadian International Development Agency	0–3.0	30 to 50 yrs	9.9	295
France:				
Ministry of Economics and Finance	3.0–4.0	15 to 20 yrs	3.2	980
Ministry of Foreign Affairs	0	Grant		
Caisse Centrale de Cooperation Economique	3.0–5.0	5 to 20 yrs		
Germany: Kreditanstalt fur Wiederaufbau	2.0–3.0	22 to 30 yrs	8.3	528
Italy: Mediocredito Centrale	3.0	11 yrs. (average)	20.5	137
Japan: Overseas Economic Cooperation Fund	3.0–5.0	20 to 25 yrs	6.7	432
United Kingdom:				
Overseas Development Administration	0	25 yrs	6.3	487
Export Credits Guarantee Department	3.5	Up to 15 yrs		

[1] Includes $1 billion under Public Law 480.

Comparative terms of export credit programs of the United States and other industrialized countries

Country and agency	Interest rate [1] (percent)	Maturity	Percent of contract value covered [2]
United States: Export-Import Bank.[3]	6.0	Up to 15 years....	90
Canada: Export Development Corporation.	6.0	Up to 20 years....	85
France: Banque Française du Commerce Exterieur.	5.8–6.5	Up to 12 years....	90
Germany:			
Kreditanstalt fur Wiederaufbau.	7.8–8.5	8–15 years.........	[4]70, [5]76.5
Ausfuhrkredit-GmbH..	8.5–10.5	Up to 15 years....	
Italy: Mediocredito........	6.5	Up to 10 years....	80–90
Japan: Export-Import Bank of Japan.	4.5–7.5	Up to 20 years.	49–64
United Kingdon: Export Credits Guarantee Department.	6.0	Up to 15 years....	80–85

[1] Interest rates do not include private financing costs, insurance, or other fees, some of which might add 2 to 3 percent to the cost of borrowing from the U.S. Eximbank and some other export credit agencies.
[2] The percent of contract covered includes that portion of the transaction financed through private credits guaranteed by the U.S. Eximbank and some other credit agencies.
[3] U.S. Export-Import disbursements totaled $1,400,000,000 in 1971. Comparable figures for the other credit agencies were not available.
[4] Supplier's credits.
[5] Buyer's credits.

Terms of U.S. foreign military sales programs

Interest rates	Maturity	Grace period
Cost of money to U.S. Government.[1] (7⅝ percent—September 1973).	5 to 10 years.....	1 to 2 years.

[1] Rate extended to borrower is cost of money to U.S. Government. Interest rate on Department of Defense money, when used in combination with private credit, may be lower so that combined credit to borrower remains at cost of money to U.S. Government.

The CHAIRMAN. Senator Packwood just left the room. It was his turn.

Senator Gravel.

Senator GRAVEL. I was not quite sure, Senator Humphrey, if you said that this would not support high technology exports to these poorer countries?

Senator HUMPHREY. I said, Senator, that that would be within the jurisdiction of the advisory committee but that under present rules of the AID administration, and it is my hope that this program is so designed to be under AID, that the high technology would not be the subject of export under this program.

Senator GRAVEL. The only problem I have with this is that, as we both recognize, high technology exports could be used to compete very quickly with us in many areas since we are a high technology country. Furthermore, it seems to me that this program appears to be a type of commercial imperialism, although that term may sound a little harsh. That is, we have to reach out and get markets because it creates jobs at home. Probably the best example I could show this with is the case in Libya where the Italians were finally ensconced as a result of their activities prior to the Second World War. The British, abetted by our foreign policy, were able to get the Italians out of Libya because they wanted it as part of their economic arena. All we had was continuous economic agreement which was severed immediately while the Italians had large scores of people in Libya. We had a situation in which there was a true Western incursion of some permanence in Libya, had it not been for the attitude of elbowing the other guy out. So I am not chagrined to see Canada aggressively pursue markets, or Britain or Japan either. I think that is a healthy situation.

Senator HUMPHREY. Do not misunderstand me, I am a competitor, so are you, in politics, and I do not want in any way to say they ought not to do that. I simply said if we are going to be in the contest, that I do not think we ought to be running on one leg.

Senator GRAVEL. Let us define precisely what the contest is. As Senator Ribicoff was alluding to, and may have brought out if he had more time, there is an evolution taking place in the acquisition of capital, which is a very painful process. You go from sweat shops to high technology. Essentially what you have is a program designed to get them from a subsistence level to the sweat shops as soon as possible, so that they can evolve to a higher level in ensuing years. I do not particularly want to see us export to get these people into the small hand shoe factories so they can sell us this humble sweat off their brow. If anything, I think we might move more rapidly to a cybernated society by a rapid dispersion of high technical capital intensive equipment around the world rather than what has been the customary evolution in our industrial society.

Senator HUMPHREY. Yes. Well, I think the point has to be, the point I was trying to make, which I hope makes some sense, is that we are not attempting here to use the export program as a way of setting up under concessional terms, industries or factories that will be competitive on unfair conditions to American goods.

Senator GRAVEL. The export credit proposal stipulates that no more than 20 percent of the goods produced abroad as a direct result of loan activities could be exported back to the United States. In other words, as soon as they began producing, you sort of nip them in the bud, so they will not hurt us.

We give factories to them so they can set up the sweat shop. Then, as soon as they are ready to export back to us, we shut off the market.

I suspect we will have frustrated them at that point in time. They will go running to the Canadians and to the Germans because they are so teed off at us.

Senator HUMPHREY. I do not think that has been the case in the past with the operation of AID. There is that possibility.

Let me say a word about high technology. I am no expert in it but one of the big problems we had with the programs in the past is that we have always been interested in helping countries build big steel factories and big electronic instrumentations and we find out that they just do not have either the educational base, the management base, the middle management base, the supervisory base, the skilled labor force to operate them. You do not make a high technology country by merely exporting them computers. It takes years to train a population to be able to use high technology. This is why high technology is something that we can talk about rather freely because we have had a 150 years of public education with large masses of our people being brought into an education experience but other countries have not had that, particularly the countries we are talking about where the rate of literacy is 75 to 80 to 90 percent and per capita income from $50 up to $375. They need some basic, they need some things that make life worthwhile, they need a pump to get a well.

Senator GRAVEL. Senator, I share your emotional concern for these nations and applaud it. I think your motivation is sincere.

Senator HUMPHREY. Thank you very much.

The CHAIRMAN. Senator Roth.

Senator ROTH. It is always a pleasure to have the junior Senator from Minnesota before us and I sympathize with his objectives. I do have some questions. I am a little concerned as to whether or not we have a mixed bag here. Is this program primarily for the purpose of increasing exports? Or would you say it is primarily to help the underdeveloped countries? What is the principal purpose?

Senator HUMPHREY. It is both, and it is a happy combination because I do believe its first purpose will be, of course, to be of some help to the less-developed countries, countries that today are not receiving the kind of credit terms from the United States that can be helpful to them.

Second, it will immediately give some help to exports but in the long term will give much greater help because I believe it is fair to say that our experience in market development either at home or abroad indicates that you sometimes make initial investments which for a period of time are not too productive but in the long term are valued to be very productive.

This is the way many a product has been marketed within this country. This is the way, for example, that a little product called the soybean. We spent millions and millions of dollars talking about subsidy. The soybean producers of this country were subsidized and market developed all over the world and today soybeans are more valuable than gold to the American economy. It is better to have a room full of soybeans than a room full of gold. And we did that by market development and I was one of the authors of that program. It is a part of Public Law 480 and that market development took 10 to 12 years. We spent millions of dollars and today it is one of—there is no end to the demand for that product. That had to be developed.

Senator ROTH. Could I ask this question? In administering this law, in deciding whether or not to make a loan, to what detail would the administration be expected to consider the impact on the local economy? Let us say we have two proposals before us. One is the simple matter of promoting the export of American goods, the other is tied into some particular local development project. Are we saying the administration, whoever that may be, is responsible for, like the World Bank, going into detail as to how these goods are going to be used? If we are, are we not running into some problems? Japan, for example, has been criticized in the past for using their so-called aid program to export goods rather than for developmental purposes.

Senator HUMPHREY. We have criticized them for that because we saw them taking the markets, we have been crying and I think it is time to quit crying and go to work. I remember when Mr. Tanaka was here not long ago, the Prime Minister, I thought he was very gracious about it, which is their way of simply saying that, you know, you can learn how to export. Somebody was saying, well, why do you not buy more American cars and he said, why do you not make a car the way we like it? We make cars the way you like it.

Getting down to this, I think we ought to have a semiannual report, and I am going to require that as a committee amendment, as to the impact of any of these loans or the total program on American jobs in the American economy. This will be required as a part of this program.

Senator ROTH. Let me ask you this. If we had two proposals, one strictly involving American goods and having no particular impact on development of that foreign country, and another proposal that involved less American goods, but probably keyed in better to their development plans, which should get priority under this legislation?

Senator HUMPHREY. I think the export would get priority under this particular section 16 because we have in the balance of the bill development loan funds and technical assistance for the purposes of the improvement of agricultural production in nutrition, health and education, and certain specified projects. The hope is that this program will be an assist or aid to development assistance and I think it is, but it has, as I said before, a combination of assistance to the less-developed countries that are really less-developed, the low income countries on the one hand, and it also has the impact of assistance to American industry in terms of getting goods into other markets.

Senator ROTH. I would like to make one comment. I wonder if the language, and I have not studied it very carefully, does give this direction. The question I have with respect to your proposal is, it does seem it is very broad and I agree with its purpose, but it is very broad in its guidelines and I wonder as an administrator, if one could not do anything he wanted to. You do have language, if I might point out, that says "with due regard," which is, I think, somewhat vague, referring you back to some of the early objectives of the legislation. One of the earlier objectives of the legislation is that U.S. assistance should concentrate in particular on development, employment intensive technologies suitable to the less-developed countries.

Senator HUMPHREY. Right.

Senator ROTH. This brings me to some problems raised earlier, I am not passing judgment on it, but should this program be used to develop textile industries in some underdeveloped countries? I can read the language that way.

Senator HUMPHREY. Yes, I think you have to rely upon some good judgment of people that operate this program just like you rely on Export-Import Bank. We put billions of dollars into the World Bank and we rely on them. One of the advantages of this program is that before it goes into operation, Senator Roth, we will ask, and we have demanded that the administration present to the Congress its plan of action, its guidelines, so that we have a chance to review it.

Senator ROTH. But there is no power of veto, if I understand your proposal.

Senator HUMPHREY. No; but I would think there is what we call the power of consultation and accommodation.

Senator ROTH. One of the things that concerns me, and I will conclude, is that will all of the criticism being made of the Congress not playing its proper role as to whether or not this legislation has precise enough guidelines. That is the basic question that concerns me.

Senator HUMPHREY. We might want to take a good hard look at this, but one thing about this legislation, it is congressionally initiated. This did not come down from on high, and I do not claim credit for its genesis. The genesis of the program comes from Members of the House, These men I give due credit. We think we have refined it and made it a more acceptable program here. It is a congressional initiative it does provide for congressional control through the Appropriations Committee process, it does provide that the administrators must come in first with its mechanism and its guidelines and its administrative structure and we have a 3-month period in which to take a look at it and come back to them and if need be, pass a new law. If we cannot pass an amendment in three months we ought to get out of here. We have from April to July under this legislation and if we change it from January to April we still have our 3 months, but I would like to work, as I do find it a pleasure to work, with you, Senator Roth, and we could look through the text of this and if there need to be what we call technical or refining amendments, I think we could work those out.

Senator ROTH. Thank you.

The CHAIRMAN. Senator Byrd.

Senator BYRD. No questions.

The CHAIRMAN. We will hear both sides of the argument in the hearings, and we will make a suggestion. But quite apart from this item, which has a lot of merit to recommend it, we are expecting, hopefully in the first session, to have sent over here a trade bill which is relevant to this. It is my hope that in connection with this trade bill we can make a tremendous contribution in the areas of full employment, balance of payments and balance of trade.

Now, you have been part of the administration, just like I, at one time, was assistant majority leader in the Senate. I had somewhat parallel responsibility with you in trying to consider administration problems and all that. You and I know how the Administration likes to send a bill up here and say fellows, that is all that can be done. We do not want you to make suggestions. Give us what we are asking for, it cannot be improved on.

Now, if two men are in business and they always agree, then one of them is unnecessary. If the other fellow cannot make a contribution he ought to go home and get in another line of endeavor. My belief is that the Congress is here for a purpose. I believe that we in the

Congress can make a major improvement on our balance of payments and on our balance of trade and on making this whole trade aid loan subsidy program work to the national interest. I think we ought to do so. In my judgment, we are going to have the same sorry disappointment as a result of this year's trade bill as we have had with regard to all of the other trade bills that we had great hopes for, unless we in Congress make a major contribution.

I am here to offer you a standing invitation to take a look at the trade bill when the House sends it, and I would suggest you offer your suggestions to this committee. We would like to have them. I would hope that we can incorporate some of them into the trade bill that we work out. I am not anxious to confront your amendments on the Senate floor. I would appreciate it if you would suggest them to us while the bill is still in the committee.

Senator HUMPHREY. Thank you. May I most respectfully suggest to you I will be more than happy to do that because I enjoy working with the distinguished chairman of this committee and a friend and a colleague for many years. You are so right about administration proposals. I have carried a few of them over here myself indicating to my then former colleagues it was like holy writ, you know, like the Dead Sea Scrolls rediscovered some of these administration proposals of even previous administrations. There is no partisan monopoly as to wisdom, you know, or self-declared wisdom. When something comes from the executive branch to the Congress, why you are supposed to say that is right.

I do agree with the Senator from Louisiana that when it comes over here we do not say it is wrong but we say we would surely like to take a good look at it and make some constructive suggestions.

The CHAIRMAN. Well now one item that concerns me in our present bad situation is the simple matter of trying to encourage people to spend some money investing in this country. Canada spends a great deal more money encouraging Americans to go to Canada on their vacation than we do encouraging Canadians to come here. They spend a lot more money encouraging Canadians to stay home than we spend encouraging them to come visit the United States and see what we have here.

Up until now we have not been able to get anywhere with this because Congressman Rooney has some very profound ideas on this subject. For all intents and purposes he succeeded in defeating the program that would spend money to advertise for people to visit the United States. It would have had a tremendous return in my judgment.

If we cannot get it through the Appropriations Committees, the tax writing committees can initiate something just as we did with revenue sharing. Your idea about a revolving fund a self-financing program is one way we could perhaps give the House a chance to vote on this. I have no doubt that the Senate is going to do something. You and I know the power of subcommittee chairmen, especially in the House. So it just might be possible to persuade the House to do something about this in a bill aimed at trying to correct some of the short falls in our program.

Now when we have the trade bill before us I am here to issue an invitation.

Senator HUMPHREY. Thank you.

The CHAIRMAN. Look at it and give us your suggestions. I would much rather hear them for the first time in the committee than on the Senate floor.

Senator HUMPHREY. Thank you I will be there.

I want to thank you for the courtesy you have extended me Mr. Chairman and members of your committee. Thank you very much.

[The prepared statement of Senator Humphrey follows:]

PREPARED TESTIMONY OF HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

SUMMARY

The Export Development Credit Fund—Section 16 of S. 2335—is a Congressional initiative first developed by members of the House Foreign Affairs Committee and reported by the Foreign Relations Committee by a vote of 12 to 3.

Our domestic economic problems cannot be solved in a vacuum. We need to rely on other nations, on international systems and institutions for cooperation in solving what used to be purely internal problems.

America has become dependent on the resources of the developing world—oil, copper, tin, natural rubber, bauxite, timber, coffee, etc. American direct investment in the developing world is valued at $23 billion. This investment yields 5% of our corporate profits.

We cannot expect the nations of the developing world to cooperate in our own enrichment if we remain indifferent to their needs. In fact, these poor countries could use their growing economic power as a lever to force a change in American policy. They possess strategic market power, they can exert influence on world money markets, and they could confiscate investments. They are prepared to exploit economic disputes between the U.S., Europe and Japan if our relations with them are not based on constructive cooperation.

Domestic food prices are related to the demand by hungry poor nations unable to feed their people. We must aid them in the production of food in our own interest as well as theirs.

We can aid the very poor nations by making our exports available to them on terms they can afford. This type of mutually advantageous economic relationship has become a part of European and Japanese foreign economic policy.

The Export Development Credit Fund of S. 2335 will expand American exports to the 70 poorest nations containing a market of over one billion people—excluding China.

The Fund will borrow from the Treasury or the public $3 billion and lend $2.7 billion from June 30, 1974 until December 31, 1977 to the lowest income countries. The minimum lending terms at 3% interest, 5 years grace period and 30 years to repay. All repayments in dollars. The difference between the Fund's financing costs and loan receipts would be met from past aid loans available at a vote of about $300 million a year.

Poorest countries defined as those with per capita GNP under $375 a year and special emphasis on countries with GNPs of $200 per capita.

The bill will be amended to include the Fund's receipts and disbursements in the budget.

S. 2335 provides for Fund coordination through an advisory committee drawn from State, Treasury, Agriculture, Commerce, Ex-Im Bank & AID. The Secretary of Commerce would chair the Committee.

The U.S. is losing an important share of vast markets in the developing world to the Europeans and Japanese who have developed export credit systems at concessional rates. From 1965 to 1971 the U.S. share in these markets increased 30%—from $3.7 to $4.8 billion. The exports of the other 15 OECD members increased 143% from $9 billion to $21.9 billion.

Very poor countries simply can't afford American products under present credit arrangements and Export-Import Bank credits go to the richer developing countries.

The Fund would provide the U.S. with an institution to compete with the Europeans and the Japanese for the first time.

The Fund will create jobs in the U.S.—as many as 50,000.

Unlike investment abroad by multinationals, the Export Development Credit Fund would aid in the export only of American products, made by American workers in American factories.

The Fund co l l export commodities such as transport equipment, electrical equipment, agricultural equipment, tools and supplies for industry aimed at domestic or non-importing export markets.

The Fund will not export factories or components of highly developed industry which will build up foreign competition to U.S. industries.

The Fund will not subsidize U.S. business or a foreign business. Only another government will benefit by the Fund's soft loans.

Many of the unanswered questions concerning the Fund's operation will be dealt with by the Executive branch when it submits to Congress on April 15, 1974 on operational plan. The Fund will begin operating on July 1, 1974.

Congress will be able to exert control over the Fund's operation. Its borrowing authority must be appropriated. Receipts from old aid loans used in the Fund are subject to reauthorization and to annual appropriation.

STATEMENT

Mr. Chairman, I am pleased to have the privilege of appearing before this distinguished Committee in favor of the Export Development Credit Fund. (The Fund is section 16 of S. 2335, the Foreign Assistance Act of 1973.)

I wish to point out that S. 2335 is a Congressional initiative first developed by members of the House Foreign Affairs Committee. I introduced the Zablocki-Fraser bill with Senator Aiken because we believed that it merited the support of the Senate as an important, new approach to our relations with the developing countries. The bill was reported by the Foreign Relations Committee by a vote of 12-3.

My objectives before the Finance Committee are twofold.

First, I want to explain the purpose of the Export Development Credit Fund within the context of this new approach.

Secondly, I would like to outline the probable way the Fund would operate and in so doing answer some of the questions raised in the Finance Committee's press release of August 9, 1973.

Mr. Chairman, the Congress considers foreign economic assistance this year in an atmosphere still poisoned by the bitterness and despair following more than a decade of involvement in Indochina. Our deteriorating economic situation at home which affects every American family has intensified this mood. The result is a growing skepticism of the need for America to play a significant role in the world-wide struggle against poverty, disease, starvation and illiteracy.

I can well understand this sentiment.

But I want to say today that we are deceiving ourselves if we think we can simply turn our backs on the world's poor and then set to work solving our own economic ills.

The rising food costs, sky high interest rates, energy shortages which daily plague our lives will not disappear even if Congress refuses to spend a single penny on foreign assistance.

In fact, our domestic economic problems will grow worse if we abandon the poor nations, if we are blind to their importance to our own well-being.

Few Americans realize how dependent we have become on the resources of the developing areas of the world.

Our dependence on these countries for scarce natural resources increases every year.

It is estimated that our imports of oil alone will be increasing by $20 billion by 1980. The supply of other important raw materials critical to our industrial needs is in the hands of a small number of developing nations: Four countries export 80 percent of the world's copper supply; two countries export 70 percent of the tin we need: the combined export of four countries accounts for more than 50 percent of the supply of natural rubber; and four countries export over half of the bauxite needed for the production of aluminum. Even the supply of commodities such as timber, coffee and tea are controlled by very few developing countries.

Beyond the area of natural resource supply our interdependence with the developing world is evident.

—American direct investment in the developing world was given a book value of $23 billion in 1971—the real market value is estimated to be twice this figure. About five percent of U.S. corporate profits are derived from these investments. Our investments in these poor countries contribute about $1 billion to our balance of payments.

The notion that we can somehow refuse to help the people of these nations to solve their most urgent problems and then expect their economic and political cooperation in our own enrichment is sheer folly. This notion might have had some validity in the early 1950's—with Europe and Japan still struggling to repair their war-shattered economies and most of the developing countries of Asia and Africa still colonies—but not in the world we live in today.

There is reason to believe that the nations of the developing world, frustrated and bitter over American indifference to their needs, could use their growing economic power as a lever to force a change of American policy.

—They possess considerable strategic market power.

—Their dollar holdings allow them to exert growing influence over world money markets.

—Their ability to damage our investments through confiscation is a real possibility.

—And a repudiation of debts is not out of the question.

In short, the developing countries have enough economic clout to inflict serious damage on the United States.

The developing countries are very much aware of the individual economic vulnerability of each one of the world's three major economic powers—the United States, Europe and Japan. They are prepared to exploit economic disputes for their own advantage if relations with the United States are not based on constructive cooperation.

I believe it would be well to pay heed to the words of an economist familiar with the relations between the United States and the developing world, Mr. Fred Bergsten of the Brookings Institution. In a recent article he said:

> The United States cannot buy economic concessions any more than, in the past, it could buy political allegiance. Indeed, hard bargaining on numerous specific issues is likely in light of the sharp increase in Third World independence and power. But U.S. policy must seek to contain such bargaining within a framework of generally cooperative relations, rather than a framework of confrontation and hostility.

And beyond the necessity of building such a framework of cooperative relations with the developing countries, it is also clear that we have a very direct stake in helping them with certain specific aspects of their development efforts, such as increasing agricultural production. For, unless we assist more developing nations in the production of food, we will perpetuate a permanent group of hungry client states dependent on our agricultural abundance. I don't have to tell members of this Committee the implications of this situation for the survival of large numbers of persons whose agriculture is barely at the subsistence level in the best of years. Nor need I mention the effect on our own domestic food supply and price structure as a result of continued demand by hungry people abroad.

We must take the steps today to aid the more than one billion people in this world who are desperately poor, or we will imperil our own prosperity tomorrow.

But far more is involved than an aid relationship. Increasingly we live in a world where the most urgent of our domestic problems cannot be solved by domestic actions alone. Increasingly we must turn to other nations—or to international systems and institutions—for cooperation in solving what used to be purely internal problems.

This is true of narcotics, and of its corollary, crime in out streets.

It is true of the security of our airways against skyjackings.

It is true of our efforts to protect the earth's environment from deterioration and to assure that there will be meat in our markets. It is true of our important need to bring order to the use of the oceans and to protect threatened species of fish.

It is true of the protection of American jobs, of American investment abroad, of the value of the American dollar. The list could go on.

We live in a world where our actions affect other people and their actions affect us—in a world where we depend on healthy, orderly functioning of international systems and institutions, which in turn depends on mutual cooperation. And the simple fact is that if we want international arrangements to work well, we must be sure that the over 100 poor countries containing almost three-quarters of the world's people are getting a good enough deal out of cooperating with us to want these arrangements to work.

One of the ways in which we can demonstrate our disposition to cooperate with the poor countries is by making our exports available to them on terms they can afford. Doing that may be of direct help to them, but it is also an investment in making the world work better, to everyone's benefit. And it is a way of fostering mutually advantageous economic relations with countries whose importance to us is growing daily.

Our economic competitors have recognized this fact of life. The Europeans and the Japanese are making their relations with the developing world a high priority of their foreign policies. The Common Market is making a major effort in Africa among former French and British colonies. They have even begun to line up economic allies in Latin America. The Japanese are developing economic relations with a similar aggressiveness in Asia and elsewhere.

It is with these facts in mind that the new approach to our relations with the developing countries which is at the heart of S. 2335 was devised. The bill deals with these new realities in three ways.

1. The bill seeks to focus our bilateral development aid program—for which this authorization is the smallest in twenty-five years—on solving the most pervasive problems confronting the poor countries, primarily in the areas of food production, nutrition, and rural development; population planning and health; and education and human resource development—and to do it in ways that will not just enrich a small elite, but will enrich the lives of the majority who are poor.

2. The bill seeks to improve the coordination of all U.S. policies and programs affecting the development of the poor countries—whether in the areas of bilateral or multilateral assistance or in fields such as trade and monetary relations, U.S. investment abroad, the availability of sources of energy, the exploitation of the oceans, or the protection of the environment.

3. The bill seeks—through creation of the Export Development Credit Fund—to expand U.S. exports to the approximately 70 poorest countries in the world—a potential market, excluding China, of well over a billion people—by providing credit on terms that will enable these countries to buy American goods and services which contribute to their development.

All three of these elements proceed from a new appreciation of our broadening relationship with the developing world and are important parts of our attempt to deal realistically with this evolving relationship.

Let me turn now to the specifics of the Export Development Credit Fund—what it would do, how it would operate, how it would be financed, and the like.

The Export Development Credit Fund would authorize the President to borrow either from the Treasury or the public up to $3 billion and lend up to $2.7 billion between June 30, 1974 and December 31, 1977 to the lowest income countries to finance U.S. exports. Ten percent of the Fund would be reserved for losses. "Lowest income countries" are defined as those with per capita GNP below $375 a year with particular emphasis on those with per capita GNP under $200 a year.

The Fund's loans would be concessional, with the minimum terms set at 3% interest, 5 years grace period and 30 years to repay. All repayments would be in dollars. These terms are harder than the minimum terms for AID development loans and could be harder still for some countries using Fund credits.

The difference between the Fund's financing costs and loan receipts would be met from receipts from past aid loans which are already available for relending at a rate of about $300 million a year.

I want to emphasize that the Fund's net cost would be funded from the loan receipts that would otherwise go to AID for relending, and not from new appropriations.

No additional tax revenues would be required.

The Fund would involve an increase in the public debt equivalent to its borrowing.

Under the bill as reported, the Fund would be treated exactly the same as the Export-Import Bank in terms of exclusion from the budget. However, the Administration and some Members of Congress have questioned this provision, and I see no reason why the bill could not be amended to provide for inclusion of the Fund's receipts and disbursements in the budget if that is deemed desirable.

The Fund would be closely coordinated through an advisory committee which would include State, Treasury, Agriculture, Commerce, the Fxport-Import Bank and AID. I believe that the Secretary of Commerce would be an appropriate chairman of this committee because of the Fund's export expansion function.

A quick examination of American export statistics to the lowest income countries points to the very real need for the Fund.

—In the 70 or so countries with a per capita income below $375 a year, U.S. exports increased 30 percent from 1965 to 1971, from $3.7 billion to $4.8 billion. However, exports of the other 15 members of the OECD jumped 143 percent, from $9 billion to $21.9 billion.

—In eleven of the poorest nations with nearly 90% of the population of the non-communist countries with annual per capita incomes below $200, U.S. exports dropped from $1.7 billion in 1966 to only $1.2 billion in 1972. But the exports of the other OECD countries increased during that same period from $2.9 billion to $4.3 billion.

These figures of a declining American commercial and economic role in a very large and potentially lucrative market have resulted from one simple fact: very poor countries simply can't afford to buy American machinery, steel, fertilizer and other goods under present credit arrangements.

Ex-Im Bank credits go to the richer developing countries. In 1972, the Ex-Im Bank financed 57 percent of our exports to countries with per capita incomes from $200 to $500. The Ex-Im Bank financed only 9 percent of U.S. exports to the poorest developing countries. In sum, Export-Import terms are too hard, in the first place, and they are in any case not available in large amounts to the poorest countries—which Ex-Im, as a bank, generally considers too risky for large exposure. Private commercial loans are scarce, and cash sales are few. The result has been a serious loss of markets for American goods and services.

The Europeans, Japanese and Canadians have seized upon this lack of American initiative and our failure to plan for the future. They have developed markets in many poor countries by combining aggressive export promotion programs with attractive financing on terms poor countries can afford.

The French and Japanese in particular have mixed normal export credit funds and aid funds in the financing of projects of particular long run export interest in order to make their exports more competitive. Both the Japanese Export-Import Bank and the French development and export credit agencies have great flexibility and are able to coordinate the use of aid funds and export loans.

No American institution has been able to match this flexibility in overseas financing. The Export Development Credit Fund would provide the U.S. with this capability for the first time.

I believe the time has come for us to recognize that we are needlessly losing markets in the developing countries to the Europeans, Japanese and Canadians because we are unwilling to adopt practices which make our products credit competitive. Not only is foreign competition a growing source of difficulty at home, but these overseas markets are in the process of being developed by many of the same foreign concerns which loom large on the American economic scene. There is also much evidence to substantiate the fact that once overseas markets are lost and European or Japanese firms are in place, it is an uphill struggle to establish American sales outlets, service facilities and other financial and commercial components needed to develop viable markets for U.S. goods.

By greatly expanding American exports to the poorest developing countries, the Export Development Credit Fund will create jobs in the United States.

The Export-Import Bank calculates that each $12,500 of exports creates one U.S. job. Maximum use of funds authorized for the EDCF could mean an additional 50,000 American jobs.

The Congress, and the Finance Committee in particular, have been greatly concerned with the export of American jobs and capital by the multinational corporations.

Unlike investment abroad by a multinational corporation, the Fund would aid the export only of American products made by American workers in the fifty States. The Fund would concentrate on commodities such as transport equipment, electrical equipment, agricultural equipment, and tools and supplies for industry aimed at domestic or non-competing export markets—not on financing the purchase of advanced technology in either goods or services which would put these very poor countries in a position to compete with American industry. The Fund is not meant to export factories or the components of highly developed industries.

I believe that the Fund will be good for the American worker. If I didn't, I wouldn't support it.

I want to clarify an important point. The Fund would provide no direct subsidy at all to U.S. business or to any business in a developing country. The Fund's concessional terms would not be available to foreign companies importing U.S. goods and services, but only to the governments of the importing countries.

Mr. Chairman, the Foreign Relations Committee intentionally delayed the operation of the Fund until July 1, 1974.

A postponement of the actual start-up of the Fund will provide the Executive Branch with enough time to prepare a detailed operating plan for the Fund. S. 2335 requires the President to provide the Congresss by April 15, 1974 with a detailed plan for the Fund's implementation.

Many of the questions which have been raised about the Fund's operation will be discussed in the report.

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The Finance Committee, as well as the Foreign Relations Committee, will have an opportunity to review the Executive Branch's plan.

I also understand that the Administration witnesses scheduled to appear before the Finance Committee are now prepared to deal with some of the operational questions that have been raised, as well as propose a revision of the implementation dates.

In addition to the opportunity which the Congress will have to review the Administration's detailed proposal before the Fund begins to operate and the built-in limitations provided in the bill (such as the ceilings on both borrowing and lending levels and a fixed termination date for the Fund's operations without further Congressional action), the bill contains a number of other means of keeping the Fund's activities under continuing Congressional control.

The bill requires that the Fund's authority to borrow must be specified in annual appropriation acts. The Fund cannot borrow a dollar without Congressional approval through the appropriation process.

The receipts on old aid loans which the Fund is authorized to use are subject to reauthorization by the Congress when the foreign economic assistance program is renewed every year or two and are also subject to the annual appropriation process.

In formation about the Fund's activities would be available to the Congress in the usual ways—through specific requests, through presentation of information in support of Executive Branch budget requests for authority to borrow and proposed lending levels, and through the bill's requirement for a complete and detailed semiannual report on the Fund's operations.

Finally, I urge you in your consideration of this proposal to not lose sight of one of the important purposes and effects of the Fund in addition to its potential for export expansion and development of mutually advantageous trading relationships—helping people so that they will be able to help themselves.

The Export Development Credit Fund will bring plows to Mali so that farmers will no longer be dependent to sticks to till the surface.

The Fund will provide machine tools for back-alley shops in the cities of Pakistan.

It will provide medical supplies so that a young child in Sudan will avoid the scourge of filariasis

It will permit an unemployed worker in Bolivia to work in a small factory.

It will provide trucks to haul produce to market in Nigeria.

It will provide the villagers of Bangladesh with the pumps that make possible a second, dry-season crop.

In other words, the Fund combined with a revamped bilateral assistance program is targeted at the human needs of the poor.

For all these reasons, I strongly urge this Committee to comment favorably on Section 16.

The CHAIRMAN. Thank you.

Next we will have a panel of witnesses, made up of three Members of Congress who support this position. They have agreed to testify together. The Honorable Clement J. Zablocki of Wisconsin, the Honorable Dante Fascell from Florida, and the Honorable Don M. Fraser from Minnesota.

I will ask the Senators on the far end of the table to ask the first questions.

STATEMENT OF HON. CLEMENT J. ZABLOCKI, A REPRESENTATIVE IN CONGRESS FROM THE FOURTH CONGRESSIONAL DISTRICT OF THE STATE OF WISCONSIN

Mr. ZABLOCKI. Thank you, Mr. Chairman and distinguished members of the committee. I want to thank you for the opportunity to appear before you today in behalf of legislation authorizing the proposed Export Development Credit Fund. I welcome the consideration being given by this important committee to this proposal. Almost anything we will say unfortunately will be repetitive after the excellent testimony given by Senator Humphrey.

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In the interest of time, if it is acceptable to you and the members of the committee, I will summarize my statement and probably go into a little detail on one or two issues.

The proposed Export Development Credit Fund is a major component of the foreign aid reform advanced by the Senate Foreign Relations and House Foreign Affairs Committees. The reform is a congressional initiative aimed at removing deficiencies that have developed in our traditional foreign assistance program and restructuring it to meet present-day realities.

The proposal has drawn wide support albeit, of course, there was some opposition to the proposal because the proposal was widely misunderstood in some segments of our economy.

Mr. Chairman, the Export Development Credit Fund would narrow the focus of U.S. bilateral economic aid to concentrate on the acute problems common to the developing countries, such as food production, population growth, and health and education.

(1) Create an Export Development Credit Fund which would give the United States a better chance to compete in the market of the poorer countries and provide a means for us to reduce our large-scale bilateral development lending; and,

(2) Provide for a coordination of U.S. activities bearing on development that has been lacking in the past. The fund would promote U.S. exports to the poorer countries by offering them concessional credit terms for purchase of U.S. products needed for their development. Like the Export-Import Bank, it would be financed by public debt, all subsidy and operational costs would be covered by payments from past aid loans.

It is not true that the Fund would take away American jobs by promoting exports of U.S. factories to other countries. To the contrary, it is estimated the lending operation proposed in S. 2335 could create up to 50,000 new jobs in this country by increasing sales of American goods abroad.

We in the House who helped draft similar legislation, are keenly aware of American labor's legitimate interest. The legislation makes plain that the Fund is to contribute to, and I quote, "high levels of employment and income in the United States," and not export our factories overseas.

We have made it clear again and again that the exports which will be funded will be finished products made with American labor, not plants whose output will some day compete with American-made goods. To confirm that view one only need look to the legislation itself. Under section 901, the general authority section, it states, and I quote:

> The Fund is being created in the interest of increasing United States exports to the lowest income countries thereby contributing to high levels of employment and income to the United States and to the establishment and maintenance of long-range, growing export markets.

The proposal refers to high levels of employment in the United States, not abroad. It talks about contributing to high levels of income in our own Nation, not overseas.

Let me call your attention, Mr. Chairman, to other language in section 901. Subsection (b) states that the President provide extension of credit, and I quote:

> For the purpose of facilitating the sale of United States goods and services with advance mutual development.

The language states quite plainly that the goods and services are to be American produced, not produced abroad, and they are to be sold on credit to the mutual benefit of both countries, not just the benefit of the recipient nation. In order for truly mutual benefit to result, sale of those goods must contribute to the high level of employment and income in the United States, otherwise there is no mutuality.

It should also be pointed out that the goods and services provided under the Fund must be of a developmental character with special reference to section 102(b) of the act. That section makes clear that the United States aid is to be channeled away from industrial products and into areas of agricultural production, nutrition, health, education, and family planning.

It is clear, Mr. Chairman, from this language, that the entire concept of the Fund and of the new Mutual Development and Cooperation Act is alien to the idea of exporting entire industrial plants or various capital goods which can be used to displace American-made products, either in the near or long term.

The point is made explicitly in the House committee report on the Mutual Development Cooperation Act. Let me quote at this point, because I am sure Senator Roth, this will partially reply to your concern about exports and the proposed bill.

And I quote:

> Further, development in this context does not mean industrial development through exporting to the United States or competing with the United States exports. The provisions of Sections 201 and 211 dealing with possible adverse effects on the U.S. economy, with special reference to areas of substantial labor surplus, and on the United States balance of payments, would apply to the Fund. The Fund shall not be used to displace production of or use of modern equipment and facilities in the United States.

Some of that language was added at the direct suggestion of the legislative department of the AFL–CIO. Also, at its suggestion we added new language to section 640B, which establishes a new mechanism for coordination of U.S. development efforts abroad and requires a Presidential report on U.S. actions affecting the development of low income countries.

As a result of consultation with respresentatives of labor, we added language mandating the President's report must also assess the impact of foreign assistance on "the national income, employment, wages, and working conditions in the United States."

The proposal for the Fund was approved in our committee by a vote of 24 to nothing. When the bill, H.R. 9360, came before the House, however, the provision for the Fund was deleted by a vote of 240 to 137.

As I indicated earlier, I believe this vote on the House floor on July 26 was due largely to a misunderstanding which could not be cleared up fast enough as we moved toward passage of the aid bill. Some Members of the House had the impression that the Office of Management and Budget was against the Fund on the ground that the moneys appropriated to the Fund and the net effect of the Fund operations would not be included in the U.S. Government budget. However, after conference with Mr. Roy Ash, our distinguished colleague from Florida, Mr. Fascell, offered an amendment to make it clear that the Fund would be included in the budget. The amendment was supported by the chairman of the House Appropriations Committee and adopted by the House. Unfortunately, the whole proposal, nevertheless, was defeated.

Mr. Chairman, to make plain that the Office of Management and Budget does in fact support the proposed Fund, I ask your permisison to submit for the record a letter from Mr. Roy Ash, Director of the Office of Management and Budget, and I shall quote now only a couple of sentences from that letter from Mr. Ash.

> Our understanding of OMB's position on the Fund is correct. The Office of Management and Budget was not opposed to the Fund as contained in H.R. 9360, as reported, provided that the bill was amended to assure the Fund's financial operations would be included in the total of the budget. We, therefore, were in favor of Representative Fascell's floor amendment. This is still our position.

Mr. Chairman, distinguished Senators, I hope I have conveyed in my brief statement, that the Export Development Credit Fund is a basic component in our effort to move away from the old foreign aid program. The Fund offers a way to shift from bureaucracy to business in supplying American goods needed by developing countries. It will give American business a decent competitive opportunity in important foreign markets.

It will increase employment for Americans at home and improve our balance of trade abroad.

As I noted earlier, this new realistic approach to foreign assistance has received considerable backing from both within the Government and in many segments of our society. I urge this committee to add its wholehearted support.

Thank you, Mr. Chairman.

[Mr. Ash's letter and Mr. Zablocki's prepared statement follow:]

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., August 29, 1973.

Hon. CLEMENT J. ZABLOCKI,
House of Representatives,
Washington, D.C.

DEAR MR. ZABLOCKI: This is in reply to your August 17 letter concerning the proposed Export Development Credit Fund in H.R. 9360, as reported by the Committee on Foreign Affairs.

Your understanding of OMB's position on the Fund is correct: The Office of Management and Budget was not opposed to the Fund as contained in H.R. 9360, as reported, provided that the bill was amended to assure that the Fund's financial operations would be included in the totals of the budget. We, therefore, were in favor of Representative Fascell's floor amendment. This is still our position.

I regret that there has been any confusion or misunderstanding about OMB's position on this matter, and am happy to have this opportunity to clear it up.

Sincerely,

(S) Roy L. Ash
ROY L. ASH,
Director.

PREPARED STATEMENT BY THE HONORABLE CLEMENT J. ZABLOCKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman and distinguished Members of the Committee:

Thank you for the opportunity to appear before you today in behalf of legislation authorizing the proposed Export Development Credit Fund.

I welcome the consideration being given by this important Committee to this proposal.

The Fund is a major component of the foreign aid reform advanced by the Senate Foreign Relations and House Foreign Affairs Committees.

As sponsor of the aid reform legislation incorporated in the House-passed bill, perhaps I can be most helpful by outlining briefly the philosophy and general context of our effort to restructure the U.S. bilateral economic assistance program;

To sum up our thinking, I might quote from a letter sent to the President last April 11 by 16 Members of the House Foreign Affairs Committee, including myself. We told the President—and I quote:

"We believe that the time has come to put an end to foreign aid as it has been conceived and administered in the past.

"In our view, many of the conditions which once made that program effective and feasible no longer obtain. The needs of developing countries have changed—and so have our own requirements here at home.

"This does not mean that we advocate withdrawal from our responsibilities as a member of the international community . . .

"What we do overseas in the future, however, must be related to our own national needs and our capacity to meet them."

In calling for an end to the "traditional" type of foreign aid known since the Marshall Plan, we had in mind such criticisms and changed conditions over the years as:

An inadequate sharing by the poorest masses in the developing countries, in the benefits of economic development achieved with our aid.

Excessive American bureaucratic involvement in the economic development programs of aid-receiving countries, at a time when they are increasingly able to handle these themselves.

The drop-off in American exports to much of the developing world, while our competitors in Europe and Japan expand their sales to these important and growing markets.

And, of course, America's deep financial problems in recent years. I refer both to balance of payments and trade difficulties abroad and to our deficits here at home.

It was in this context, with these thoughts in mind, that a reform package was proposed in and adopted by the Foreign Affairs Committee this year during its annual consideration of foreign assistance legislation.

The restructuring we seek will bring about the most extensive overhaul of our bilateral foreign aid since the Foreign Assistance Act was enacted in 1961.

The Foreign Relations Committee's economic aid bill, S. 2335, contains similar reforms.

The Foreign Affairs Committee action followed a month of hearings. Our reform proposals drew wide support.

We had support from the Administration. We had support from labor, including the President of the United Automobile Workers Union; from representatives of industry, banking and finance, including the President of the National Association of Manufacturers; from farm cooperatives, credit unions and other organizations, including the National Farmers Union; and from a host of others with a variety of interests.

The main reform features of the bill, H.R. 9360, as reported by our Committee, and S. 2335, as reported by the Foreign Relations Committee, include:

First, narrowing the focus of U.S. bilateral economic aid to concentrate on acute problems common to developing countries, where the aid benefits will reach the poorest masses of people.

We specified these problem targets: food, rural development, and nutrition; population growth and health, and education and human resources development.

Second, creation of an Export Development Credit Fund which would accomplish two things: It would give American goods a better chance to compete in the markets of the poorer countries: and it would provide the means for us getting out of large-scale bilateral development lending.

And third, provision for coordinating all U.S. activities that bear on development. Such coordination has been lacking in the past.

As you can see, the proposal to establish the Export Development Credit Fund, contained in the bill S. 2335 which has been referred to your Committee for consideration, fits into the reform effort in important ways.

Just as the Export-Import Bank offers credit to countries which can afford its relatively hard terms, the Fund would promote U.S. exports to the poorer countries by offering them concessional credit terms for purchase of U.S. products needed for their development.

The Fund would be financed by public debt authority. All subsidy and operational costs would be covered by repayments from past aid loans.

In this manner, the Fund would offer a means of shifting away from the traditional, government-to-government loans which have characterized our aid in the past. As our Committee report states:

"The Committee anticipates that to the fullest extent possible supplier credits under the Export Development Credit Fund will be substituted for development lending as a means of providing needed products to developing countries and introducing American goods to their markets."

Further, in line with the reform philosophy, the Fund by its recourse to marketplace borrowing and its facilitation of commercial transactions between private parties in the United States and the importing countries would stimulate involvement by private enterprise in the development process and help our balance of trade.

Moreover, the use of this approach would reinforce the assignment of primary development planning responsibility to the aid-receiving countries, rather than to Washington bureaucracy.

I wish to lay to rest one misconception I have heard about the Fund. That is, that it would take away American jobs by promoting export of U.S. factories to other countries.

Nothing could be further from the truth. In fact, we estimate that the Fund would create jobs for American workers by increasing sales of United States goods abroad.

If the lending operation proposed in S. 2335 is approved, up to 50,000 new jobs could be created in this country.

Fears that creation of this Fund will have an adverse effect on employment are groundless. Those who make such charges have no basis for them.

Those of us in the House who helped draft this legislation have been keenly aware of the legitimate interests of American labor.

We have made it clear again and again that the exports which will be funded will be finished products—made with American labor—not whole manufacturing plants whose output will some day compete with American-made goods.

To confirm that view, one need only look to the legislation itself.

Under Section 001—General Authority, it states that the Fund is being created—and I quote:

"In the interest of increasing United States exports to the lowest income countries, thereby contributing to high levels of employment and income in the United States and to the establishment and maintenance of long-range, growing export markets . . ."

The proposal refers to high levels of employment in the United States—not abroad. It talks about contributing to high levels of income in our own nation—not overseas.

Let me call your attention to other language in Section 901. Subsection (b) states that the President provide extension of credit—and I quote—

". . . for the purpose of facilitating the sale of United States goods and services which advance mutual development."

The language states quite plainly that the goods and services are to be American produced, not produced abroad. And they are to be sold on credit to the *mutual* benefit of both countries—not just the benefit of the recipient nation. In order for a truly *mutual* benefit to result, sale of those goods must contribute to high levels of employment and income in the United States. Otherwise, there is no mutuality.

It should also be pointed out that the goods and services provided under the fund must be of a developmental character, with special reference to section 102(b) of the Act. That section makes clear that U.S. aid is to be channeled away from industrial projects and into areas of agricultural production, nutrition, health, education and family planning.

It is clear from this language that the entire concept of the Fund and of the new Mutual Development and Cooperation Act, is alien to the idea of exporting entire industrial plants or various capital goods which can be used to displace American-made products, either in the near or long term.

The point is made explicitly in the House Committee Report on the Mutual Development and Cooperation Act. Let me quote it at this point:

"Further, development in this context does not mean industrial development through exporting to the United States or competing with U.S. exports. The provisions of Sections 201 and 211 dealing with possible adverse effects on the U.S. economy, with special reference to areas of substantial labor surplus, and on the U.S. balance of payments, would apply to the fund. The fund shall not be used to displace production of, or use of, modern equipment and facilities in the United States."

Some of that language was added at the direct suggestion of the legislative department of the AFL-CIO.

Also at its suggestion, we added new language to Section 640B which establishes a new mechanism for coordination of U.S. development efforts abroad and requires a Presidential report on U.S. actions affecting the development of the low-income countries.

As a result of consultation with representatives of labor, we added language mandating that the President's report must also assess the impact of foreign assistance on "the national income, employment, wages and working conditions in the United States."

The proposal for the Fund was approved in our Committee by a vote of 24 to 0. When the bill H.R. 9360 came before the House, however, the provision for the Fund was deleted by a vote of 240 to 137.

I believe this vote on the House floor July 26 was due largely to a misunderstanding which could not be cleared up fast enough as we moved toward passage of the aid bill.

Some Members of the House had the impression that the Office of Management and Budget was against the Fund on grounds that the moneys appropriated to the Fund, and the net effect of the Fund's operations, would *not* be included in the U.S. government budget.

However, after a conference with Mr. Roy Ash, my distinguished colleague from Florida, Mr. Fascell, offered an amendment to make it clear that the Fund would be included in the budget. The amendment was supported by the Chairman of the House Appropriations Committee and adopted by the House.

Mr. Chairman, to make plain that OMB does in fact support the proposed Fund, I ask your permission to submit for the record a letter from Mr. Roy Ash, Director of the Office of Management and Budget. I shall quote now only a couple of sentences from Mr. Ash:

"Your understanding of OMB's position on the Fund is correct: The Office of Management and Budget was not opposed to the Fund as contained in H.R. 9360, as reported, provided that the bill was amended to assure that the Fund's financial operations would be included in the totals of the budget. We, therefore, were in favor of Representative Fascell's floor amendment. This is still our position."

Mr. Chairman, distinguished Senators:

I hope I have conveyed, in my brief statement, how the Export Development Credit Fund is a basic component in our effort to move away from the old foreign aid program.

The Fund offers a way to shift from bureaucracy to business in supplying American goods needed by developing countries.

It will give American business a decent competitive opportunity in important foreign markets.

It will increase employment for Americans at home and improve our balance of trade abroad.

As I noted earlier, this new, realistic approach to foreign assistance has received considerable backing both from within the government and in many segments of our society.

I urge this Committee to add its wholehearted support.

The CHAIRMAN. Congressman Fascell.

STATEMENT OF HON. DANTE B. FASCELL, A REPRESENTATIVE IN CONGRESS FROM THE 12TH CONGRESSIONAL DISTRICT OF THE STATE OF FLORIDA

Mr. FASCELL. Mr. Chairman, members of the committee, I have a prepared statement and I ask permission that it be included in the record at this point. I will proceed extemporaneously in a totally different vein to cover points which have been raised by the discussion and questions earlier when Senator Humphrey was on the stand.

I think that we are fortunate that this committee has not adopted the "killer" attitude in connection with the reference to it of section 16 of the foreign assistance bill. It has addressed itself seriously and competently to the issue before it. I am delighted that it has. The questions have been very pointed and practical, starting with those by the chairman himself. This is a very pragmatic approach to the issue, Mr.

Chairman, and the pursuit that the other members took shows that a majority of the committee is vitally interested and sees a need of doing something without committing themselves to the specific proposal before us.

But there is a view which says, "let us not do anything." I would like to examine that for a minute because I think that is the alternative which is before us: Let us leave things like they are.

Part of that view says this: That whatever foreign assistance the United States extends, whether it be military or economic, is really not in our best interest because what it does is to get us all involved in these countries and that is counterproductive. According to this view we ought not to be there at all anyway. Let us let the World Bank do it all. Let us let the Inter-American Development Bank do it all. Let us let somebody else do it. Because we are politically vulnerable and we get called nasty names and sometimes we even get in trouble; the best way to handle the rest of the world is stay away from it.

Now, Mr. Chairman, I do not believe that is logical. I do not believe we can do that looking to the future. I do not believe it is in our best interests. I believe that the American people must have some direct bilateral negotiations or business with the rest of the world, and I think it is particularly important that we have some kind of a foot in the door with respect to the developing countries.

If that is a logical position, if we agree that we cannot dump everything into the U.N., the World Bank, the Inter-American Development Bank and other multilateral institutions, if we are agreed it is in our best interests to maintain some kind of a bilateral program with the rest of the nations of the world, because it is in our political and economic interests to do so, and when we add to that humanitarian aspect of it, it is a plus for the American Government. And I think on the whole our record over past years has been good, not bad. When one considers whether the money has been a "give-away," or as an investment, and however one can define the exact benefit in terms of our country, I think that no matter which way you analyze this, Mr. Chairman, one must come down with the ultimate conclusion that the American people by and large, particularly since World War II, have been a greater effort than any other people in the history of the world to help other people.

We have not always been successful but I think it is a dramatic record. I do not think we can turn our backs or ought to turn our backs on that, and that is where this bill comes in, Mr. Chairman.

We can say leave the situation like it is. We have an Ex-Im Bank. They deal in commercial rates and they do a good business. If that is all the business we want, if that is all the kind of help we want, we can let the bank compete in the high level markets in the rest of the world and we can hold our own. I do not think there is any question about that.

Question. Do we want to leave the rest of the market, the great future of the world in terms of potential market, to the others? We can say go ahead Japan and keep on developing, keep on exporting your technology and your goods and your services, go ahead Germany, Canada, all the rest of you, we are out of it. That is what it boils down to if we do not try to do something sensible.

There is the other side of the coin in the developing country, and that is that if they want to do something they are going to do it whether we like it or not. Someway, somehow, they are going to get the things they want. They think it is in their best interest.

Some way we ought to associate ourselves with this very important development process of these people in the poorer countries. We are in the minority, we are not in the majority. We may hold much of the capital in the world and we may have much of the technology. I am not so sure how long we can hold on to it, or whether is would be worth holding on to with the rest of the world struggling and going another way with us totally on the outside. In short, Mr. Chairman, I think it is absolutely vital in our foreign policy interest as well as in our economic interest, to join in the development process of these countries.

Now it is clear that there is a gap which exists, which is being filled by other countries. What is wrong with us coming up with a program that says we are going to participate in this area where we are losing out because our programs are not satisfactory? Mr. Chairman, in response to the very fine questions asked by this committee the committee has the Executive response with respect to what other developing countries are doing in this area. That one table tells the whole story right there. We are out of it in terms of competing with those countries for these markets. We are out of it. We can stay out of it if we want to, and that is where we will be if the proposed fund is killed or we do not have something similar to it, we will stay with what we have and hope for the best. In the meantime we disregard the potential market of these countries for all of these years and leave ourselves out of the very important identification of the developing process of hundreds of millions of people who are trying to get some of the better things in life and whose life and assistance we need in many ways, economic and political.

In short, I believe when this committee gets through with its interrogation and making its record, that there will be no conclusion, it will be inescapable, no conclusion other than the fact that the United States is not in this area of marketing right now, that it is an essential matter for the development process of the developing countries with which we ought to be reasonably associated, and that to do nothing would be contrary and harmful to our best interests.

[Mr. Fascell's prepared statement follows:]

Prepared Statement by the Honorable Dante B. Fascell, a Representative in Congress From the State of Florida

Summary

The share of American exports in the large and growing markets of the world's poorer countries has been declining in recent years. Our competitors, the Europeans and Japanese, have developed vigorous financing programs under which their goods are gaining in sales far ahead of us.

To meet this situation, we should set up the proposed Export Development Credit Fund. The Fund would operate like the Export-Import Bank but would not be in competition with it. It would extend easy-term credit for purchase of U.S. development goods needed by the poorest countries which cannot afford Ex-Im's standard terms.

The Fund, like Ex-Im, would be financed by public borrowing authority. Its minimum terms for credit to finance U.S. exports would be 3 percent interest, 5 years grace, with up to 30 years maturity. It would operate under a $3 billion ceiling, from July 1, 1974, to Dec. 31, 1977. Its credits would be for goods going to countries whose annual per capita income is $375 or less. The interest subsidy would be covered by repayments from past aid loans.

The Fund would foster good U.S. relations with poorer countries through promoting sales of U.S. goods helpful to their economic development which they could not otherwise afford. It is a significant Congressional initiative which would:

Reduce the need for annual appropriations of tax dollars for bilateral development loans.

Increase the flow of development-oriented resources from the U.S. to the poorest developing countries.

Reduce the expensive and outmoded government bureaucracy which today administers foreign aid.

Increase opportunties for new U.S. production with consequent improvement in our employment situation.

Statement

Mr. Chairman and Members of the Senate Finance Committee:

I appreciate this opportunity to appear before you. I am pleased that this distinguished body is giving close examination to the proposal for the Export Development Credit Fund.

In the House Foreign Affairs Committee, I offered the amendment to establish the Fund which was adopted by the Committee by a vote of 24 to 0.

This action followed a thorough-going study by the Committee both during a month of hearings on foreign assistance legislation and before that, in informal sessions by Congressmen and others interested in aid reform.

I am sorry that the House, tired by a long debate on foreign aid and apparently misled by conflicting signals from the sidelines, subsequently struck this proposal from our bill.

By the same token, I was pleased that the Senate Foreign Relations Committee decided to include it as a section of its bill, S. 2335, which has been referred to you for your review.

At this point, the central issue before the Congress seems to be: Do we want to become increasingly isolated from a large and important part of the world?

That is the trend now, as our trade and aid to the poorest countries shrink—and as support in Congress for continuing with bilateral development lending continues to decline.

Or do we want American products—and American influence—to share in these growing markets?

Our competitors, the Europeans and the Japanese, have decided what the answer is for them. They have developed vigorous financing programs under which their goods are gaining in sales while we lose.

Our answer could be the Export Development Credit Fund—a new and largely self-sustaining operation which could promote our sales to the poorer countries by offering competitive financing terms for U.S. goods—while at the same time aiding their development.

As proposed in the bill before you, the Fund would operate like the Export-Import Bank but would not be in competition with it. It would extend easy-term credit for U.S. development goods needed by the poorest countries which cannot afford Ex-Im's standard terms and to which Ex-Im credits are largely unavailable.

Like the Export-Import Bank, the Fund would be financed by public borrowing authority.

The bill S. 2335 specifies up to 30 years maturity, 5 years grace, and at least 3 percent interest.

The terms would be harder for borrowers which can afford them—and could vary, depending on the type of goods being sold.

The Fund is for less developed countries whose annual per capita income is $375 or less, with particular emphasis on the poorest countries whose per capita income is $200 or less. Credits are to be limited to purchases of U.S. goods and services needed for their economic development. They would finance no luxury items, no plants which would export of U.S. jobs.

The cost of the Fund's easy-term credits would be covered by receipts from past aid loans. Let me explain how this would operate:

If the Fund's cost of borrowing is 7%, and it lends at 3%, its cost on $1 billion of credits per year would be $40 million. This $40 million would be appropriated from repayments on past aid loans, which now are used for development lending.

I should point out also that this interest subsidy would be subject to the annual appropriation process in Congress. In addition, Congress would have to approve the Fund's borrowing authority every year.

Under the bill, the President is given the decision as to where in the government he wishes to have the Fund administered.

As has been done for Public Law 480, there would be an advisory committee for the Fund. The committee would include the Secretaries of Treasury, Commerce, Agriculture and State; the President of the Export-Import Bank and the foreign aid administrator.

The measure reported by the Senate Foreign Relations Committee differs in some respects from the Foreign Affairs Committee proposal. For example, the Senate bill places a $3 billion ceiling on the Fund's transactions rather than our $5 billion, and would postpone its opening effective date until July 1, 1974.

I do not oppose the modifications in the Senate bill. I am impressed by the Senate Committee's recognition of the key issues of development and national self-interest embodied in this bill.

We have been doing well in our sales to developing countries generally. Our exports to them are up by nearly one-half from 5 years ago, and they now buy almost as much from us as Europe and Japan combined.

In 1972, our sales to developing countries as a whole totaled $16.3 billion. To Japan and the European community, including the United Kingdom, they were $16.8 billion.

But our sales to the poorest nations—$200 per capita income or less—have been dropping both absolutely and as a share of the market.

The Europeans and Japanese have been stepping up their governmental assistance for their exports to these countries. American goods are at a growing disadvantage. In many cases, it is lack of competitive financing terms rather than price or quality that blocks American sales.

It is important that we reverse the trend now so that we do not suffer long-term disadvantage. These markets are growing and will some day be huge.

I point to Taiwan as an example. In 1960, we exported $100 million to the Republic of China. Ninety percent of those exports were U.S. government-financed. Last year Taiwan bought more than $800 million worth of American products, almost *none* on soft terms.

There is a further factor I hope this Committee will consider. That is, that the developing countries occupy 60% of the world's land surface and control large untapped resources. We Americans consume 40 percent of the world's annual output of raw materials and energy.

It is clearly in our interest, through trade and aid and other means, to foster good relations with these countries.

Selling them American goods helpful to their economic development, which they could not otherwise afford, is one way of keeping our lines open with them.

The Fund would serve this important foreign policy goal.

I sincerely hope that your Committee, being knowledgeable in the ways and means of our foreign economic policy, will consider this proposal on its merits as a significant Congressional initiative to—

—Reduce the need for annual appropriations of tax dollars for bilateral development loans.

—Increase the flow of development-oriented resources from the U.S. to the poorest developing countries.

—Reduce the expensive and outmoded government bureaucracy which today administers foreign aid; and

—Increase opportunities for new U.S. production with consequent improvement on our employment situation.

The CHAIRMAN. Thank you.

Next we will hear from the Honorable Donald M. Fraser from Minnesota.

STATEMENT OF HON. DONALD M. FRASER, A REPRESENTATIVE IN CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

Mr. FRASER. Thank you very much, Mr. Chairman, members of the committee. I will touch just on two points and do it very briefly. I would like to submit my statement for the record, if I may.

The CHAIRMAN. Certainly.

Mr. FRASER. First, on the question of figures that arose—the estimate of the job creation potential. The estimate is based on the calculation that $12,500 worth of exports creates one job for 1 year. If you use that, as the Export-Import Bank uses it, as the basic index, with this bill as drafted proposing $3 billion over 3½ years, this would theoretically produce some 68 000 jobs a year. If it moves to a 4-year period by starting on January 1 rather than July 1 next year then it would be 60,000 jobs a year. So a 50,000-job-a-year estimate, I think is conservative.

Mr. Chairman, I just want to make one other point and that is the fact we are losing markets in the poorest countries. There either has been or will be submitted tables spelling this out. The fact that the United States is dropping in its share of the exports to the poorer countries of the world ought to be a matter of concern to somebody. It is a matter than cannot be really effectively helped by Export-Import Bank. Terms are too hard. Credit is too much of a conventional nature, and unless we provide this additional credit facility I fear that we are going to lose over the long term a very important growing market, a market important in the expansion of American trade.

Finally, I have been a very strong supporter of foreign aid. I have watched its gradual decline in the Congress. My own view is that if we are going to continue to play any role in helping other countries we have to marry the interest of the American business community and American workers with the interest of these poor countries. And that, I think, is essentially what this proposal does. It stimulates exports and does it in a very open manner. It creates a very constructive relationship between the United States and the poorer countries, one of a buyer and seller, and I think it gets around and away from some of the unfortunate features that have characterized foreign aid in the past.

Mr. Chairman, I hope this committee will give this matter the kind of serious look that it has already indicated it is going to give it and I hope you will support it.

Thank you very much.

[The prepared statement of Mr. Fraser follows:]

PREPARED STATEMENT BY HON. DONALD M. FRASER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman and distinguished members of the committee, thank you for the opportunity to appear before you today.

I will be brief. Because my Foreign Affairs Committee colleagues have spoken to the foreign aid reform and the Export Development Credit Fund, I will limit myself to responding to some concerns about the latter proposal that have been raised in the Congress.

1. Congressman Zablocki already has dealt with the contention that the Fund would export American jobs. I believe the opposite to be true—it will increase jobs in the United States.

From its recent experience with the job-creating effects of exports, the Export-Import Bank has calculated that each additional $12,500 of exports creates one new American job. Under the Senate bill's $770 million-a-year level, the Fund would be promoting perhaps 60,000 new jobs. A more conservative estimate would be 50,000 new jobs.

2. The funding of this Export Fund follows a pattern we have used for years for many domestic programs as well as for financing exports.

The Export-Import Bank has $20 billion worth of public borrowing authority. The Commodity Credit Corporation has $111 billion worth. All told, nearly 50 programs and agencies have Congressionally-approved borrowing authority totaling some $233 billion.

If the Senate bill is amended as the Administration has suggested, all of the Fund's receipts and disbursements would be included in the Federal budget and would be subject to budget totals.

In this respect, the Fund would differ from the Export-Import Bank which is exempted from the budget, as are the Federal National Mortgage Association, the Federal Home Loan Banks, and a number of other government activities which involve borrowing in the private market and relending.

3. The Fund will be subject to the annual appropriations process. It will have to come to Congress for the subsidy to cover the difference between its borrowing costs and its export credit terms. Moreover, the Fund's borrowing authority will have to be approved every year.

The President would have to provide Congress with a detailed report on the Fund twice a year. The Fund would be subject to oversight of Congressional committees and the GAO. It also would come under the proposed Federal Financing Bank being set up by Congress to supervise and coordinate all borrowing by government agencies.

4. The proposed Export Fund would establish a realistic and honest relationship between the United States and the poorer countries—that of a seller and a buyer of goods or services. In this relationship we no longer find the disquieting features associated with current aid programs. Under the Export Fund the United States no longer tells other countries what they must do or how they must do it. Thus, under this Export Fund, we end what might be called a patronizing approach to our dealings with other governments.

By encouraging American firms to seek markets in these poorer countries, a foundation is laid for an expanding trade relationship as the capacities of these countries to purchase from abroad increases. As earlier testimony has pointed out, the United States is currently falling behind other industrial nations in trading with the poorest half of the developing nations.

The time lags and bureaucratic involvement which characterize current aid programming is ended. This means that there will be more efficient use of the resources transferred under the credits generated by this Export Fund.

This method of assisting the poorer countries contains one feature attractive in multilateral aid. The relationship is a commercial one and thus is far less likely to be used as leverage in pursuing short-term foreign policy objectives. But it has the advantage over multilateral aid of directly promoting American exports.

I hope the committee will agree that the kind of relationship encouraged by the use of the Export Fund between the United States and recipient countries represents the healthiest and most constructive kind of relationship possible in a bilateral relationship.

This Export Fund proposal represents a congressional initiative in the field of foreign policy which has succeeded in eliciting wide support, including support from the administration.

I hope you will give it your support.

Thank you.

The CHAIRMAN. Mr. Roth.

Senator ROTH. Mr. Chairman, I would like to welcome to the committee my former colleagues on the House Foreign Affairs Committee. I know them for their eloquence, their great dedication to this area, and their expertise.

I am pleased that they are taking the time to be with us today.

I agree with those who expressed the opinion that we should do something, and my question is not directed at the thought we should do nothing, but I am still disturbed as to exactly what is the purpose of this legislation. Are we really trying to promote American trade and incidentally, help development of some of the foreign countries, and if that is the case, and I am the administrator, how do I evaluate what is the intent of Congress? How do we weigh which is the more important objective? I do not think it is fair to say to the executive branch we are going to give you broad discretion and then sit on the sidelines later and criticize whatever you do. I do not see in this legislation in my very brief reading of it, many guidelines as to how the Government, the executive branch, is to administer this loan.

Which is more important, if you are the administrator, is it more important to promote trade, or is it more important to go into what is the impact on the developing country?

Mr. ZABLOCKI. If I may answer and invite my colleagues to join me, or if I am in error, correct me. The intent of the Fund is the latter. Priority would be given to the development of the lowest or the poorest countries in the world. That is the highest priority. But bear in mind that our assistance through the export fund would not be placing in jeopardy some of our own country's national interests or job opportunities, in the domestic economy. As Senator Humphrey so eloquently has stated, that the legislation proposes to do both. Both are important. But if you want to separate the two and ask which has a higher priority, in my opinion it is the development of the poor countries, less developed countries. I do believe we have guidelines in the bill. But I believe it is very difficult to spell out in detail some guidelines. We have no wish to hamstring the administration or executive branch to a point where the legislation could not be administered. We are giving guidelines in the legislation. The legislative history is clear in stating the intent of Congress: We must pay closer attention to channeling assistance to the less developing countries by trade credits. This proposal would permit our Government to subsidizing interest costs in concessionary credits which would be available through public borrowing, as the Ex-Im Bank operates. Lesser developing countries could take advantage of the situation and improve their own lot economically. Our own industries, our own people employed in the industries could benefit by this trade.

Senator ROTH. The legislation, proposed legislation, says that the authority contained in this section shall be used to extend credit to sale of goods and services which are development in character with due regard to the objectives stated in 102B of this act. Do you feel that adequately states that the primary purpose is development and not the promotion of American goods?

Mr. FRASER. Let me say that one of the first things we were concerned about was that it not end up being a device to finance luxury items. We did not want to set up a subsidized credit operation and have colored television sets or perfume or some of the other more notorious, frills being exported, so we wanted to write that out. That was one of our first principal objectives in dealing with the language in the House bill, which is similar to this.

Beyond that we were very much conscious in the other part of the foreign aid bill where we had set out three major objectives: Health, rural development, and education. We said these are the main problems facing these very poor countries. We think to the extent that there is a priority system to be developed, the priority ought to go in support of those objectives.

Let me make this as an illustration. Supposing one of these poor countries comes in and wants a piece of high technology so they can run an airport control system so airplanes do not run into each other. We may have an interest in that and we may be on the airplane. That is a piece of technology because it is a point of contact between that country and the rest of the world. I would not rule out financing that piece of high technology through this Fund, but in general our thought was the priority should go to the development character stressing the three main sectors we talked about.

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Mr. FASCELL. If I may add just one other thought on that, and that is that there is no precise definition of what is development assistance that exists anywhere. Basically the two countries, the recipient country and United States, would have to get together on an agreement as to the line of credit and what is the developmental assistance which you are seeking. I think it is going to have to be on a case-by-case basis and one is going to have to use judgment. I do not believe that there is any way to spell that out in legislation. There may be some way of doing it by way of regulations or practice or procedure, but I do not believe you can be too definitive in legislation and arrive at what you are trying to achieve.

Mr. ZABLOCKI. Even the rate of interest was left flexible because it has to be considered on a case-to-case basis by the Administrator, or I should say by the Administrator of the Fund and the recipient country. It is difficult to spell out definitively by legislative act how the fund should operate.

Senator ROTH. Going to the question of the credit terms, is there anything in the language which imposes a duty on the administrator to get the most favorable rates, from the U.S. standpoint or are we leaving that in the discretion of the Administrator?

Mr. FRASER. Well, I think obviously the discretion is built into the bill, but the Administrator would have the natural interest of conserving his resources. To the extent that there is a more generous credit term he also would be faced with seeking greater appropriated funds to pick up the subsidy.

Senator ROTH. The thing that concerns me is that, you are right, we always assume whoever the Administrator is he is going to use his best judgment. One of the things that does concern me is that the congressional intent is not at all clearly spelled out. It seems to me this is one weakness of the legislation.

Mr. FASCELL. Let me comment on that. I do not know. Maybe it is possible, and I would like to see work toward that accomplishment. I believe the purposes are inseparable. Any export is going to aid development somewhere.

Mr. ZABLOCKI. If I may add something, Mr. Chairman. As I stated earlier, the ability of the borrowing country to repay will be the principal yardstick for the Fund in determining export credits, but the Senate report for S. 2335 requires a report from the executive branch by April 15, 1974, prior to the start of the Fund, that is, in July 1, 1974. It is expected to go into details on rates and terms which the Fund would apply under various conditions and circumstances. There, I think, we in the Congress will have an opportunity to again review, study and either approve or disapprove the rates.

Senator ROTH. I guess what I am saying is if we expect the executive branch to be able to administer it the way we want it seems to me we should act with more precision. In view of the criticism that has been made both of the executive branch and the Congress it is well worth while to take a look from that standpoint and try to draft that legislation.

Mr. FRASER. One of the complicating things here is that there will be a blending of different credit sources. For example, if a developing country is interested in the purchase of some goods or services, and the exporter of it in the United States comes to Washington saying I cannot do this without some credit help, our thought is that they might set up a package deal, you go to Exim for 50 percent of it with harder terms and then we will carry the other 50 percent, somewhat like the Small Business Administration tends to do. So this is another reason it is a little hard to spell out unless we set general standards, which I certainly would support.

The CHAIRMAN. Senator Byrd is next.

Senator BYRD. Thank you. I have no questions at the present time.

Senator HARTKE. In view of the present financial situation in the United States and the fact that we have so many neglected areas in the United States, how can you really justify extending the 3-percent interest ceiling on this type of operation and not providing it, say, for veterans or the people who want to buy homes in the United States and the poorer people; in other words, why would not the same type of theory apply here to help some of our people in the poverty and ghettos and places like that, they have incomes probably less than that if in fact they are subsidized by welfare payments. Why would you not make that type of approach first?

Mr. ZABLOCKI. If I may reply, Mr. Chairman. In our domestic programs we have various interest rates. Even in our housing programs there are those who are better able to finance a home who are prevented if their income is too high, from being eligible for Government loans.

Senator HARTKE. I am talking about people on welfare. You have about 15 million Americans on welfare now, lots of them from broken homes, no income whatsoever other than their welfare checks. Why do you not provide some type assistance to them?

Mr. ZABLOCKI. We have no objection in providing such assistance in other bills but it does not belong in this bill.

Senator HARTKE. How can you justify to the American taxpayer, for example, who is paying the taxes, ultimately going to have to bear this load, that he is willing to go ahead and make this type of proposal and we have neglected and refused to go ahead and provide for the 15 million Americans who are on welfare and another 20 million who are below the poverty line in the United States?

Mr. ZABLOCKI. The direct answer to you, Senator, is there is not any taxpayer money involved in this Export Development Credit Fund. There is not any taxpayer money involved. As I am sure you know, there are two possible ways of financing the Export Development Credit Fund. One way would be assisting foreign countries first by appropriating funds raised as taxes imposed on American citizens, and the second way would be to borrow from the private market. Now, the only amount that is Government funds, you might say, funds from past repayment of interest and loans, which today are reverted into development funds, would be available to pay the interest subsidy on the new export development loan.

Senator HARTKE. That is playing games but that is all right. Those are funds which are coming back in. This is ultimate money which is an obligation paid to U.S. Government and going to cost about $5 billion, as I understand it. Am I wrong in that?

Mr. ZABLOCKI. Yes.

Senator HARTKE. Where am I wrong?

Mr. FRASER. What we are doing, what the Ex-Im Bank does on the private money market is borrow the money and reloan it and get back a promissory note which will be paid off. Where the direct subsidy comes is in the differential in interest rate.

The Fund would work this way. We go out on the private money market, borrow $500 million——

Senator HARTKE. At what rate of interest?

Mr. FRASER. We will say 8 percent.

Senator HARTKE. You cannot borrow money at 8 percent. The prime is 9¾ now.

Mr. FRASER. Well, whatever the rate is. I agree the rates are excessively high, too high today.

Senator HARTKE. You are going to borrow $500 million at 8 or 9 or 10 percent?

Mr. FRASER. Right.

Senator HARTKE. Who is going to borrow, the Government?

Mr. FRASER. Yes, sir.

Senator HARTKE. Sell bonds for it?

Mr. FRASER. Yes.

Senator HARTKE. And going to pay the going interest rate?

Mr. FRASER. That is right. Then that money is going to be spent, let us say, over a period of a year. We are going to spend that $500 million. That money is spent in the United States to finance exports to this category of poor countries and it is in that situation that there will be job creation.

Senator HARTKE. Yes.

Mr. FRASER. Now, the loan will be made. A lower interest rate might be extended at 5 percent, 4 percent. It cannot go below 3 percent, which is above the present development loan rate which is 2 percent. The cost comes in that difference in the interest rate.

Senator HARTKE. Plus the 5-year grace period?

Mr. FRASER. Well——

Senator HARTKE. Plus the interest of the 5-year grace period?

Mr. FRASER. The 5-year grace period is the period in which you do not get repayments.

Senator HARTKE. You do not get repayment or payment of interest?

Mr. FRASER. What you have is a carrying charge. If you have a carrying charge of 8 percent, then you have got to pick up the subsidy, the difference between the interest rates until the loan is paid off.

Senator HARTKE. Who is going to pay that?

Mr. FRASER. The money comes from the repayment of old development loans.

Senator HARTKE. I understand that. But that is money which under normal circumstances is taxpayer money too.

Mr. FRASER. That is right.

Senator HARTKE. What you are saying is that when you get this money back, which ordinarily would come back to the United States, which is our money, which is taxpayer money in the original, what you are saying you are going to use that again and refinance the operation?

Mr. FRASER. Except it is already being used for development.

Senator HARTKE. I am not arguing about that, but I am saying it is taxpayer money, it is not created from the private market, this is not private funds?

Mr. FRASER. No.

Senator HARTKE. Those are Government funds coming back.

Mr. FRASER. I am only trying to put it in the context of where things have been and the way things have been. Two to $300 million a year coming back in development loans have been reappropriated for development.

Senator HARTKE. I understand that.

Mr. FRASER. So this does not add any new cost to the taxpayer. That is the point I want to make.

Senator HARTKE. Well, all I ask you again, even in view of that, if you did recapture that money why could you not use it for the 15 million people on welfare and use it for those people below the poverty line and provide for them to give them that interest break?

Mr. FRASER. You and I, I think probably share the same view. We have tried housing programs, 235 and 236 housing programs. I wish we were doing more. Unfortunately, our committee does not have jurisdiction over the questions——

Senator HARTKE. I am not talking about committees. The Congress as far as I am concerned has an obligation first. This Government was organized first for the benefit of our people, right?

Mr. FRASER. Yes.

Senator HARTKE. What you are saying is that since your cannot do it for our own people, you do it for people overseas.

Mr. FRASER. No, I think the——

Senator HARTKE. I am not arguing against helping those people but I am saying to you I cannot see how you can in all good conscience come here and say you are going to permit the steady deterioration of the American society because of the fact you cannot accommodate people in need at home, but you are going to go ahead and do something for people overseas.

Mr. FASCELL. I disagree, I dispute this, it is illogical, but I think the Senator is entitled to his opinion. As a matter of fact, if one were to follow what the Senator suggests you hurt the people you are trying to say you are helping. I have supported, as the Senator says, all of the programs you are talking about. Furthermore, I support this bill for the very reason that it is in the best interests of our country.

Let us look at it that way, because that is the way it ought to be looked at. If one wants to follow the logic that the heck with the rest of the world because we have all of the problems here and we can live within ourselves and we consume all of our production, and that is the way to help our people, you are not going to have the 15 million people on welfare or unemployed, you are going to have twice that number.

Senator HARTKE. Let us get away from the unemployed. I am chairman of the Veterans' Affairs Committee and you people forced us to cut back on programs, and there is a big story out that the Vietnam veteran is not getting what I got after World War II. Why do we cheat them? You say you have not said that. I am telling you the Congress has said that. The Congress has said that they are not going to provide for their own people and I am saying to you that what you are saying here is that you are going to give something to other people that you are not going to give to our own people.

Mr. FASCELL. No, sir. What I am saying is that it is absolutely essential and in the best interests of the United States—meaning the American people—for us to compete in the markets of the developing countries so that our businessmen can make money, can make jobs, and our people can thereby be assisted. That way maybe they will not have to be on the unemployment rolls, Senator, or they will not have to be on the recipients of special programs. Maybe they can make it on their own. But you cannot just ignore the fact that there are markets out there in which we are not participating and we are not competing.

Senator HARTKE. I grant you the Burke-Hartke bill, if you adopt that, you will save more jobs than you are going to provide. Let me——

Mr. FASCELL. Now we are talking about something else.

Senator HARTKE. I am talking about exports. You know all——

Mr. FASCELL. In other words, you are going——

Senator HARTKE. The balance of trade.

Mr. FASCELL. You are suggesting that we should not export?

Senator HARTKE. No, I did not say anything of the kind.

Mr. FASCELL. I misunderstood.

Senator HARTKE. If I am over my time let me know.

The CHAIRMAN. You can have my time.

Senator HARTKE. What I am saying to you is that you are saying here that we are going out and we are going to subsidize, that is what it amounts to, subsidize the export of certain American products. Is that not true?

Mr. FASCELL. Yes, sir.

Senator HARTKE. That subsidy is coming from the taxpayers of the United States.

Mr. FASCELL. Absolutely.

Senator HARTKE. That is right; is it not?

Mr. FASCELL. That is right.

Senator HARTKE. What is illogical about that? I am saying that the Congress in its wisdom or in its ignorance, I do not know which, maybe you do, has made that conscious decision not to provide any substantial low-interest loans for the people of the United States. Where can you say to me in good conscience if you are going to help people who are suffering in Nigeria, where they are hungry, but I am saying, how can you in good conscience take American taxpayer money while you refuse to take care of the 15 million on welfare, you refuse to take another 20 million below the poverty line, where you refuse to give the Vietnam vet which I and the rest of us got when we came out of World——

Mr. FASCELL. I am amazed, as able and articulate as you are that you are not able to get your programs through the Congress.

Senator HARTKE. I could but the House of Representatives would not give us the votes in the conference. We passed it unanimously in the Senate but you people were the ones who took the veterans down that road. You gave a little more than the President but not much more. Not me. I was not shortchanging the veterans. The House of Representatives shortchanged them, you passed $200, I passed $250, and it was not me that gave those figures, this said that the Vietnam vet is not getting his fair share compared to the World War II vet.

Mr. FASCELL. I believe we ought to help all Americans, Senator, and this bill proposes to help some Americans to help other Americans.

Senator HARTKE. Let me go to another one, the education bill. You have all of the kids going back to college. You show me any college student that can get a subsidized loan today. I am not talking now about the real poor, I am talking about a man with five children making $12,000 a year, he cannot get a guaranteed loan at any rate, a loan at 5 percent, he has to pay 8 percent from any bank in the United States.

Mr. FASCELL. I am not sure he can get an unsecured loan.

Senator HARTKE. From what I understand they have eliminated them because they do not consider them to be high enough interest paying loans.

Mr. ZABLOCKI. Mr. Chairman——

Senator HARTKE. I am saying this is a wrong approach toward helping these people. I think you are trying to do something here that is not going to solve the problem of exports, and for the record's sake anybody who thinks our balance of payments or our balance of trade is in good shape, last month we had the highest imports in the history of the United States. If it would not be for the fact we are exporting our natural resources and food at the expense of the American consumer, we are giving cheap food overseas at the expense of the American consumer, we will not come close to the balance of trade.

Mr. FASCELL. You left me with a paradox. Here we are trying to help exports, help the people we are talking about, and you say it is the wrong time and wrong place and wrong people and all we are trying to do is help America. What are you talking about?

Mr. ZABLOCKI. If I may make an additional comment to the Senator from Indiana. We all three are sympathetic with the domestic problems he has raised. He is lecturing to the wrong three Members of Congress because we are in agreement with you. And if I may point out to you that the repayment of loans and interest on former loans and interest on those loans, that are now channeled back in the development loans fund are really continuing some of the problems that you with your Burke-Hartke legislation, which I was tempted almost to sponsor until I read it twice.

We are trying to improve the situation by using those funds to subsidize export credit funds for the lowest, the poorest countries, that are not in competition with the United States as far as our export or import markets, and we are trying to help you, Senator, but you do not see the light.

Senator HARTKE. They are in competition with us. Japan and France and in the business——

Mr. ZABLOCKI. France could not benefit one dime.

Mr. FASCELL. He means they——

Senator HARTKE. That is not so. Because the countries which would go ahead and get that are the 11 African nations which are still underneath the Government of France at this moment and if you think any amount of products is going to be shipped into those countries unless they are handled by a French agent you are dead wrong, you cannot get through in Senegal unless you go through a French trading company.

Mr. FASCELL. Under this legislation they would not qualify for a credit loan because the end product would have to be manufactured in the United States and transported to the recipient country by an American firm.

Senator HARTKE. That is right, transferred to them through a French agent. I guarantee you that is right and if you can go to Senegal and see whom you have to talk to, any item imported into Senegal has to go through a French agent and you pay them, you are going to subsidize this import business. That is what you are doing.

The CHAIRMAN. Do I understand your position about this Burke-Hartke matter as being those who say we ought to spend it for other things first are sort of like the preacher that gets up to a half-empty church and proceeds to chastise the congregation for not coming to church? The people that he ought to be talking to are the folks that did not show up, not the folks that are there. You gentlemen have been voting for veterans benefits, housing, low-interest rates, and the appropriations to help the poor. Your attitude is he ought to be chastising the guy that did not come.

Mr. ZABLOCKI. He is talking to the choir.

Senator HARTKE. I understand what you are saying but the fact of it is that the Congress of the United States is making these decisions and you are asking us over here to take a position which is contrary to the common will of the Congress.

The CHAIRMAN. I think you have three votes for your veterans bill sitting before you, Senator.

Mr. FASCELL. I think we got the message somewhere along the line, Mr. Chairman.

The CHAIRMAN. If you did not have three votes, I think you picked up at least one.

Senator HARTKE. Thank you.

The CHAIRMAN. Thank you very much, gentlemen. We will now hear from the three administration witnesses: the Honorable William Casey, Undersecretary of State, the Honorable John Hennessey, Assistant Secretary of the Treasury, and the Honorable Lawrence Fox, Deputy Assistant Secretary of Commerce for Domestic and International Business. The witnesses will be called together. I understand that has been agreed to.

Senator BYRD. Could I ask a question? How long do you continue?

The CHAIRMAN. I thought we would hear this panel of witnesses and then come back at 2 o'clock and hear the remaining witnesses.

Senator BYRD. Will the questioning of this panel of witnesses occur after 2 o'clock?

The CHAIRMAN. Well, if you want it that way, it is all right with me. I would be willing to recess now and come back at 2. We could hear them then and ask questions.

Senator BYRD. I think there is a vote on the floor at the moment.

The CHAIRMAN. Well, if that is the case, Senator Byrd, can you be back here at 2?

Senator BYRD. Yes.

The CHAIRMAN. I would suggest then, if it is all right with you, Senator Roth, that we stand in recess now and hear you gentlemen at 2 o'clock. I will try to get other Senators to hear you.

Thank you very much.

[Whereupon, at 12:17 p.m., the hearing was recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

The CHAIRMAN. This hearing will come to order.

I would like to ask Hon. William Casey, Hon. John Hennessey and Hon. Lawrence Fox to take the chair. We will have other Senators along in due course, but in the meanwhile I will ask this panel to proceed to explain their views on this measure. At this moment we are voting in the Senate, but I expect that the Senators will be along following the vote.

STATEMENT OF HON. WILLIAM J. CASEY, UNDER SECRETARY OF STATE

Mr. CASEY. Shall I proceed?

The CHAIRMAN. Proceed, sir.

Mr. CASEY. Mr. Chairman, I appreciate this opportunity to appear with my colleagues from Treasury and Commerce to speak to you about the proposed U.S. Export Development Credit Fund. Senator Humphrey and Congressmen Zablocki, Fascell, and Fraser covered in considerable detail this morning and I will merely hit some high spots and respond to questions. My written statement I would like to put in the record. The impression I have is this could play a very valuable role as a new addition to the range of policy tools which we need to pursue foreign policy goals in the developing countries. These countries are a large and diverse group. Our economic goals and interest with regard to each particular country will vary, trade, investment and development concerns, generally unique mix of interest and reaction, in the case of each particular country. There is great difference among the less developed countries as to ways to advance their economic development. For example, those which have already developed a basis for modern economic structure look primarily to trade to earn the resources they need to further their own development. They supplement this with credit in the World Bank and Regional Development Bank and with conventional exports credit.

For many larger groups of nations who are still in an earlier stage of development, concessionary financing is of vital importance. Without that kind of financing, imports of the developing goods might be restricted and development plans curtailed. We believe it is in our national interest to have these countries become successful participants in the market-oriented world economy leading to mutually beneficial and commercial investment relationships over the long term. Our concessional assistance through AID and through the soft loan windows of the international financial institutions helps promote development, does not provide all of the resources which these countries can properly use, aid programs specifically designed to build export markets, although they do offer valuable support, we believe this bill will develop and create long-term exports. The Export-Import Bank offers credit facilities for trade with more advanced developing nations with tight credit standards and relatively hard repayment terms. This makes the Export-Import Bank less well suited to the needs of the poorer developing nations. The availability of credit on terms which the importing countries can afford to service is essentially making sales to the poorer developing countries and our declining share of the market in many of these countries is evidence that we are not meeting this need.

As Senator Humphrey developed so well this morning, we are outfinanced in country after country and the European countries, particularly Japan, are acquiring their share of the market while we are losing our share at the time when the market in the 70 poorer nations of the world represents over a billion people.

This Fund would help the United States improve our export performance in these countries. It would make financing for American exports available on attractive terms. It would bring American exporters and goods into these poor countries and develop a long-term market there and would enable the recipient countries to purchase more without unduly increasing their debt burden. This will serve the twin goals of making resources available to the developing countries while creating long-term markets for U.S. exports.

I am especially pleased with the Export Development Credit Fund because it is a congressional initiative. This indicates that there was a widespread concern in the Congress that we shape our policy toward the poorest members of the world community nations in such a way as to continue to be responsive to their developing needs while at the same time pursuing our own economic goals. The executive department is anxious to pursue this. We have already held departmental consultations on how to put this Fund concept into practice while details remain to be worked out before complete design of the Fund can be submitted to Congress with special scrutiny. The concerned departments of the executive branch agree the Fund should be enacted into law.

The Congress will receive a detailed plan for the Fund before it begins operations. We would like to suggest a modification of the legislation in this regard to permit the Fund to begin operation on January 1, 1974, for 60 days after submission of the plan of implementation, whichever last occurs. We would contemplate submitting a plan November 1 so it could be implemented beginning 1974. We feel it is important to establish the Fund and allow it to begin operation as soon as possible since there will inevitably be a slow startup period, something of a pilot model operation. An earlier beginning date will give us operational experience so that we will be better prepared to submit requests for any needed change in need of legislative changes with the submission of authorizing legislation for fiscal year 1976. If the Fund effective date is not advanced to July 1, 1974, the actual startup of the Fund may be further delayed until action is completed on the fiscal year 1975 budget requests and the Fund would not be able to actually start lending operations until quite late next year, 1974.

We feel that the purpose of the Fund could be better achieved with an earlier starting date.

Design of the Fund structurally we will seek to assure through careful coordination with aid and Ex-Im Bank. The Fund will supplement and not compete with or displace the interest we now have to promote exports and development. We will direct these goods primarily to those of the poorest developing countries which offer the promise on long-term markets and have the ability to use these additional resources.

In short, we believe that this bill would enable us to create a Fund which will promote export growth, assist the developing and serve as a valuable instrument in support of our overall foreign policy goals.

That completes my statement.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Casey follows:]

PREPARED STATEMENT OF WILLIAM J. CASEY, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

SUMMARY

Why Do We Need the Export Development Credit Fund?

The United States needs a variety of instruments to pursue our policy interests in the developing countries. United States interests cover a variety of trade, investment, and development issues.

For the poorer developing countries, concessional financing is necessary to support the imports necessary for development. Only by providing such financing can we establish markets for our own exports while promoting economic development.

Over the last several years the level of our bilateral AID program has not increased. Other industrialized countries have been increasing their programs at a rapid rate. Exports of the other rich countries to the developing countries have grown with the level of their aid programs, while US exports to the poorer countries have been lagging.

The Export-Import Bank finances many of our exports to developing countries, but the terms and conditions of Eximbank lending are better suited to the relatively more advanced of these countries. While Eximbank lending to the poorer LDCs has been increasing, this lending is concentrated in a few countries and a preponderate amount goes to such projects as minerals and fuels development with a high short-term economic return. Eximbank lending is expensive and often unobtainable for the less immediately profitable projects typical of most of the poorest countries.

What would the EDCF do?

Under the proposed legislation, the EDCF would provide, over the four-year period of this legislation, $2.7 billion credit on soft terms to the poorest countries for the purchase of US goods and services.

This credit would permit these countries to finance their development programs on favorable terms.

Assured availability of credit will make it possible for American businesses to enter new markets, and expand their long-term sales potential.

How will the Fund be operated?

AID will manage the Fund under the policy guidance of the statutory advisory commmittee.

The Fund would be a flexible instrument, with procedures designed to assure that goods with both development impact and export potential are financed.

All developing countries with per capita incomes under $375 and not ineligible for US aid programs would be eligible to participate.

In keeping with the concept of mature partnership, financial authorities of the recipient countries will play an important role in the allocation and use of Fund resources.

The Fund will be coordinated with AID and Eximbank programs to ensure that its operations supplement and not compete with these organizations.

I appreciate this opportunity to present the Administration's view on the "United States Export Development Credit Fund" from the vantage of the Department of State. This proposed fund would help to finance United States exports to the poorest of the developing nations, with the dual purpose of promoting present and future U.S. exports while making resources available to these countries to promote their economic development.

I would like to discuss the EDCF in the context of our overall economic relations with the less developed countries. We are talking about an extremely diverse group of countries, varying in size, natural resources, economic organization, and degree of present development, as well as a host of political factors that affect their economic situation. The economic interests and goals of the

United States with regard to these countries cover a range of trade, investment, and development issues with the relative importance of issues differing from country to country. We therefore need to approach the less developed countries with a variety of policy tools which will be responsive to their varying needs and our specific interests.

These countries differ fundamentally in their present degree of economic development. Some have achieved much economic development during the past decade and are nearing or have attained a stage which will most likely carry them out of the ranks of the less developed countries within a few years. For these "emergent" countries, concessional development assistance is less important than trade, export credit and private investment as a source of the resources needed to carry on the development process. The United States has tried to meet the needs of these countries by encouraging trade and by bringing them more fully into the world financial system. We have introduced as part of the Administration's trade bill a system of generalized system of preferences which would open export markets so that these developing countries can earn through trade the resources needed to support their development. We have encouraged these countries to participate in multilateral trade negotiations. They and other developing countries participate in negotiations to reform the world monetary system. We have supported the growth of the World Bank and the regional development banks through which the emergent developing countries can obtain development financing on moderate terms. While supporting the aspirations of these nations, we have also tried to encourage U.S. exports. The Export-Import Bank has been an important instrument for financing exports to these countries, assuring the availability of financing on terms commensurate with their ability to service external debts.

While our relations with the emergent nations are increasingly centered on trade and investment, development assistance still plays a central role in relations with the large group of developing nations which remain desperately poor. Amost seventy developing countries still have per capita gross national products under $375 a year, and for 42 of them per capita GNP is under $200. Many of these countries are poor in natural resources and infrastructure and also lack the industrial base and skills necesary to take advantage of trade-promoting tools such as general preferences. These countries can only hope to acquire the external resources necessary for development with the aid of concessional financing. The extent to which this is true is shown by the fact that official USG commitments from all sources—AID, PL 480, Eximbank—amounted in 1972 to 82 percent of the total value of US exports to the poorer (per capita GNP under $200) developing countries. This percentage decreases as per capita income increases. The composition of the official commitments also changes: in 1972 Eximbank commitments amounted to 57 percent of government financed US exports to countries with per capita GNP from $200–500, but only 9 percent of government financed exports to countries under $200, with the balance coming from more concessional AID and PL 480 programs.

The Export-Import Bank, as noted above, extends relatively little financing to most of the poorest developing countries. Eximbank authorized loans and guarantees of $1,258 million to countries with per capita gross national product under $375 during fiscal 1973, but these authorizations were concentrated in a small number of countries (75 percent went to only five countries: Algeria, Indonesia, Turkey, Korea, Zaire) and much of it was for special projects such as fuels development with a high short-term economic payout—not, unfortunately, typical of the poorest countries. Eximbank's strict credit standards, dictated by legislation and policy, rule out many developing country credits. Eximbank terms, while softer than commercial terms, still carry interest rates which developing countries can ill afford and are for relatively short terms compared to concessional financing. Such near-commercial export credits impose a heavy debt service burden on the importing country, and excessive use of export credits can easily carry a developing country into debt service crises which require debt rescheduling.

Although the ability of the poorer developing countries to buy the resources they need for development is limited by the availability of concessional assistance, the flow of official development assistance from the United States actually decreased 7 percent from 1963 to 1971. Other major donor nations have been increasing their programs: official development assistance from all other DAC countries more than doubled over the same period and most OECD countries now carry a higher assistance burden than the United States when assistance is compared to donor country GNP.

We welcome these contributions to the development of the poorer countries, but we are also concerned about the implications of this situation for the present and future trade position of the United States in developing country markets. With concessional support too limited to support expanding exports, and Eximbank unsuited to the circumstances of the poorest developing countries, the growth in US exports to these countries has lagged. In 1972, they totalled only $4.8 billion out of total US exports of $49.7 billion. The US share of the import market in these countries was 17.3 percent, compared to 28.6 percent in countries in the $375–$1,000 GNP category. In 11 of the poorest LDCs, comprising 89 percent of the population of the non-communist countries with per capita income below $200, US exports fell from $1.7 billion in 1966 to $1.2 billion in 1972. At the same time, these same countries increased their imports from the other major Development Assistance Committee (DAC) donors from $2.9 billion to $4.3 billion. This decline in US exports contrasts sharply with an increase of 44 percent in US exports to all LDCs over the 1966–72 period. This means that other developed countries are developing markets, distribution networks, brand familiarity, and financial relationships, that will induce additional exports over a period of years. Since even the poorest (per capita GNP under $200) developing countries represent a market of one billion people, with average GNP increasing about 5 percent annually, this represents a significant market.

The EDCF is designed to remedy this lag in export growth. It will help US exports by:

Permitting the poorest developing countries to import more from the US by increasing financing on terms they can afford to service. Since debt servicing is an increasingly important problem for the LDCs, their import capacity is severly constrained under conventional, harder term export lending. It is this limitation on import financing capacity which makes the new soft term export credit fund an appropriate vehicle for supporting US exports to these countries.

Offering financing to many more poor developing countries. AID is restricted to just 20 countries outside Latin America under the Foreign Assistance Act.

Encouraging US exporters to cultivate potential markets.

Facilitating US entry into markets still dominated by traditional colonial trading patterns.

Giving priority to commodities with a follow-on export potential.

Expanding developing country markets, through long-term economic growth.

The dollars flowing out under this program are to be 100 percent tied to U.S. exports. To the extent that Fund dollars result in additional U.S. exports—i.e., purchases from the U.S. the recipient nations would not otherwise have made—there is no addition to free reserves that could be used to repay loans from other sources. On the other hand, if the Fund dollars were used to finance purchases from the U.S. that would have been made anyway, the dollars originally intended for that purpose are thereby freed for other uses such as debt repayment, imports from third countries, or reserve accumulation. It is highly likely that the activities of the Fund will generate exports that are fully additional to the level of exports that would have otherwise occurred. Experience has indicated that in the case of AID commodity financing, additionality is in the order of 90 percent for all countries but is higher than this—approaching 100 percent—in the poorest LDCs. This is due to the fact that in the lowest per capita income countries the U.S. share of the market tends to be smaller than in more developed countries. The opportunity for substitution is therefore much less. In view of the low and declining U.S. share of the imports of these countries, their continued growing need for goods in which the U.S. is otherwise competitive, and the heavy dependence of these sales on concessional credits, it is reasonable to expect that the leakage of Fund dollars to other uses would be minimal.

Simultaneously with promoting U.S. exports, the EDCF would make new development resources available to the developing countries. Over the initial life of the EDCF, the developing countries would receive a flow of developmentally-oriented goods and services worth approximately $2.7 billion repayable on soft terms over a long period of time. The importance of imported goods to the poorest developing countries cannot be over-emphasized. The majority of people in these countries are still engaged in agriculture, often subsistence agriculture. Most of these countries have only a few established industries, producing basic consumer goods such as cotton textiles, shoes, and some processed foods. Even such basic items as light bulbs must typically be imported. Virtually all developmental goods, such as machinery, trucks, construction equipment, and most spare parts, need to be imported. The availability of financing is at present the chief constraint on the level of imports and, consequently, on the size of development programs. The developing countries are looking desperately for financing, and a number of them—including some of the poorest, which can ill afford it—have had to resort to borrowing on the Euro-dollar market.

The initial lending volume for the Export Development Credit Fund would be well within the "import absorptive capacity" of the countries with per capita gross national product below $375. If the Fund were to commence operations January 1, 1974, as proposed by the Administration, the approximate average annual lending volume over the four year period would be $675 million. Although loans would probably not be extended to all of these countries by the Fund, data for these countries provide an illustrative basis for measuring absorptive capacity. The total merchandise imports of these 70 countries in 1972 were approximately $80 billion. If "import absorptive capacity" is defined as capacity to utilize increased imports productively, there can be little doubt that the $675 million average annual flow could be "absorbed," since it would constitute less than 3 percent of the existing import level.

The EDCF would not only make resources available to the poorest countries, but it would do so in a way which will promote the mature partnership which the United States seeks with the developing countries. We recognize that the ultimate responsibility for development planning and financial management rests with the developing countries. The United States cannot dictate priorities or oversee all aspects of development planning and implementation. The EDCF would make resources available but, within reasonable guidelines to prevent abuse, the initiative would rest with the borrowing countries to decide which programs are most important and to allocate resources accordingly. The EDCF would be more flexible and less encumbered by red tape than traditional aid approaches. We would expect that it would also require less oversight, minimizing management costs.

The Advisory Committee etsablished by Section 805 of S. 2335—consisting of the Secretaries of State, Commerce, Treasury, Agriculture, the President of the Export-Import Bank and the head of the Agency primarily responsible for administration of the Fund—will provide overall policy coordination. The presence of the President of the Export-Import Bank on the Committee will insure that the policies governing the operation of the Fund are consistent and compatible with the policies and activities of the Export-Import Bank. Specific policies governing loan criteria and Fund operations would be set forth through the Advisory Committee, and these policies would be designed to insure that loans made by the Fund not infringe upon or compete with credit financing offered by the Export-Import Bank. These procedures could include, for example, an administrative mechanism to avoid Fund financing in cases where Exim financing is appropriate. In practice, the activities of the Fund should not conflict with those of the Bank since the Fund would operate primarily in the poorest of the LDCs—where Exim exposure is limited—and for the financing of development programs which do not obtain Exim financing.

In regard to coordination with AID activities, it is the current intention of the Administration to lodge operating responsibilities for the Fund in that Agency. Because the Fund is to serve important export promotion objectives requiring flexibility and a swift response capability, detailed advance programming of Fund resources is not contemplated. However, AID in the context of its overall economic assistance activities, would include consideration of the Fund's actual and contemplated commercial credits to a particular country in order to take into account the total flow of US resources into that country.

Lending is contemplated, depending on circumstances, through government-to-government agreements, via intermediate credit institutions, or directly to private borrowers. Credit judgments will be made in terms of the ability of the borrowing country to service the additional debt and the economics of the particular project. Factors involved in evaluating debt servicing ability of an LDC include their current level of debt, the future debt servicing burden, potential for earning foreign exchange, possibility for economic growth and economic stability.

It is presumed as an initial matter that EDCF financing would not be extended to communist countries and countries with whom the United States has no diplomatic relations. Within this $375 category, general guidelines will be established to insure that the benefits of this program are not totally absorbed by a few countries and that special consideration will in fact be given to the very poor with per capita incomes under $200 who can least afford the harder Exim terms. Exports financed by the Fund will be screened to insure their consistency with developmental needs, the promotion of U.S. markets and U.S. employment objectives through simplified operational procedures. The objective is to prevent abuse and misallocation of EDCF funds while at the same time avoiding the adoption of extensive and burdensome rules and requirements. With regard to development, goods will be selected with an eye toward increasing the production capacity of the recipient country. Luxury goods and frivolous items, of course, will be excluded. With regard to export promotion, the emphasis will be on goods which require follow-on procurement, which would not otherwise be purchased from the U.S., and which establish new markets.

The Congress will receive a detailed plan for the Fund before it begins operations. We would like to suggest a modification of the legislation in this regard, to permit the Fund to begin operations on January 1, 1974, or 60 days after submission of a plan of implementation, whichever last occurs. The Administration would submit the plan of implementation on or shortly after November 1, 1973. We feel that it is important to establish the Fund and allow it to begin operations as soon as possible, since there will inevitably be a slow start-up period. With an earlier beginning date, we would be better prepared to submit requests for any needed legislative changes with the submission for FY 1976 authorizing legislation. If the Fund's effective date is not advanced from July 1, 1974, the actual start-up of the Fund may be further delayed until action is completed on fiscal year 1975 budget requests, and the Fund would not be able to actually start lending operations until quite late in 1974. We feel that the purposes of the Fund can be better achieved with an earlier starting date.

If these principles are followed, and sound lending procedures with minimal essential controls are devised, the EDCF can simultaneously achieve its twin goals of export promotion and development assistance. We feel sure these conditions can be met and the Export Development Credit Fund can become a valuable addition to our foreign policy instruments.

The CHAIRMAN. Now, the next statement will be from Mr. John Hennessey, Assistant Secretary of the Treasury.

STATEMENT OF HON. JOHN HENNESSEY, ASSISTANT SECRETARY OF THE TREASURY

Mr. HENNESSEY. Thank you. I will submit my statement for the record.

Let me just also make a few highlights or remarks, if I might.

I think I can add very little to what Secretary Casey has said and some of the discussion which went here earlier. Let me make three brief remarks. The first is that the Treasury Department, as well as the administration as a whole, supports this congressional initiative of establishing the fund. We believe that it does have a twofold purpose. It is a little difficult to describe whether the glass is half full or half empty. It does meet a dual objective. It does help us promote exports, incremental exports, exports which would not otherwise take place, but I think it is also true it is going to help the nations who receive the exports and will help meet their development aims.

In the second place, I think there are some suggestions we would make to put the fund on as prudent a financial basis as we could. I think two out of the three we have in mind were mentioned earlier this morning by Senator Humphrey as amendments which he intended to propose and we would support, that is, namely, to include the operations of the fund within the budget and to have the annual borrowing and reflow allocation process go through the normal appropriations process in the Congress. We think those are two very necessary and desirable aspects and we would support those.

Finally, there is a provision in the bill, in the Senate bill which would allow for refinancing, it would allow for refinancing of exports

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already made, and we see no need for this type of facility in this type of export development fund and so we would suggest perhaps that be eliminated.

And, finally, let me say that we have spent some considerable time in the Treasury Department analyzing what the potential might be in trying to answer the two questions which was on our own mind and perhaps on the mind of the Congress. Could these countries absorb more goods, first of all, and, second of all, could they pay us back? And after quite a considerable analysis the answer which we arrived at in both of these cases was yes, these countries could absorb additional amounts of funds if they were on the correct terms, if they were structured to their own financial situation, and at the same time they could also pay back these additional capital imports provided once again the financing of these exports from the United States were structured in a proper financial manner.

So, in sum, I am adding the Treasury voice to that of the State Department in saying we do support this initiative and we think it can be a useful addition to the inventory of tools which we do have to promote U.S. exports while at the same time helping out countries in which we have an increasing interest.

Thank you.

[Mr. Hennessey's prepared statement follows:]

STATEMENT OF JOHN M. HENNESSEY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. TREASURY DEPARTMENT

Mr. Chairman, and Members of the Committee: I welcome this opportunity to appear before the Senate Finance Committee in support of legislation for an Export Development Credit Fund, as proposed in Senate Bill S. 2335. The Department of the Treasury supports the basic concept of the proposed Fund, but we would like to suggest some modification in its operational aspects, as I will outline.

In the bill as presented, both in the House and Senate versions, the proposed Fund has been justified in terms of serving two major objectives of United States foreign economic policy: (1) it will serve as an instrument for expanding U.S. exports into new markets in the low income countries, and (2) it will be a means of contributing to the economic development of these countries. In addition to these two objectives, I would add a third of growing importance to us, that is, the Fund will aid in the development of new and continuing sources of raw materials and fuels for the American economy. While the Fund is not designed to contribute directly to development of new sources of raw materials, it will indirectly do so through provision of needed transportation, communications and power equipment to countries which have extensive natural resources to bring to the world market. The United States currently purchases 28 percent of its imports from these low income countries, a majority of which are raw materials, and the prospects are good for further increases. The development of export markets and additional sources of raw materials go hand in glove, for as we buy more from them, they have the effective demand to buy more from us.

In stimulating greater exports to the low income countries the United States must have reasonable assurance that we will be repaid and that these new export markets will be sustained. I will address briefly each of two questions: the first on the market development potential in the low income countries, and the second on the prospects for repayment.

Market Development Potential

What is the market development potential in the low income countries?

Our analysis of U.S. trade with the lowest income countries shows that the U.S. market share in these countries is relatively small and has been declining during recent years. Our export performance has been particularly weak relative to our major competitors. Part of this may be explained by distance and traditional relationships, but it must be recognized that a large proportion of the imports of these countries are financed by official foreign credits, and U.S. credits to these countries have been growing much more slowly than those of our competitors.

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The question arises, of course, as to whether these countries have the absorptive capacity to import goods and services of the magnitude envisioned under the Fund. An initial lending volume of $675 million annually would amount to about 2 percent of the total 1972 merchandise imports of the 67 countries involved. Another standard, based on estimated total annual investment of $47 billion (18% of GNP of $260 billion) in these countries, exclusive of communist nations, indicates the annual flow would represent a little more than one percent of investment in 1972. Based on these criteria, it would certainly seem possible for these countries to increase their imports by the $675 million which would be added through the Fund.

In determining which products would be provided assistance under the Fund, careful consideration would be given to those areas which offer the best prospects for expanding markets for U.S. products. Presently, U.S. exports to the twelve largest purchasers in the group in terms of broad categories can be broken down as follows: 31% agricultural goods, 28% in raw and intermediate materials, and 41% in manufactured machinery and equipment. However, it should be clarified that the proposed EDCF would not finance agricultural products, since there are already adequate programs to handle these exports. We *can* export more manufactured products to the low income countries if we offer terms that make sense in view of their own economic situation; we believe that the proposed Fund would help us to do that.

Prospects for repayment

Turning now to the second question, what are the prospects that the recipients of these proposed credits will be able to repay the United States?

The combined external debt outstanding of the 67 developing countries with GNP's of less than $375 per capita amounted to $30 billion as of December 31, 1970. Nearly $20 billion of this amount was concentrated in four countries (South Korea, Indonesia, India, and Pakistan). The remaining 50 percent of the outstanding debt was distributed among 63 countries.

The concentration of a considerable portion of the total LDC debt in a relatively small number of countries does not necessarily mean that these few countries will be unable to meet their obligations nor that the remaining LDC's will be free of debt problems. The immediate cause of LDC debt problems, where they in fact exist, is due to the inadequate ability of the economy to generate sufficient foreign exchange to service the debt obligations. The reasons for this inadequacy vary but may be attributable to unsophisticated cost benefit analysis of projects, ineffective debt management policies, insufficient efforts to promote exports, or alternatively, may be due to factors entirely beyond the control of the LDC's themselves, such as deteriorating terms of trade or declining aid flows.

It is generally in the interest of the United States to finance exports to developing countries when there is a reasonable assurance of repayment in accordance with agreed schedules. This, of course, poses the question of how one obtains such reasonable assurances. No single indicator exists of the ability of countries to service their debt obligations although reference is frequently made of the debt service ratio which compares a country's debt service with its earnings from merchandise exports or from exports of goods and services. The fact is that the debt service ratio may be quite misleading. A country with a low debt service ratio may have a limited capacity to absorb additional debt if it pursues unsound financial and economic policies, while a country with a high debt service ratio may well be able to take on additional obligations if it is actively and successfully attempting to promote exports, pursuing sound internal policies, and promoting a favorable investment climate. Mexico provides us with an outstanding example of a country in the latter situation. In 1966 Mexico's debt service obligations absorbed 54 percent of its current account earnings, a ratio considerably higher than those typically found in countries having difficulties meeting their obligations. Brazil is another example. After rescheduling its debts in 1961 and again in 1964, Brazil has been following sound financial policies, attracting high inflows of foreign private and public investments, and is today considered a sound credit risk.

Thus, with the terms proposed in the Senate bill and with careful attention to the nature and uses of the commodities financed under the proposed Fund, we believe that the low income countries will be able to offer us reasonable assurance of repayments. It is worth noting that the developing countries are currently paying out about $7 billion annually to service outstanding external debt. Of this total the United States is receiving about a third, or about $2 billion, per year. The United States is currently receiving annual repayments on AID's development loans alone of $300 million. This will rise to $600 million in the next decade.

Suggested Modifications

I would like to turn now to some suggestions for modifying the provisions regarding the proposed Fund in order to make its operations more consistent with sound fiscal practices.

First, in regard to its budgetary impact (Section 801(d)), we note that the bill treats the Fund in the same manner as the Export-Import Bank operations, which excludes it from the budget. We recommend that the bill be amended to provide for the inclusion of its costs in the budget totals, and also for the financing of the Fund through regular Treasury securities.

Second, we recommend elimination of the language in Section 801(b), which authorizes the refinancing of U.S. export credits. This authority would conflict with the use of this Fund for market development purposes.

Third, we want to ensure that the intent of the bill is to subject both the amount of the borrowing and the use of the reflows for interest subsidies to the annual appropriations process.

Conclusion

In brief, I would like to add the support of the Treasury Department to the proposed Export Development Credit Fund. With the few modifications I have suggested, it is our view that the proposed Fund makes good economic sense both for the United States and for the low income countries.

Senator BENTSEN [now presiding]. Mr. Secretary, would you give me some idea of how what you are proposing compares with what the Japanese are doing today in the way of soft credit sales, their rates, and their amounts?

Mr. HENNESSEY. We have submitted some data to the staff.* Let me just preface my remarks on this particular one to say it is very, very difficult to be definitive. Other countries oftentimes are not as open as we are in describing what we are doing and for example, oftentimes we obtain information only through the nonofficial reporting—businessmen coming in to us.

Senator BENTSEN. Sometimes there is a tendency on the part of those people, I suppose, to exaggerate what is being done, to exaggerate their competition?

Mr. HENNESSEY. It may well be but we do have sufficient proof, I would say, to know, for example, the Japanese do offer 3- to 5-percent interest terms, from 20-to 25-year repayment terms: the Germans from 2 to 3 percent, also repayment terms which go from 22 to 30 years.

Senator BENTSEN. Do these terms go in turn to these types of nations that might not have a credit rating?

Mr. HENNESSEY. I think in certain cases they do not restrict it to those cases but at least the evidence we would have would seem to say that is the way they have penetrated those markets and this is one of the major reasons why we have lost market share. There has been a quite notable decline over the last 5 years in the percentage of exports to those countries where the U.S. market share has declined, and one of the reasons is quite clearly they are getting easier credit terms from these other industrial nations.

Another reason, of course, was the exchange rate and the devaluation of the dollar does put us in a more competitive position, but it does not explain the entire amount nor does it explain the continued ability of these countries to sell in those markets.

Senator BENTSEN. On whose data would you make a determination whether or not the per capita income was less than $375 per person?

Mr. HENNESSEY. We depend on, I would say, two sources. One is our own analysis of the economics and the other is the World Bank, which

*See appendix B, page 193.

does per capita income studies as part of its annual economic analysis of each individual country.

Senator BENTSEN. Does this not really amount to just sort of a soft arm extension of the Export-Import Bank?

Mr. HENNESSEY. I think you could describe it as a soft export window, that is one of its major purposes. I think that it, as I say, has a dual purpose. Whether it is a primary one or not is like asking whether glass is half full or half empty. But it is quite clear this is going to promote U.S. exports that would not have taken place and that is what Eximbank is promoting, exports, but on commercial terms. It is for that particular reason, as I understand, the Senate has thought it more appropriate to launch this facility in the AID. We, too, have drawn the line in export-import operations on a strictly commercial basis, and for that reason, it seems to us more appropriate to make the Eximbank-AID separation.

Senator BENTSEN. I heard you state something about your belief in the ability of these people to absorb these products and in turn to pay for them. What has been the history of countries with under $200 per capita income in their repayment of debts and rescheduling of debts, how good a credit risk are they?

Mr. HENNESSEY. I do not have the figures precisely at my fingertips, Senator. There have been a number of reschedulings and they tend to have fallen with countries at least, in my own experience, actually somewhat above this group of countries with $200 per capita income. However, the lower group does include some countries which have had to refinance their debts in the past. I think, in general, the need for longer term financing is demonstrated by the fact that if we loaded them up with strictly commercial debt then we would be assuring ourselves they would not be able to pay it. I think the purpose of the fund is to provide financial terms, repayment terms, loan terms which would permit them to repay and not fall into debt refinancing or debt rescheduling operations.

I have some data here, if you would like, which I can read.

Senator BENTSEN. Yes, I would.

Mr. HENNESSEY. Since 1956, 10 developing countries have participated in 23 multilateral debt reschedulings.

Senator BENTSEN. Ten? What are the criteria for developing country insofar as per capita income?

Mr. HENNESSEY. That would be under a thousand dollars.

Senator BENTSEN. Now, you do not have anything that really deals with these countries that have under $375?

Mr. HENNESSEY. Six of these 10, and they accounted for 13 of 23 reschedulings. A couple of them falling in the $375-and-under category had to reschedule more than once. There was an additional agreement, rescheduling agreement which we reached with the United Arab Republic in 1971.

Senator BENTSEN. A rescheduling agreement with which country?

Mr. HENNESSEY. United Arab Republic, which was not included in the six. That apparently has—let me check my list of per capita income. Its per capita is under $375 so that that would make a total of 7 of the 67 countries that fall into the per capita income of $375 and under category. Seven of those countries have had reschedulings in the past, some of them twice. There have been a total of 14 reschedulings for these countries since 1956, according to the information I have here.

Senator BENTSEN. Now, if you were in my position and had to go back and report to your constituency, how would you justify an interest rate such as this when the people in my State are having to pay three and four times that for home mortgages?

Mr. HENNESSEY. I think there are two points to make here. The first is that 3 percent is a floor—and I think the intention is not that every loan will go out at 3 percent. I think there will be a subsidy element in the majority of the lending by the development fund. That is justified because it will create incremental U.S. jobs, it is going to promote new exports, then it will promote new U.S. jobs and it will go——

Senator BENTSEN. Would not additional homebuilding in this country at lower interest rates create these jobs?

Mr. HENNESSEY. Excuse me?

Senator BENTSEN. Could you not argue the same way that lower interest rates for homebuilding for mortgages would create more homebuilding and, in turn, more jobs?

Mr. HENNESSEY. I believe you can.

Senator BENTSEN. The same argument would prevail.

Mr. HENNESSEY. Yes, it certainly will. This will have the double benefit of promoting exports at a time when we are all concerned and agree that the United States just has to improve its trade position.

Senator BENTSEN. As far as exports, let us talk about balance of payments, let us talk about the U.S. debt. What effect would these loans have on the balance of payments and the debt structure?

Mr. HENNESSEY. Well, the purpose of the fund as we see it, it will promote new U.S. exports that would not take place. There will be associated with it an extension of credit and in that sense the longer the credit terms the longer it takes us to recoup it. As was stated, I think quite eloquently this morning, one of the major purposes of a fund like this would be market penetration, getting into the market where we do not now operate and where the supplier system and the machines that are already there come from other countries so spare parts and the whole system is oriented toward other countries. I think the initial impact would be beneficial on our trade balance and in the longer run it could be very substantially beneficial as these countries grow and as we have seen other countries grow in their demand for exports.

Senator BENTSEN. Would the loan proposals be initiated by the fund, by the United States, or by the recipient country?

Mr. HENNESSEY. Let me defer on that to Secretary Casey. I believe this is one of the details which he was mentioning we would submit in the detailed plan.

Mr. CASEY. Well, the money would be made available either to other countries or to intermediate development banks which function in those other countries or directly to importers in the other countries, private traders in the other countries, and this would be determined on a case-by-case basis. Also, a portion of the fund might be made available to another country to use under rules to be prescribed and to be part of our plan of implementation, which will be filed here for congressional scrutiny, and then we would impose those standards as a guide to the other country in making the loans for development purposes.

Senator BENTSEN. Mr. Secretary, I understand this is a floor insofar as interest rates are concerned. Do you have any figures that would show our experience, where we have had this type of situation, where we have had a floor, as to whether that floor became the rule?

Mr. CASEY. I do not have any at hand. I think we might look at the experience of the development loan fund which has a 2-percent rate. I do not know whether this is a floor or—that is a flat rate.

Senator BENTSEN. The development loan fund, as I understand it, was 2½ percent?

Mr. HENNESSEY. Two percent during the 10-year grace period and 3 percent thereafter.

Senator BENTSEN. Did not that in effect become the rule rather than the floor?

Mr. HENNESSEY. I think it was always intended to be a flat rate.

Senator BENTSEN. It is my understanding from the staff that was a floor.

Mr. HENNESSEY. I would have to check that. I do not know.

(The Department of the Treasury subsequently submitted a letter to the Committee which states in part:

"Section 201(d) of the Foreign Assistance Act of 1961, as amended, requires that development loan funds shall not be loaned at a rate of less than three per cent per year commencing not later than ten years after the loan is made, and not less than two per cent per year during the initial ten-year period. These rates have become the standard rates at which the majority of development loan funds are extended."

Senator BENTSEN. That rate, in effect, became the rule. That is what concerns me when we talk about a floor like this. What pressure is there to try to get what might be considered a reasonable rate, what the traffic will bear?

Mr. HENNESSEY. This is designed to be a fund to make it possible to provide competitive financing to that offered by other countries in economic competition. I would think insofar as we could control it and try to control it we would keep the rate as low as necessary to get the business. That has to be an element of judgment in that. In addition, I think that the higher an interest rate can be charged the further the fund would go. The lesser and lesser reflow you have to support a concessional rate the fewer loans you could support. There would be an incentive to maintain as high a rate as the situation would stand.

I believe in that respect there will be a review by the Congress and it has been suggested not only the annual appropriation but there be some interim review every year, 6 months or whatever. I think there has been an adequate legislation history, today 3 percent is a floor, it is not a flat rate, so that I think there are ample mechanisms on the part of Congress to make sure that it does not become not only a floor but a ceiling.

Senator BENTSEN. Thank you, Mr. Chairman. I have no further questions at this time.

The CHAIRMAN. I am concerned about one or two things, which incidentally you may be able to provide some information on. We have been confronted for many years now with these quarterly good news announcements out of the Department of Commerce that we had a favorable balance of payments or else that we did not have a very unfavorable balance. I think you say in this quarter we had a balance. You leave off the ocean freight or leave off the giveaways and leave off the soft loans. So by the time you get through leaving off all of the minuses on ocean freight, you add on a bunch of pluses on these foreign giveaways, gifts, soft loans, and all that. You put a lot of pluses on there that do not belong on there and take off a lot of minuses that do belong. You show up with the deceitful, it makes my blood boil, fraudulent presentations when you say that we had an even break in trade when, according to our calculations this quarter, we are going at the rate of a $5 billion deficit.

Now, what excuse do you people have for not putting that ocean freight account as part of these trade figures and of putting this deficit where it really is rather than deceitfully misleading the public to think we had an even break. We lost our hat and about everything beneath our hat when you look at the cost of the ocean freight, most of which is hauled in foreign bottoms, and at well as the fact that you are taking a foreign aid program like Public Law 480 and counting it as if we were paid hard cash. You put it down at a great big gain as though you made money, when you actually gave the commodities away to some foreign nation like India. So the farmer takes less for his product and you can get away with it on the theory that it is worth absolutely nothing. On that basis we would have saved money on the ocean freight by dumping it in the ocean or burning it or lighting a match to it. But you put it down as though you made money. If you gave a billion dollars, you made a billion dollar profit and charged the billion dollars off. How do farmers and people who know about that chicanery put up with it? How can you defend that? Do not 90 percent of the countries on this Earth keep their foreign aid figured on c.i.f. business taking trade into account?

STATEMENT OF HON. LAWRENCE FOX, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC INTERNATIONAL BUSINESS

Mr. Fox. Senator Long, as you know, the Department of Commerce has been aware of your interest and the committee's interest in the subject for some time and I am pleased to tell you that beginning January 1 the data will be published in the conventional way as well as on a c.i.f. basis. The new data when they are available, will permit a comparison on a c.i.f. basis with f.o.b. and you can compare them with any country's and I think we would attempt selectively to make possible comparisons for prior years so that it will be possible to see a series of data.

I believe the history of the subject is a long one and I think we started collecting our data f.o.b. simply because we had an f.o.b. tariff and that is the conventional way countries collect their data, on the basis of the way they value their imports.

The CHAIRMAN. As I understand it, the reason that you have the statistics that way, is the provision in the Constitution that prohibits discrimination as between ports. So that with respect to tax policy and tariffs, if we are not to discriminate between ports—recognizing that ocean freight to one port would be greater than the ocean freight to another one—the tariff would be charged on an f.o.b. basis, which is based on foreign value.

Now if you want to tell the American people whether you made or lost money, it is relevant to know how much you paid for it, including the cost of ocean freight.

The way most people do business, the same way businessmen do it, is to sell without putting the freight down on the books, because the man on the receiving end pays the freight. If he is buying, the freight is part of the cost of his goods, so the freight is reflected in the price he shows. The way the books have been presented to the American public for many years now, has led the public to believe that we have a small deficit, when actually we have had a big deficit. We had a period of 5 years running when it was made to appear that we had a $12 billion profit, when actually we had a $14 billion deficit. That is a difference of $26 billion.

And now, frankly, I have had Secretaries of the Treasury tell me they think I am right about that matter. The lady over at the Tariff Commission who is Chairman also seems to think that that is correct. I do not understand why we do not get this matter straightened out now. When you people go to the international conferences, and I have been at some, they take your own trade figures and rub your nose in it. They say you people either have a balance or you have a favorable balance. This, then, completely destroys the basis of your argument that they ought to make concessions or absorb more American imports.

Why in the devil do you want to deceive your own people and fix it up so that you cannot succeed in a trade conference. It frustrates your own purpose to begin with, before you ever go there, to try to make it appear that you have a great big profit, when you know and we know, taking it all into account, that you have a big loss. It seems like the illustration I gave this morning about my old friend trying to work his way through school trying to teach people to fly airplanes. On a day in and day out basis, he made a profit every day. But after 3 years he was broke, because he did not know enough about depreciation. He did not have enough set aside to replace the airplane after it wore out. Is it not about the same way when you represent to the world that you are making a big profit when the fact is that you are actually showing a loss?

Mr. Fox. I hope the new system will meet the problem that you referred to. It certainly is a real one. There is no question that if you value the imports f.o.b. you do understate the actual cost paid by the U.S. public for imported goods.

The Chairman. Here are the balance of trade figures that my staff member handed me. In the first quarter on an f.o.b. basis, you have minus $1 billion. Our estimate on a c.i.f. basis is minus $2½ billion. Second quarter, f.o.b., you have a minus $0.3 billion. We estimate a minus $2 billion. For the first half, by your bookkeeping system, it would be minus $1.3 billion. By ours, which we think is correct, it would be minus $4.5 billion.

Which do you think more nearly reflects what our situation is in world trade?

Mr. Fox. I think it depends on what you are looking for.

The Chairman. I am not talking about charging a tariff. I am talking about whether we make or lose $1.3 billion or do we make or lose $4.5 billion?

Mr. Fox. I think if you are looking at the trade balance and nothing else, how much did we get for our goods and how much did we pay for the goods, then c.i.f. method of valuation gives you a clearer picture as to what the balance is in trade.

If you are looking at the total balance of payments it should come out the same because it would then show f.o.b. figures for imports, you would show the shipping charges in your shipping accounts, so in the balance of payments you should get the correct figure either way.

The CHAIRMAN. Well, the balance of payments ought to be corrected. Here is the problem about the balance of payments. The balance of payments is an overall figure. According to the best estimates that I have had for many years, the payments deficit has been made up almost entirely by the deficit in trade. But each department tries to make it look like it is somebody else's problem. So the people in the AID business try to make it look like AID has no impact on the balance of payments. Then, the people in the trade business try to make it appear that trade is a big profitable item. Foreign investment is supposed to be a big plus item and then the military suggests it has only a very marginal impact. But when you add up all these alleged pluses, you get a great big minus.

Now, to me the logical way for us to do business—if we ever get around to looking after the public interest and to taking care of the average citizen in the country—is to take the attitude that we are going to set these books up to show just exactly where our deficits are coming from. We need to know those countries which have great big surpluses, which mean deficits to us, such as Japan, Canada, West Germany. Then we can go to work doing business in such a way as to make them either ship us less or buy more.

Those of us who are all-out advocates and worshipers of free trade can say, well, let us make them buy more. That is all right with me. But if you cannot make them buy more, then we ought to make them ship less, because we cannot afford to buy all of this.

Here is the estimate on the balance of payments handed me by my staff. On a liquidity basis they are estimating a deficit of $8.2 billion during the first half of this year. On the official settlements basis, they are estimating $10 billion. That is the first half. By the way, the $4.5 billion trade deficit I gave you is just for the first half. It might be a $10 billion deficit in trade by the time the year is out. For the entire year at that rate, the deficit in balance of payments would be $20 billion. If it is that bad, what is that going to mean to this country?

Mr. FOX. Perhaps Mr. Hennessey would like to comment on the balance-of-payments figures. I do not have those.

Mr. HENNESSEY. I think again, with the difference between the f.o.b. and the c.i.f., I think those figures are correct. I think you will also recognize there have been considerable improvements. We would certainly be the last department to try and maintain our situation is a strong one and it is one of the motivations why we think we need another tool in our chest of weapons to attack the export problem and balance-of-payments problem in general. There is a serious problem and we do hope it is getting better but we have a long way to go.

The CHAIRMAN. Well it would appear to me that if we have a $20 billion deficit in balance of payments this year in addition to what we have had already, it will lead to disaster for the kind of program that you fellows have been advocating up here for the last 20 years. It means about the same thing I once told a Japanese businessman who came to see me with an article out of the New York Times. This was back in the days when you were reporting a favorable balance, although we knew that we had a big deficit. The article asked why would we want to cut down on Japanese imports when we had a favorable balance of trade. It argued that we ought to do more of the same. Maintaining support for continuing existing policies is the only excuse I can think of for giving the public this kind of misinformation quarter by quarter by quarter. So he said, well, you see, you ought to do more business the way you are doing it, which would mean more deficits in trading with Japan, because we have a favorable balance of trade. I said, we have got this great big deficit and if we keep this up much longer, what I am advocating will have to happen. The deficit will be corrected for the simple reason that you will not take our dollars any longer, because they will not be any good in world trade.

Is that not just about what you are headed for the way you are going? A $20 billion deficit this year in addition to all of the deficits in prior years?

Mr. Fox. I am certainly not one to minimize the seriousness of the trade or balance-of-payments situation and I and the Department of Commerce are absolutely dedicated to an improved export position and I agree with the observation that if we cannot sell more ultimately we will have to buy less and that we have to get a vastly improved trade account as an indispensable condition for satisfactory overall balance of payments.

Mr. Hennessey. Let me add, if I might, that most of that deficit, particularly the official settlement deficit, took place just in 1 month when there was a lot of speculation early in the year, in February. I think if you look at the figures in the second quarter you will see actually we had an overall surplus on the official settlements basis and I think what we see is that we have touched bottom and that the trend is strongly favorable. We have got a long way to go but a $20 billion deficit for this year, I think, is not in the cards for us.

The Chairman. If you look at the trade on a c.i.f. basis you do not have to worry about that kind of dramatic ups and downs. It is just running right along, a great big deficit—$2½ billion the first quarter, $2 billion the second, $4.5 billion for the first half. And it will be more than that for the next half. I really do think you people ought to quit proposing suggestions, quit sending us bills, and let us write one up here. I think we ought to be going back to what the Constitution intended to begin. Congress should run trade policy, without any suggestions whatever from the administration.

We have listened to the recommendations from your people under Mr. Nixon now for 5 years and under Mr. Johnson, Mr. Kennedy, and Mr. Eisenhower. And all you people do is give us bigger and bigger deficits. I think we make a great big mistake by listening to your people. We ought to work out a trade bill ourselves.

I have expressed my alarm.

Senator Byrd. Thank you.

Secretary Hennessey, you are Assistant Secretary of the Treasury?

Mr. Hennessey. That is correct.

Senator Byrd. How does this program differ from the multitude that we have now, specifically the Export-Import Bank and the World Bank?

Mr. Hennessey. It differs from the Export-Import Bank in that it would provide a range of flexibilities both in the interest rate and in the repayment terms that are not now available for Eximbank.

Senator Byrd. In other words, you feel that the Eximbank is not liberal enough in its lending policies?

Mr. Hennessey. Well, they do have an export expansion facility which allows them to deal with higher credit risks. They, following the dictates of the Congress, as I believe you well know, Senator, have been constrained to primarily, I would say, exclusively commercial terms and this is a halfway house here. The Export Development Fund goes beyond commercial terms, to put us on a footing, a competitive basis with what other nations, industrial nations in particular, have been doing for many years. So in that sense it is different, it gives us (*a*) more flexibility on interest rates and (*b*) on repayment terms, and it allows you to custom tailor it to what the traffic needs, you can then adjust the rate with this particular group of countries in which the United States has been losing more and more market share.

Mr. Fox. If I might add to what Mr. Hennessey has said, Senator Byrd, the Eximbank in connection with the export expansion facilities, is not permitted to charge a differential rate. That was put in the statute when the export expansion facility was established, so there is no flexibility in the Eximbank rate to go to the concessional terms, and that is one of the major reasons for this additional-——

Senator Byrd. How does this differ from the soft loan window at the World Bank?

Mr. Hennessey. The soft loan window at the World Bank does not promote U.S. exports. There is competitive international bidding depending on our position on a particular project. We may or may not win it. When $1 of this is loaned, you know, it is going to result in $1 of a U.S. export going out and there is no local cost and other things associated with it. It means $1 of either U.S. services of an engineering firm and $1 worth of actual physical goods coming out of the United States.

Senator Byrd. This is a new spending program.

Mr. Hennessey. It is a spending program in the sense that there will be a subsidy element in it which will be taken from the aid reflows and go to support this export promotion facility. The borrowings will not result in a view of new appropriations of funds from the Congress, it will be rechanneling some of the past aid loans, aid repayments and using those to underwrite, if you will, this export promotion activity.

Senator Byrd. It is correct, is it not, the fund will borrow from the Treasury or from the public $3 billion?

Mr. Hennessey. Yes; we have thought it best to keep the borrowings under the debt ceiling. That was our suggestion. To the extent they borrow from the Treasury, they do fall within the general debt ceiling.

Senator Byrd. So you will go out into, the Treasury does not have the $3 billion, the Treasury will have to go out and borrow the $3 billion?

Mr. Hennessey. Actually, because of the requirements in the bill, there is a 10-percent reserve, if you take 10 percent less it would be $2.7 billion over the life of it. Depending on reflows, the Treasury would have to go out and borrow additional funds. As you know, we have to do that to the extent of disbursement. When you make a loan on a project it may take 6 months to a year to a year and a half before it is dispersed but essentially, you are correct, we will have to borrow more money.

Senator Byrd. Borrow more money and you are paying what interest rate now?

Mr. Hennessey. On long-term financing, around 7½ percent, roughly the same range.

Senator BYRD. On short-term money you are paying as high as 9.27?

Mr. HENNESSEY. On short term. We are talking about here 30 years amortizable, which is the equivalent of 15 years.

Senator BYRD. But you plan to loan $2.7 billion between the first of July next year and the last of December of 1977?

Mr. HENNESSEY. That is correct. But the borrowings will go out in the market and we will borrow on, in other words, up to 25 years, up to 15 years, on average, to finance the activity because we do not want to borrow short to lend long. There would be a matching up. If the fund is going to lend at 20 years on a particular project the borrowings from the Treasury would have to go out in the market at an equivalent period of time.

Senator BYRD. In any case, you are borrowing at a very high interest rate.

Mr. HENNESSEY. There is no doubt about that.

Senator BYRD. You are more of an expert on this, but the more the Treasury goes out and borrows money the scarcer money becomes, I assume, and the higher the interest rate will be, it has an effect on interest rate.

Mr. HENNESSEY. It would have an effect on interest rates because the demand for credit would be going up, the Treasury would be going out issuing new securities. The amounts which would roughly be somewhere in the order of $675 million a year, in the overall total U.S. outstanding debt of $460 billion, would not have a very large impact on interest rates, but it obviously would have some marginal impact.

Senator BYRD. Would India and Pakistan be involved in this?

Mr. HENNESSEY. They would be eligible as both of those countries have per capita incomes of below $375. I think those are two markets where the United States has not done as well and——

Senator BYRD. You say the United States has not done as well?

Mr. HENNESSEY. In exports.

Senator BYRD. Have not those two countries gotten the bulk of the money that the Congress appropriated for the soft loan window of the World Bank?

Mr. HENNESSEY. Those countries have gotten a very large proportion of the soft loan window of the World Bank. What I was referring to was the fact that our exports, our commercial and Ex-Im Bank operations in those particular countries have not been as successful as some of the other countries and we think one of the reasons is that we did not have this ability to compete in that intermediate range of being able to offer longer terms.

Senator BYRD. We can establish the fact, can we not, that we have given both India and Pakistan a great deal of money through the soft loan window of the World Bank?

Mr. HENNESSEY. Yes, sir, we have.

Senator BYRD. Is this new legislation for the benefit of U.S. business or for the low-income foreign countries?

Mr. HENNESSEY. I think we could debate that for a long time. I think it serves both purposes. Is a glass half empty or half full? It is quite clear if we give longer terms to the poorer countries they will have been benefited. If we promote U.S. exports that would not otherwise take place then the United States has benefited, we have created jobs, created new exports and have gotten a foot in the door in a market where the door has been closed.

Senator BYRD. Would the Fund finance the total cost of these projects or would cash downpayments by the borrower be required?

Mr. HENNESSEY. It would only finance that part of the project which had to do with U.S. imports. I cannot conceive of many projects which would have 100 percent fund financing. There would be local costs of labor and other things that would not be covered under the terms of the Fund as set up. It would only cover the U.S. engineering service or the turbine or the generator, whatever it is, that came out of the United States.

Senator BYRD. Would the foreign government be the borrowr.?

Mr. HENNESSEY. I suspect it would be in the majority of cases but not exclusively. If we can, again, the terms can be tailored to get the business and I think if it could be done so we could strengthen the private sector in these countries and not bite off our nose to spite our own faces, I think that option should be kept open.

Secretary Casey may have some views on that.

Mr. CASEY. Yes, I agree. I say that in response to Senator Bentsen's questions before, some of the loans would be to government.

Senator BENTSEN. I cannot hear you.

Mr. CASEY. Others would be to intermediate credit facilities and others to the private sector.

Senator BYRD. Knowing the countries as you do, would not the majority of them be loans directly to the government?

Mr. CASEY. Yes. I think so.

Senator BYRD. Directly to the government?

Mr. CASEY. Yes, sir.

Senator BYRD. For example, suppose a government would default on their loans, what do we do then?

Mr. CASEY. We do whatever we can to collect.

Senator BYRD. Let me ask you this for the record, then. How many countries now owe the United States?

Mr. HENNESSEY. I do not have that number offhand. It is well in excess of, I guess 60 or 70 countries. Let me say in terms of default that all of these countries are members of the World Bank and the IMF and there have been no defaults since 1945.

Senator BYRD. How many countries now owe the United States and have not paid the United States what they owe?

Mr. HENNESSEY. There have been, as I reported to Senator Bentsen, there save been some 14 reschedulings where the original terms could not be met, they had to turn, as a commercial bank gets into a problem, they turn around and reschedule it.

Senator BYRD. Is it not correct, just to take one country—France—owes a debt to the United States and it has not been paid?

Mr. HENNESSEY. There are some, as I understand it, some claims related to the troop withdrawals which are under discussion with the French and which we are hopeful will result in a payment to the United States. There is, of course, also World War I debts. France is current on all its other debts to the United States.

Senator BYRD. Has Russia paid its debt to the United States?

Mr. HENNESSEY. Under lend-lease an agreement was arrived at with them and they are meeting those payments at this time.

Senator BYRD. The agreement was to cancel the bulk of it, was it not?

Mr. HENNESSEY. There was a dispute on what was the correct amount due, there was no underlying contract on most of that, and you are right, large parts of what we considered at the outset to be owed to us was written off.

Senator BYRD. Under the legislation that we are considering here is there a limit as to the proportion of this Fund that can be loaned to any particular country?

Mr. HENNESSEY. There is not at this time. I think that is one of the aspects that would have to be included in what Secretary Casey referred to in the detailed plan which the administration would submit to the Congress for its authorization prior to November 1.

Senator BYRD. Well, what effect would the Fund have on the budget and the management of the public debt?

Mr. HENNESSEY. Under the suggestions which we have made and which I understand at least from Senator Humphrey's testimony this morning, the activities of the Fund would come within the budget, it would be in the general totals and the disbursements would fall in the outlays budget and the borrowings would be from the Treasury, so it would fall indirectly within the public debt limit, so they would have those types of financially prudent safeguards built into it.

Senator BYRD. It seems to me that this is a rather intriguing idea. The point that comes to my mind is this. To what should we give first priority? Well, let me ask you. As Assistant Secretary of the Treasury, what do you feel is the dominant problem facing our country today?

Mr. HENNESSEY. Well, I think it is quite clearly our international economic position and so primarily we are interested in the export promotion aspects of this.

Senator BYRD. You mentioned international economic conditions.

Mr. HENNESSEY. Well, our balance-of-payments situation, our trade situation.

Senator BYRD. What about the financial situation of the Government itself, a deficit of, Federal fund deficit in 1970 of \$13.1 billion; 1971, of \$30 billion; 1972, \$29.2 billion; 1973 \$24.9 billion; and by Treasury estimates for 1974 it will be \$18.8 billion. That is accumulated deficit of 5 years of \$116 billion. Now, is that not cause for deep concern?

Mr. HENNESSEY. I think you have to relate the level of the budget to the status of the economy and whether it is at full employment or not at full employment, and we think that the amount of stimulus that was provided in previous years was needed once again——

Senator BYRD. I am not talking about the reasons for it. I would like to get your thinking as Assistant Secretary of the Treasury. Do you feel that a deficit of \$116 billion in 5 years is cause for alarm?

Mr. HENNESSEY. I think it is a large amount and I think the President has been and Secretary Shultz has been outspoken as saying we need an old-fashioned balanced budget, not a full employment balanced budget.

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Senator BYRD. The point I am suggesting is that you do not have any good old-fashioned balanced budget. You have got the greatest deficit that this country has ever run, ever run, except during the 4-year period of World War II when we had 13 million men under arms and fighting a war on two fronts.

We do not have a balanced budget at all and that is why I am concerned about going into a new program and concerned about the Treasury Department coming down here and advocating a new program at a time when we have these unbelievable deficits.

I am not clear from your response as to whether you feel that these deficits that we have been running from 1970 fiscal year through 1974 are or are not a cause for deep concern.

Mr. HENNESSEY. I think we are looking at the current situation rather than looking backward, but looking forward we believe that our fiscal policy is just about right to bring it back to what is called a soft landing, we do not go into recession and at the same time, we come to grips with inflation.

Senator BYRD. You feel you are right in running a deficit of $116 billion in 5 years?

Mr. HENNESSEY. I do not think it was perfect but I think there was additional stimulus needed. There may have been too much. I think we could say again you cannot fine tune it and it is——

Senator BYRD. That is exactly what you have been trying to do and that is what I have been saying, you cannot fine tune it. But that is exactly what you have been trying to do. You cannot fine tune it and I am pleased that you said that. That is what I have been saying and I have been contradicted by others in your Department.

I want to ask the question again because I think it is of some importance to know your thinking. Are these deficits totaling $116 billion in 5 years, is that a cause for alarm or is it not cause for alarm?

Mr. HENNESSEY. Senator, I think that by itself it is not a cause for alarm. Again, you have got to relate it to the state of the economy and what the purpose of running a deficit was at that time. I think if you put it in the context of the fiscal situation, when we are going to get back to balance, and the goals of the administration, the answer is you can argue whether it went a little too far or some people did not think it went far enough. Nevertheless we have to get back to the good old-fashioned balanced budget and we all agree on that and I do not think it is terribly useful to what went on in the last 5 years. It certainly was not much too much.

Senator BYRD. I think it is useful to discuss it because we are not going to solve this problem unless the people who have the responsibility for helping solve it regard it as a real problem, a grave problem, and what I want to find out from you, do you regard it as a grave problem?

Mr. HENNESSEY. I would regard it as a grave problem if we were not coming strongly back into a strong economy and a full growth economy where our revenues were going up and growing quite quickly, and I think that is the part of it which offsets and I agree with you there is an element of concern in deficits of that magnitude. On the other hand, there are elements of concern in having an unemployment economy and a lot of unemployed resources around to get a balance.

Senator BYRD. I want to read the deficits again. In 1970 you had a deficit of $13.1 billion; in 1971, $30 billion; in 1972, $29.2 billion; in 1973, $24.9 billion; and even with these tremendous increases in revenue that you are speaking of, there will be a deficit in the Federal funds of $18.8 billion for the current year, according to your own estimates, estimates of your own Department.

Now, I point out that this $116 billion is 25 percent of the total national debt of this country accumulated over a period of 150 years, 25 percent of that has accumulated in the last 5 years, 5 years ending this coming June.

If we do not consider that to be a cause for great alarm, then I do not think we are going to get our problem solved.

You mentioned the interest. Interest on the debt in your new budget is $27.5 billion. To relate it another way, 17 cents of every personal and corporate income dollar paid into the Federal Treasury goes to pay the interest on the debt, just the interest.

Incidentally, the total interest payment in the 5 years equals $116 billion, just by coincidence.

I would like to support this program but I do not know how you are going to keep going into new programs. The Treasury Department, the department responsible for trying to get some soundness in our Government's financial affairs, keeps coming down here and advocating new programs, and this is not the only one that the Treasury Department has advocated. You came down here and advocated the so-called revenue-sharing plan, $30 billion, a new program, when the Government has no revenue to share, only deficits.

Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, I would like to urge that we try to limit ourselves on questions as much as possible, to try to conclude this hearing today. I know that I am as guilty as anybody. I hope we can abbreviate it.

Senator BYRD. Could I ask to put in the record some figures I have compiled on our deficits?

The CHAIRMAN. Yes, without objection, agreed to.

[The table compiled by Senator Byrd follows:]

Deficits in Federal funds and interest on the national debt, 1955–74 inclusive

[In billions of dollars]

	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1955	58.1	62.3	−4.2	6.4
1956	65.4	63.8	+1.6	6.8
1957	68.8	67.1	+1.7	7.3
1958	66.6	69.7	−3.1	7.8
1959	65.8	77.0	−11.2	7.8
1960	75.7	74.9	+0.8	9.5
1961	75.2	79.3	−4.1	9.3
1962	79.7	86.6	−6.9	9.5
1963	83.6	90.1	−6.5	10.3
1964	87.2	95.8	−8.6	11.0
1965	90.9	94.8	−3.9	11.8
1966	101.4	106.5	−5.1	12.6
1967	111.8	126.8	−15.0	14.2
1968	114.7	143.1	−28.4	15.6
1969	143.3	148.8	−5.5	17.7
1970	143.2	156.3	−13.1	20.0
1971	133.7	163.7	−30.0	21.6
1972	148.8	178.0	−29.2	22.5
1973	161.3	186.2	−24.9	24.2
1974 [1]	181.0	199.8	−18.8	27.5
20-year total	2,056.2	2,270.6	−214.4	273.4

[1] Estimated figures.

NOTE: Prepared by Senator Harry F. Byrd, Jr., of Virginia.

Source: Office of Management and Budget and Treasury Department, Aug. 1, 1973.

Senator FANNIN. Thank you, Mr. Chairman, and I will be brief; however, I did want to ask a few questions that I think are important. I am sorry I was not here all the time to know what has been asked previously.

But, Secretary Hennessey, the bill both presented in the House and Senate versions the proposed fund has been justified in terms of serving two major objectives of U.S. foreign economic policy. You go on to say it will serve as an instrument for expanding U.S. exports into new markets in low-income countries, and it will be a means of contributing to the economics of these countries. Then you say in addition to these two objectives I would add a third of growing importance to us; that is, the fund will aid in the development of new and continuing sources of raw materials and fuels for the American economy.

Now, I would like to ask you a question, we are short on fuels, what fuels are you talking about?

Mr. HENNESSEY. I am talking about petroleum and natural gas, Senator.

Senator FANNIN. Well, I would certainly like to know more about that. That is vital to us and if you can show us that you can increase the flow of the petroleum products to this country I think it would be very vital. I do notice that nearly $20 billion of this amount was concentrated in four countries, South Korea, Indochina, Pakistan, and we do get fuel from Indochina. I understand the Japanese were a little smarter than we were. When they went in they put money into Indonesia but they put it in refineries that control, and the product comes from there, the product that comes from those refineries goes to Japan. What have we done in that regard?

Mr. HENNESSEY. In Indonesia? I believe we have also financed through Eximbank, some expanded facilities for refineries and I know all this is not directly in my line of responsibility. Secretary Simon handles this more directly, and now Mr. Love, but there have been discussions with the Indonesians leading to some type of sharing or access to their new production of crude oil. I think the point I was trying to make, Senator, in a general way, there was many of these countries today which are poor and which we do not have a foot in either in selling of the manufactured goods or in buying raw materials from them—many of them are ex-colonial countries, many of them are in Africa. Nigeria is going to be a large exporter of oil and natural gas and if we are able to sell them U.S. goods and U.S. services, if we are able to build financial and economic relationships which then will provide us with an option of sources of supply, in other words, they will not be all tied up with markets in other countries. In things like bauxite and tin and copper, et cetera, we see more and more of the newly discovered reserves are particularly in these countries and if we can sell them the tractors to build the roads to get the sources, to get the minerals out, then we will be that much better off. So I think it all hangs together, is the point I was trying to make.

Senator FANNIN. I hope you are right, Mr. Secretary, because if you can do that, I think you can justify your program. I certainly do not look with favor on loaning money that we do not have at a lower rate than we can borrow it, unless we are going to have some benefits. We are no longer the Great White Father—we cannot be—and I think we have to recognize that we are probably the poorest of those countries as far as our balance sheet is concerned. I do not think any of them could be in debt to the extent we are in debt, so I am vitally concerned and I trust you can furnish for the record the information concerning the petroleum products and other strategic materials that are being obtained through this program. Further, what manufactured products are we able to sell as a result of this program. I think this would certainly go a long way toward justifying an investment if we had this return. Unfortunately, in most instances we have not had a good return. In most soft loan programs there has not been the return to this country. Eximbank has been very successful in raising of capital by floating loans in the securities market. I think you can point, the administration can point with pride to what has been done by the hard loan institutions as far as the repayment record, but I am concerned about this program. As I understand, this would be administered by AID; is that right?

Mr. HENNESSEY. It would be administered by AID but closely coordinated with the Eximbank, because obviously, there are potential areas of overlap. Our first priority is if we can export it through a private bank, good; if they cannot do it, use Eximbank; if we cannot meet the terms, the Fund would be the mechanism. Under the proposal of Senator Humphrey, this adisory committee would be chaired by the Secretary of Commerce. So you have all of the U.S. industrial and export industries well represented there.

Senator FANNIN. I am concerned about how much of it would be under AID and would not be given the same scrutiny that perhaps the Fund that would be under the Eximbank would have. I trust that one of you, or all, could furnish some information on just what benefits are accruing as far as petroleum products or strategic materials coming to this country as a result of this program, and what we are able to export that is manufactured in this country.

Thank you.

[The following information was subsequently supplied for the record:]

Value of U.S. imports from lowest income less developed countries

[Millions of dollars]

Country	Raw materials					Total raw materials	As percent of total imports
	Rubber	Lumber	Iron ore	Petroleum	Other		
Afghanistan					0.9	0.9	30
Algeria				101.3	1.6	102.9	99
Bangladesh					2.2	2.2	6
Bolivia		0.7	15.6	.3	.1	16.7	66
Botswana						.1	0
Burma							0
Burundi							0
Cambodia							0
Cameroon		.2				.2	1
Central African Republic					.2	.2	3
Chad							0
Colombia	0.1	2.7	.4	15.5	19.5	38.2	14
Congo (B)		.1	.1		.1	.3	10
Dahomey							0
Dominican Republic			15.8		1.5	17.3	7
Ecuador		2.9		15.5	1.4	19.8	16
Egypt				7.4	2.5	9.9	59
El Salvador					.6	.6	1
Ethiopia					.4	.4	1
Gambia							0
Ghana		2.1	1.3	.5	.4	4.3	5
Guatemala	.7	.1	.4		2.0	3.2	3
Guinea							0
Guyana		.3	13.0			13.3	31
Haiti					4.8	4.8	9

Value of U.S. imports from lowest income less developed countries—Continued

[Millions of dollars]

Country	Raw materials					Total raw materials	As percent of total imports
	Rubber	Lumber	Iron ore	Petroleum	Other		
Honduras	.1	5.0	7.7		.4	13.2	11
India	.2	.1			23.1	23.4	5
Indonesia	60.2			119.1	16.7	196.0	71
Iraq				4.8	2.9	7.7	81
Ivory Coast	.2	2.4		.7		3.3	4
Jordan							0
Kenya			.2		4.8	5.0	18
South Korea		.9	.7		1.5	3.1	NA
Laos							0
Lesotho						.1	NA
Liberia	22.5		22.7			45.2	86
Malagasy Republic	.7		.4		1.4	2.5	7
Malawi							0
Mali							0
Mauritania			.7			.7	64
Mauritius							0
Morocco			1.4		1.4	2.8	25
Nepal					.1	.1	6
Niger							0
Nigeria	2.6	.7	1.1	250.8	.2	255.4	94
Pakistan			.9		4.2	5.1	13
Paraquay		.1			.3	.4	3
Philippines	.2	5.0	33.7		6.8	45.7	9
Rhodesia			2.8		.1	2.9	23
Rwanda					1.0	1.0	8
Senegal					.1	.1	4
Sierra Leone			.2		.2	.4	2
Somali					.1	.1	50
Sri Lanka	2.9	.6		.7	.8	5.0	18
Sudan					11.4	11.4	93
Swaziland							0
Syria					.9	.9	31
Tanzania							0
Thailand	8.2	2.6	2.4		7.5	20.7	18
Togo							0
Tunisia					1.2	1.2	14
Turkey			2.9	2.1	2.7	7.7	7
Uganda							0
Upper Volta							0
South Vietnam					.3	.3	13
Yemen					2.3	2.3	85
Zaire	2.5				9.2	11.7	27

Note: NA—less than 1 percent.

Summary table. U.S. imports from 67 developing countries, calendar year 1972

	Amount (millions)	Share of total U.S. imports from 67 LDC's
Total U.S. imports (67 LDC's)	$4,307.4	7.8%
Total raw material imports (67 LDC's)	910.5	10.5%
(1) Natural rubber	101.1	30.8%
(2) Wood, lumber, and cork	26.5	2.2%
(3) Metaliferous ores	124.4	12.2%
(4) Crude petroleum	518.7	12.1%
(5) Other raw materials	139.8	7.3%

EXPLANATORY NOTES

The tables were constructed from data in *General Imports, World Area by Commodity Groupings* (FY-155-72) for calendar year 1972. Raw materials are defined in the tables to include most items in Standard International Trade Classification (SITC) groupings 2 (Crude materials, inedible, except fuels) and 3 (Mineral fuels, lubricants, and related materials). Individual raw material components, in turn, were disaggregated by principal U.S. imports from the LDC's:

[In millions of dollars]

Rubber	(SITC 23)
Wood, lumber, and cork	(SITC 24)
Metaliferous ores and metal scrap	(SITC 28)
Petroleum and petroleum products	(SITC 33)
Other raw materials	[1]

[1] Total raw materials less SITC 23, 24, 28, and 33.

The CHAIRMAN. We have not had the chance to hear the statement of Secretary Fox. I apologize to you for that.

Mr. Fox. Thank you very much. I will be brief.

It is very important that U.S. business be given the opportunity to compete effectively in these developing markets, and to do that, of course, they need the tools.

We feel now that the currency relationships are reasonably correct and they no longer suffer a disadvantage of an overvalued dollar. However, the matter of the credit remains vitally important. It is, therefore, an important and I think in many respects a very timely moment that the Economic Development Credit Fund proposal comes before the Congress.

I would like to provide some economic data that I think we have not focused on previously.

There has been a considerable deterioration in the United States share of the markets of these 70-odd countries with low income. This deterioration has taken place at a time when overall these markets have been growing annually at a rate of 8 percent. In 1965, the imports by these countries from the industrialized countries amounted to $12.7 billion, of which $3.7 billion or 29 percent came from the United States. By 1971 these developing country imports from the OECD countries had grown by nearly 50 percent to $19 billion, while the United States declined to 24 percent or $4.6 billion.

I am submitting for consideration by the committee, and I would hope you would put it in the record, Mr. Chairman, a table containing data of the relative shares of the United States and of its three major competitors in the markets of the 10 most important countries among those potentially eligible for ECDF credits. These 10 countries together account for more than 50 percent of the imports of all potentially eligible countries.

The pattern that emerges in these selected countries is one of great concern to us. In most cases the U.S. market share has over the past 6 years or so declined or remained constant. Meanwhile, our major competitors have generally increased their shares.

For example, in India, the U.S. market share has declined from 37½ percent in 1966 to approximately 15½ percent in 1972.

In Turkey our share declined from 24 to 12 percent over the same period.

In Nigeria U.S. share dropped from 16 to 11 percent. Most of these losses were recorded as gains by our three major foreign competitors.

The CHAIRMAN. Was that not because our Public Law 480 sales were cut in half, because we just did not have that much to give away that year?

Mr. FOX. No: I think it is across the board——

The CHAIRMAN. In India, was that not because we just did not have as much to give away that year?

Mr. FOX. I think——

The CHAIRMAN. Is that not a prime example of what I am talking about, where you say you made a profit because you gave something away?

Mr. FOX. The decline is not entirely due to Public Law 480 but is across the board and is recorded in the manufactured goods sector in addition.

The CHAIRMAN. On that India figure you gave, how much of that decline was because you did not have that much to give away that year? They did not have a famine that year and, therefore, we did not have as much to give away that year.

Mr. FOX. I think I would like to supply it for the record and break out the Public Law 480 figures from the other.

The CHAIRMAN. When you bring a statement up here telling how we are losing trade, in actuality we did not have enough surplus to give something away that year. Or we gave more away one year than we gave away the other year, and we did not get paid for it. In any event I think it would be most helpful, if you told us that we actually lost a sale, not lost a chance to make a gift.

Mr. FOX. Right.

The CHAIRMAN. Because as far as the American taxpayer is concerned, if we lost a chance to give something away, he could not care less. If we lost a sale, that is something he might be interested in.

Mr. FOX. It is not Public Law 480. We will provide for the record the differential between 480 and other goods.

[The following information was subsequently supplied for the record:]

U.S. Government-financed and other exports to 10 selected developing country markets, 1966–72

[Millions of dollars]

Destination	1966	1967	1968	1969	1970	1971	1972
Colombia:							
U.S. exports, total	287	218	319	303	305	378	317
Public Law 480	4	11	19	13	21	19	15
AID loans and grants	45	50	78	73	82	48	12
Military grant-aid	4	5	6	9	3	2	([1])
Exports, excluding Public Law 480, AID, and MGA shipments	234	152	216	208	289	309	[2] 290
India:							
U.S. exports, total	937	956	718	518	574	650	350
Public Law 480	547	491	342	247	201	187	86
AID loans and grants	193	309	260	183	224	228	60
Military grant-aid	6	([3])	1	1	([3])	1	([1])
Exports, excluding Public Law 480, AID, and MGA shipments	191	156	115	87	149	234	[2] 204
Indonesia:							
U.S. exports, total	68	68	167	201	266	263	308
Public Law 480	25	21	90	114	136	98	113
AID loans and grants	1	6	28	21	41	31	26
Military grant-aid			2	3	8	10	([1])
Exports, excluding Public Law 480, AID, and MGA shipments	42	41	47	63	81	124	[2] 169
South Korea:							
U.S. exports, total	342	416	510	699	643	681	735
Public Law 480	42	75	99	172	130	105	205
AID loans and grants	67	101	79	45	50	60	34
Military grant-aid	137	120	134	236	167	143	([1])
Exports, excluding Public Law 480, AID, and MGA shipments	96	120	198	246	296	373	[2] 496
Morocco:							
U.S. exports, total	63	51	70	53	89	102	58
Public Law 480	31	23	48	14	20	40	29
AID loans and grants	10	2	([3])	5	7	8	3
Military grant-aid	8	2	6	2	([3])	([3])	([1])
Exports, excluding Public Law 480, AID, and MGA shipments	14	24	16	32	62	54	[2] 26
Nigeria:							
U.S. exports, total	103	64	56	72	120	168	114
Public Law 480	([3])	1	6	11	10	5	([3])
AID loans and grants			1	1	2	7	5
Military grant-aid							([1])
Exports, excluding Public Law-480, AID, and MGA shipments	103	63	49	60	117	156	100
Pakistan:							
U.S. exports, total	248	348	309	199	328	214	183
Public Law 480	48	147	99	25	90	74	63
AID loans and grants	91	138	116	134	94	76	29
Military grant-aid	7	([3])	([3])				([1])
Exports, excluding Public Law-480, AID, and MGA shipments	102	63	94	40	144	64	91

Footnotes at end of table.

U.S. Government-financed and other exports to 10 selected developing country markets, 1966–72—Continued

[Millions of dollars]

Destination	1966	1967	1968	1969	1970	1971	1972
Philippines:							
U.S. exports, total	348	430	436	374	373	340	365
Public Law 480	4	13	15	13	16	21	30
AID loans and grants			(3)	4	2	1	(3)
Military grant-aid	8	9	14	14	10	11	(1)
Exports, excluding Public Law–480, AID, and MGA shipments	336	408	407	343	345	307	2 335
Thailand:							
U.S. exports, total	147	185	197	150	155	147	172
Public Law 480		(3)	1	1	1	(3)	1
AID loans and grants	5	15	15	5	6	4	1
Military grant-aid	21	22	8				(1)
Exports, excluding P.L. 480, AID, and MGA shipments	121	148	173	144	148	143	2 170
Turkey:							
U.S. exports, total	265	252	267	299	315	307	317
Public Law 480	22	7	12	42	38	36	9
AID loans and grants	95	90	70	52	57	74	43
Military grant-aid	96	135	145	154	139	129	(1)
Exports, excluding P.L. 480, AID, and MGA shipments	52	20	40	51	81	68	2 205

[1] Not available.
[2] Includes military grant-aid shipments for which data are not available.
[3] Less than $500,000.
Source: Bureau of the Census, Agency for International Development, Department of Agriculture.

The CHAIRMAN. You would make a far more improved statement, if you talked about losing sales, not the opportunity to give away the taxpayer's resources, but sales that we lost. It makes a great deal of difference. You agree with that?

Mr. FOX. Of course. We are interested in sales of goods. Neither the Eximbank nor the Agency for International Development can help the American exporter faced with this type of competition with other countries providing competitively more concessional finance than we are able to do. The Eximbank credits are useful in the more highly developing countries but in general, less so with respect to the lower income countries.

In the case of AID in the past, the policy has generally not been to finance specific projects when such financing was available from other sources, frequently meaning competitor countries interested in the export potential of the transactions. Also, the AID method of programing did not allow sufficient flexibility for U.S. exporters to meet particular project opportunities as they arose.

We believe that the Export Development Credit facility can go a long way toward providing the necessary flexibility to permit U.S. business firms to compete on competitive terms for projects as they become known.

We believe that if the Export Development Credit Fund is established this would go a long way toward placing American business in a competitive position with German, French, and United Kingdom firms in dealing in these markets, and for that reason we urge the committee give consideration to it.

We think over the longer term the economies of these countries will improve. They should be in a better position to buy goods from us on harder terms and, of course, it would be the intention of all of us in the executive branch having responsibility for participating in the administration of this fund to require as hard terms as the conditions would warrant.

[The prepared statement of Mr. Fox follows:]

PREPARED STATEMENT OF LAWRENCE A. FOX, DEPUTY ASSISTANT SECRETARY OF COMMERCE

I appreciate the Committee's invitation to testify on the proposal for the establishment of the United States Export Development Credit Fund, as incorporated in S. 2335. I am pleased to reiterate this Administration's support for the proposed Fund and to give our views on some of the questions that have been raised relating to it.

Since the expansion of U.S. exports is a major concern of the Department of Commerce, we are particularly interested in that objective of the Fund. The Commerce Department's Bureau of International Commerce is responsible for developing and operating a variety of programs designed to assist American firms in increasing their sales in foreign markets, and we participate in interagency policy formulation in the trade area with a view to insuring that U.S. export expansion objectives are taken into account.

In our work in this area, it has become increasingly apparent that export financing is an important element of international commercial competition. Such competition is especially acute in developing country markets. The proposed Export Development Credit Fund, I believe, could help materially in strengthening the competitiveness of U.S. products in these markets.

The EDCF proposal is particularly timely since we have seen the U.S. share of many of these markets decline in recent years. To a great extent, the erosion of the U.S. market position has been a consequence of price differences that have been corrected by the recent dollar devaluation. But another major factor has been our inability to offer financing that is competitive with that made available by our major competitors in these markets. We believe that the proposed Export Development Credit Fund would go far toward restoring U.S. export financing parity.

The deterioration of the U.S. share in the markets of the nearly 70 developing countries in which EDCF credits might be extended is accentuated by the fact that these markets have been growing by about 8% a year. In 1965, their imports from OECD countries amounted to $12.7 billion, of which $3.7 billion or 29% came from the U.S. By 1971, their imports from OECD countries had grown by nearly 50%, to $19 billion, while the U.S. share declined to 24% or $4.6 billion. I am submitting to the Committee for its consideration a table containing data on the relative shares of the United States and of its three major competitors in the markets of the 10 most important countries among those potentially eligible for EDCF credits. These 10 together account for more than 50 percent of the imports of all potentially eligible countries.

The pattern that emerges in these selected countries shows the basis for our concern. In most cases, the U.S. market share has, over the past six years or so, declined or remained constant. Meanwhile, our major competitors have generally increased their shares. For example, in India, the U.S. market share has declined from 37.5% in 1966 to approximately 15.5% in 1972. In Turkey, our share declined from 24% to 12% over the same period. In Nigeria, the U.S. share dropped from 16% to 11%. Most of these U.S. losses were recorded as gains by our major competitors.

In dealing with customers in many of the poorer developing countries, American businessmen have found that if they cannot meet the buyer's demands for softer credit terms, they simply will not get the sale. Further, they usually find that their British, French, Japanese or German competitors can meet the buyer's requirements and will generally be awarded the contract.

Neither the Export-Import Bank nor the Agency for International Development can help the American exporter faced with this type of competition. Eximbank credits carry harder, commercial type terms—with maturities rarely going beyond 10 years and interest rates at a standard 6 percent. AID generally follows a policy under which it will not finance projects for which alternative financing on reasonable terms is available. Also, AID normally pre-programs its lending and does not have the flexibility that would allow it to support U.S. exporters on case-by-case basis.

Thus, by offering terms more liberal and arrangements more flexible than those available from the United States, other countries can and do effectively eliminate U.S. suppliers from competition for important export contracts. While it may be called "economic assistance" and have a development impact, such financing, used in the manner I have described, constitutes a wedge leading to the establishment of a long-term commercial position for the lending country. With the help of a soft loan, a supplier of telecommunications equipment, for example, may be able to win a contract to build a ground satellite station. He is then in a position to win follow-on orders for equipment by building on contacts with the buyer's technical personnel and by stressing the complementarity of other items in his line with the station's equipment. Often later sales can be made with financing on harder terms than those carried by the credit that won the toe-hold.

The Department of Commerce believes that establishment of the Export Development Credit Fund would represent an important step toward giving American exporters the same kind of advantage their foreign counterparts now enjoy. The limits of 30 years maturity and 3% interest provided in the proposed legislation would provide ample scope for meeting competitive situations requiring financing terms more liberal than normally available from U.S. commercial sources.

In view of the export expansion objectives of the Fund, the Secretary of Commerce might appropriately be named to Chair the interagency committee which would be set up under S. 2335. For export purposes, it would also be necessary that the Fund be administered flexibly, so that it could respond effectively and quickly to export opportunities identified by U.S. firms, businessmen in the developing countries and host governments.

Also, as regards administration of the proposed Fund, we believe it should provide support for private buyers in the developing countries both directly and through intermediate credit facilities and government agencies.

I will be happy to try to answer any questions you may have with respect to my testimony.

MARKET SHARES IN 10 SELECTED DEVELOPING COUNTRY MARKETS

	1966	1967	1968	1969	1970	1971	1972
Colombia:							
Total imports (millions)	$674	$497	$638	$684	$909	[1] $677	([2])
Market shares (percent):							
United States	48.0	45.3	50.9	45.8	47.8	43.7	([2])
3 major competitors	19.7	24.9	17.6	19.0	19.3	21.1	([2])
Germany	11.1	10.3	9.2	9.6	8.6	10.2	([2])
Japan	3.3	7.9	3.4	5.0	6.9	6.4	([2])
United Kingdom	5.3	6.7	5.0	4.4	3.8	4.5	([2])
India:							
Total imports (millions)	$2,750	$2,691	$2,507	$2,116	$2,095	$2,409	[1] $1,555
Market shares (percent):							
United States	37.5	38.2	34.9	29.0	29.3	23.3	15.6
3 major competitors	21.7	20.9	20.8	16.8	17.8	26.7	29.2
United Kingdom	8.5	8.1	7.3	7.0	6.7	11.6	12.8
Japan	5.6	5.1	6.6	4.3	4.6	8.4	8.3
Germany	7.6	7.7	6.9	5.5	6.5	6.7	8.1
Indonesia:							
Total imports (millions)	$526	$649	$716	$781	$893	$1,174	[1] $1,042
Market shares (percent):							
United States	9.3	8.0	17.2	19.8	17.7	15.1	15.3
3 major competitors	36.3	43.1	36.7	42.3	44.4	49.2	49.8
Japan	26.9	28.0	22.2	28.9	29.4	33.2	35.3
Germany	9.1	12.4	9.8	8.3	9.5	9.8	8.8
Singapore	.3	2.7	4.7	5.1	5.5	6.2	5.7
Korea, South:							
Total imports (millions)	$716	$996	$1,463	$1,824	$1,984	$2,394	$2,522
Market shares (percent):							
United States	35.5	30.6	30.9	29.1	29.6	28.3	25.7
3 major competitors	45.5	49.4	48.8	47.6	46.8	45.9	45.5
Japan	41.1	44.5	42.7	41.3	40.8	39.8	40.9
Germany	3.1	3.1	5.1	4.3	3.4	3.1	2.7
France	1.3	1.8	1.0	2.0	2.6	3.0	1.9
Morocco:							
Total imports (millions)	$480	$518	$522	$559	$686	$698	[1] $697
Market shares (percent):							
United States	11.8	10.2	13.6	7.6	11.3	14.2	8.0
3 major competitors	48.5	50.0	44.2	45.9	45.2	44.3	44.2
France	38.9	37.4	31.5	30.6	31.0	30.7	31.0
Germany	6.3	9.0	7.7	9.9	8.8	7.6	7.6
Italy	3.3	3.6	5.0	5.4	5.4	6.0	5.6
Nigeria:							
Total imports (millions)	$717	$627	$540	$696	$1,059	$540	[1] $261
Market shares (percent):							
United States	16.2	12.5	11.6	11.8	14.5	14.0	10.8
3 major competitors	46.1	48.6	45.8	49.1	50.0	52.5	54.4
United Kingdom	29.8	28.9	31.1	34.7	30.7	31.9	31.5
Germany	10.7	11.3	11.0	10.6	13.0	12.2	13.4
Japan	5.6	8.4	3.7	3.8	6.3	8.4	9.5
Pakistan:							
Total imports (millions)	$899	$1,101	$1,049	$1,007	$1,002	$916	[3] $666
Market shares (percent):							
United States	29.3	32.8	28.6	24.4	28.4	24.8	23.6
3 major competitors	34.2	29.9	30.2	35.8	32.3	30.6	24.5
Germany	10.3	8.5	8.9	12.1	10.5	8.9	8.8
United Kingdom	15.1	12.8	11.6	12.6	10.9	11.2	7.9
Japan	8.8	8.6	10.4	11.1	10.9	10.5	7.8
Philippines:							
Total imports (millions)	$957	$1,172	$1,458	$1,261	$1,443	$1,330	[1] $1,076
Market shares (percent):							
United States	34.1	36.6	34.1	30.6	31.1	26.9	25.5
3 major competitors	38.0	34.9	39.1	41.0	41.2	42.2	37.7
Japan	28.7	26.2	28.8	29.4	31.4	30.5	29.0
Germany	5.1	4.8	6.0	7.6	5.7	6.4	5.0
United Kingdom	4.2	3.9	4.3	4.2	4.1	5.3	3.7
Thailand:							
Total imports (millions)	$896	$1,059	$1,142	$1,248	$1,299	$1,290	[1] $1,281
Market shares (percent):							
United States	16.3	16.7	19.0	15.1	14.8	14.2	16.7
3 major competitors	51.0	52.3	49.8	53.5	53.4	53.0	48.7
Japan	35.3	36.1	34.3	36.6	37.4	37.6	36.3
Germany	7.7	8.8	8.5	9.1	8.5	7.7	7.2
United Kingdom	8.0	7.4	7.0	7.8	7.5	7.7	5.2
Turkey:							
Total imports (millions)	$724	$690	$770	$756	$889	$1,088	$1,508
Market shares (percent):							
United States	24.0	17.9	15.8	16.9	19.4	11.8	11.6
3 major competitors	34.2	39.7	42.1	40.5	36.3	38.7	40.3
Germany	15.7	19.5	20.4	18.5	18.5	17.9	18.4
United Kingdom	11.0	12.9	12.9	12.2	9.9	10.1	11.0
Italy	7.5	7.3	8.8	9.8	7.9	10.7	10.9

[1] Partial year data.
[2] Not available.
[3] Full year data, but does not include trade of former East Pakistan.

Note: Data compiled by the Department of Commerce from various sources.

The CHAIRMAN. The Senate is voting. That is one reason both Senators had to leave. I simply elected to miss this vote so we can continue this hearing.

Senator Roth.

Senator ROTH. I would like to go back to the question of the principal purpose or purposes of this legislation. I still remain somewhat confused. I listened to the testimony this morning and if I understood correctly it was a viewpoint of the junior Senator of Minnesota that the primary purpose was to promote sale of U.S. goods, at least that was his answer in the specific illustration I proposed.

Subsequently, the representatives of the Foreign Affairs Committee in the House seemed to feel that the primary purpose was economic development of the underdeveloped countries.

Mr. Hennessey said in his testimony that he sees two objectives. If that is the case, if there are two objectives, are they not somewhat conflicting in terms, if you are going to promote the development of underdeveloped countries by building dams, or I notice one of the things that was mentioned, helping to build labor intensive industries that are going to promote sales of U.S. goods.

Mr. HENNESSEY. Well, it does not promote, Senator, the sales of U.S. goods, then the Fund would not finance it, and I think again, we can argue whether the glass is half full or half empty. I do not think they are mutually exclusive objectives. I think the advantage of this Fund is it is tailored so it will actually accomplish those two purposes.

Senator ROTH. What are the criteria on which you make the decision?

Mr. HENNESSEY. Let me take a case in point. In the case of strict development loans, you would look at it certainly from a different way. You might do it anyway whether it promoted U.S. exports or not. In this case what you are saying, is there going to be U.S. goods or service sold by U.S. citizens or U.S. companies involved with this particular financing done by the Fund. I think it is different from, for example, the way they would approach the Development Loan Fund. The Development Loan Fund's main criteria is what is the economic impact going to be on the host economy—cost benefit ratio? In this way the Fund is going to say first, are we going to sell the turbine, are we going to sell the cement, tractors, and, two, what impact is it going to have, can they pay it back? Are we going to get the sale, do we have to make it easier, we are going to sell it at maybe 4 percent interest instead of 5 percent to be able to compete with Japan. Can they pay it back in 20 years or do we have to give them 25?

Senator ROTH. Again, let me ask you this. In making a specific decision, what is the principal purpose? Is it to promote development or to promote the sales of goods? If you are talking about 20 percent, 10 percent, 80 percent, maybe discretion is necessary. But I am somewhat concerned about the lack of guidelines in the legislation, particularly in light of the criticism that has been made in the past of Congress failure to specify clear policy guidelines.

Mr. CASEY. Could I try that, Senator? As I understand the way this bill would operate, the way we intend to have it operate, the credit would not be made available unless it satisfied both purposes. It would have to involve an American export and it would have to achieve a

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developmental purpose. So there would not be any conflict. The development requirements of these countries are so great that the amount of funds, the amount of credit we are talking about here, would cover only the American export products that might contribute to those development requirements, and if the credit or the project or the piece of equipment to be financed was not an American export and also did not make a developmental contribution, it would not qualify.

If I could just take that a little more broadly. What we have here is a situation where the United States has been in the development activity for a quarter of a century. We have encouraged other nations to join and all the other advanced nations accept some kind of developmental obligation. We have reduced our development commitment over the last 7 or 8 years during the period of time in which other countries have doubled their development assistance. What we have here is the adaptation of a continuation of our development program to a new set of circumstances, circumstances in which we feel the need for concessional financing to increase our exports and our trade revenue, particularly in these poorer countries. So it is intended to serve a double purpose. What you have here then is a reflow of development loan funds, which are being used to generate a credit fund. This fund will carry on our developmental commitments on a basis which builds our export trade without damaging our balance of payments position in the first instance, and over the long term we believe it will build our market position which will promote our long-term trade efforts. That is why I think this is a good program, because it does effectively, not in a contradictory manner, achieve these multiple objectives.

Senator ROTH. I wonder, assuming your position is the correct one, if we should not write the legislation with more precision making those requirements mandatory, because, as I indicated, the witnesses this morning took an opposite point of view, if I correctly understood them.

Mr. CASEY. I think that is a matter within your discretion. I do not think we would like to see a lot of detailed rules written into the legislation but a combination of these objectives should be made as explicit as need be.

On that score, Senator, there are two points. You read one of them this morning on page 20 of the bill, line 19; it is confined to the sale of goods and services which are of developmental character. That is one place where I think you have to meet both requirements, and then also I draw your attention on page 19, line 19; the general authority refers to establishing long-range growing export markets while promoting development of such countries. So it seems to me you have to satisfy yourself that you are financing a particular American export, that you are building a long term export market, and you are also contributing to the development of the country. If you are not satisfying those objectives I do not think the transaction would qualify.

Senator ROTH. I am disturbed. It seems to me this legislation could be administered quite differently depending upon who is in charge of its administration. It seems to me Congress has a greater responsibility in that.

One further question. I know the Chairman wants to move on. With respect to the advisory committee, now, last year, the Congress set up statutorily the Council of International Economic Policy. Certainly, this legislation will have a great impact, it seems to me, or should have an impact in that area. We are setting up another advisory committee and I will be very honest, it seems very often even the advisory committees do not amount to much, the people on them do not have time to get involved in much detail.

Why would not this be an appropriate area for the Council of International Economic Policy to play a role or would it play a role?

Mr. CASEY. I think the basic position of the administration on this legislation has been formulated within the context of the Council of International Economic Policy. As I understand it, what you have here, what this bill proposes, is an advisory committee charged with a specific function, a function of providing the detailed policy guidelines and seeing that they are followed. It is more of an operational oversight committee rather than an advisory committee. Maybe it is called advisory committee. But they have a specific function here and it is intended to bring together the people who have an interest in these dual functions, export promotion and development.

Senator ROTH. I spent several months last year on the study of the many advisory committees that have been adopted in this Government and I must have very jaundiced eyes in trying to create a new one. We should use the ones that exist.

Mr. CASEY. I think there are many species of advisory committees, many different varieties.

Senator ROTH. My time is up. Thank you, gentlemen.

Senator HANSEN. Mr. Chairman, I said earlier I would not ask any questions but I do want to ask one, and I would invite whoever wishes to respond. If I read the sign correctly, there is a growing reluctance on the part of Congress to engage in foreign aid with countries around the world. Will not this plan enable the United States to do through backdoor financing that which more and more seems not to be approved of by the Congress in direct foreign aid?

Mr. CASEY. Well, Senator, I would respond to that by saying, first, it seems to me that we have suggested that this legislation be modified so it is not backdoor financing, so that the cost goes through the budget process and that the credits go through the appropriations process; thus there is strict congressional control.

Now, as I said in response to some questions by Senator Roth while you were away and voting, this is a method of adapting the repayments of previous aid programs and utilizing what amounts to a substantial credit fund designed to permit American exporters to compete effectively in the poor country markets with other countries which have similar concessional credit programs—Japanese, Canadians, Germans, French. It will constitute aid only to a limited extent in providing concessional financing which has the further purpose of promoting American goods and building markets for American goods over the long term. So I think this is adapting the development commitment into something which carries that commitment forward while at the same time promoting the export of American goods and creating jobs in that manner and building markets for the future.

The CHAIRMAN. Thank you very much, gentlemen.

Thus far every witness and, I believe, the entire panel scheduled to testify, testified for the bill. That does not give us much indication as to why the House, for example, in its wisdom rejected a similar proposal. Therefore, I have requested Congressman Otto Passman to testify on this matter. The Congressman is here. I would like to ask him to take the witness stand and explain his views on this.

Perhaps you can explain to us why the House did not agree to this, when a similar proposal was made on the House side. So far we have had some explanations from those who were for it as to why the House did not buy it. But there have been no explanation why the House did not buy it by some of those who voted against it. I believe you opposed this in the House and did not agree to it?

STATEMENT OF HON. OTTO E. PASSMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. PASSMAN. That is right. Senator Long, members of the committee, my conscience brings me before this distinguished committee this afteroon. I am a bit frightened for fear that I may lack the persuasive power or intellectual capacity to get through the actual facts as they are but if I should succeed, this bill will die in this committee room.

With your permission, I shall cover certain statistics which I slipped off the floor of the House a few minutes ago and typed myself because we have been very busy on the House side and I did not want to miss an important vote.

Thank you, Mr. Chairman and members of the committee, for affording me the opportunity to testify before your committee in opposition to the new proposed export development credit fund.

With your permission, I should like to refresh your memory on some rather frightening but factual statistics and to reflect the unbelievable extent that the foreign aid program has been fragmentized and so completely scattered throughout the budget that even the most astute Members of the Congress have difficulty in putting all of the pieces together.

The new proposed fund only had its birth very recently and not in the administration as such, because the funds requested were not contained or mentioned in the budget. The proposition was so prematurely put together that even the Foreign Affairs Committee of the House had not succeeded in recommending an agency to administer the fund. It was only very recently that the administration embraced this new program which, as I just said, was not requested in the budget.

When the subject matter was presented to the House of Representatives calling for a new foreign aid spigot amounting to $5 billion, according to the House version, it so shocked the membership that they were increasing foreign aid when we were supposed to be cutting the program down, the House adopted an amendment killing the proposed program by a margin of 103 votes.

The foreign aid program is already in very serious trouble. With all of the influence that the leadership of the House could muster, the foreign aid authorizing bill was adopted just before the recess by only five votes.

Now, Mr. Chairman, to some pertinent and frightening statistics. Contrary to the belief of some, the foreign aid requests are growing larger every year. Since it has been my privilege to chair the Appropriations Committee handling foreign aid, I felt that it was my responsibility to research the budget and put together the total requests for foreign aid and assistance for the current fiscal year.

Mr. Chairman, it has reached an all-time high. This year the total requests for all spigots of foreign aid and assistance amount to $18,003,191,000.

In addition to this terrific sum, there is a pipeline of undisbursed funds corresponding to the $18 billion in the new requests amounting to $26,800 million.

So, not including this new spigot of foreign aid, if the Congress should approve the requests in the budget then there would be a pipeline of old and new funds of $44 billion.

I respectfully bring to the attention of the committee that both the Congress and the administration have lost control of the foreign aid program because it has been so fragmentized and it is so overlapping in foreign aid, distributors are getting in each other's way in many countries of the world.

The foreign aid program as such started under President Truman's administration. At that time we had a public debt of $159 billion. Today the public debt is $461 billion, an increase since the inception of the foreign aid program of $302 billion.

How many of us realize that $253 billion of this increase represents foreign aid? In other words, all but $49 billion of the increase in the public debt has occurred since the inception of the foreign aid program. This aid has been distributed in 127 nations of the world.

Foreign aid is an uncontrollable program. There are 77,000 individuals drawing monthly checks out of all spigots of the foreign aid program.

You may refer to the fiscal year 1973 hearings on page 74, part 2, before the House Appropriations Committee for verification.

All of these individuals are indeed ambassadors for more foreign aid. In addition thereto, we find many former AID employees, many high-ranking former Federal employees including many admirals and generals are now connected with some part of foreign aid appearing almost daily in my office lobbying me to support additional amounts for foreign aid. And, of course, these admirals and generals and former employees of AID and other departments of Government do not work without compensation. They are promoters of more foreign aid.

So great has been the outpouring of our wealth that our Federal public debt now exceeds by $133 billion the total public debt of all of the other nations of the world.

Mr. Chairman, I think it would interest the members of the committee to learn that there are already 15 loan programs in existence under the various aid spigots, covering almost every imaginable type of loan, including loans running for 50 years with no interest. Our appetite for more foreign aid has been so great for the so-called developing countries until under the previous administration our Government established a policy of going into many of these developing countries and where they found a surplus in the foreign exchange accounts, they borrowed dollars from these developing nations while at the same time they were pouring more foreign aid in the back door. One nation in particular was Thailand. They had a $1 billion surplus in their foreign exchange account and there was a big argument in diplomatic circles because we wanted to borrow $250 million. Thailand agreed to make us a loan of $100 million at 6 percent repayable in 4½ years. That loan fell due 60 days ago. I do not know if the loan has been repaid.

Let me mention the rate at which multilateral organizations are growing and the unbelievable manner in which they are operating.

Last year, for the three main multilateral organizations, namely, the International Development Association, the Inter-American Development Bank, and the Asian Development Bank, the Congress appropriated funds amounting to $738 million, which was an all-time high. However, this year in the budget they are requesting $1,920 million, which is so fantastic it is hard to believe.

In addition to this tremendous increase, the administration will request Congress at an early date to pass legislation that would increase the funds so these international organizations by as much as 50 percent.

For instance, with respect to IDA, they are going to request an increased authorization raising the U.S. contribution by $1½ billion to be allocated over 3 or 4 years.

Can we afford to create a new foreign aid program when there is in reality more foreign aid agencies than a single Member of Congress can understand and so many of them are concessionary.

This money is going to have to be borrowed. A quick look at the record will show by our foreign aid extravagances, the dollar, Mr. Chairman, has lost 64 percent of its purchasing power since you were sworn in as a Member of the Senate. We also should not forget there are already $80 billion in U.S. dollars floating around the world that people do not want. Some of the wealthiest nations in the world, such as Kuwait and Japan, are not spending their surplus foreign exchange for what they buy from the United States, but rather they are borrowing from the United States knowing very well if we pursue the same policy in the future as we have in the past with regard to our economy that they will be able to repay these loans with cheap dollars. Mr. Chairman, a few years ago, Japan needed to buy some sophisticated aircraft, commercial aircraft. They had a $16 billion surplus in the foreign exchange account. Did they spend that surplus for the aircraft? No. They went to the Eximbank and borrowed the money and from that time until this afternoon the dollar has depreciated by 36 percent against the yen in value.

Let us look at Kuwait. They have billions of dollars they do not know what to do with. They are looking for places to invest that money. They also borrowed from the Ex-Im Bank. Evidently they said the United States will continue mismanaging its fiscal affairs so let us borrow the money, and at some subsequent date we will pay it back at 50 percent on the dollar. Also, we have been very lax with the foreign-aid program with regard to those multilateral institutions. Let us look at the U.N. Development Fund. Do you know who is dipping very heavily into the program? Kuwait! They have had projects funded out of the UNDP. Japan, one of the wealthiest nations in the world, has slipped into the UNDP program and had one of their projects funded for $738,000. All of this can be verified, Mr. Chairman.

All I want to do is do a credible job. We are borrowing this money, make no mistake about it. If this new program would enable us to sell our commodities and realize cash, that is one thing, but the facts are we are going to borrow the money at from 8 to 9 percent and we are going to make it available at 3 percent, and, no doubt, in subsequent years charge the money off. That has actually been our experience.

Mr. Chairman, may I summarize very briefly? So many of these nations who are former recipients of our aid are today insulting us. Let us take Libya. It seems to me that was the last one who kicked us in the pants. They had a substantial aid program. I think $220 million is what we gave that little country, and this week they said if we sell you oil we will not accept dollars in payment, which means, of course, they want gold.

Now, as I said earlier, we have 15 different lending agencies by which we can finance these programs. Let us take, if we may, just one, that is the Development Loan Fund under the AID agency.

Do you realize that under this program the terms are 40 years with a 40-year grace period? They have, every year, large unexpended funds in this particular account because the demand is not there. They have so many different spigots by which these programs can be financed, until they wind up with unobligated funds. We also find, in many instances, that many of these programs are used to finance public works programs and are funded sometimes from 8 to 11 years in advance of completion date. You do not do that in America.

With your permission, I shall place in the record the table showing the total new requests at a later point in the record. So many people confuse the total aid program with the abbreviation of the Agency for International Development. You see in the press where the President requested $2½ billion for AID and they say, gee, it is way down. But that is only one program. I can assure you the aid program is going up by $4.5 billion from 1971 to 1973. AID is an abbreviation for the Agency for International Development. It does not mean that is your total amount of aid, because there are 27 different spigots of the foreign-aid program by which money can be drawn from.

If I may make this one observation with regard to the International Development Association. This is one of your international organizations. Now, you have different members of IDA. India is a member and for every dollar they put in they draw out 40. Every dollar that Pakistan puts in they draw out 52. Do you realize we put just about all of the money in IDA actually, because the donors became the recipients? Now, two former colonies of the United Kingdom get 60 percent of all of the money appropriated to IDA.

I can assure you I do not have all of the answers but I know if you kill this program and approve the other requests there will be $44 billion available in the pipeline under 27 spigots and many of them will do the identical thing you are considering in this legislation.

Thank you, Mr. Chairman, for giving me an opportunity to appear before the committee. As I stated earlier, I do not have all of the answers but it was a matter of conscience with me believing I understood something about this bill.

Thank you very much.

The CHAIRMAN. Congressman Passman, would it be fair to suggest that if they want this additional bill, which you defeated over there, that they be requested to subtract the $5 billion or the $3 billion which it is now from the $44 billion that they have on hand and in the pipeline. They could just reach over to some of the 27 other spigots that they have and take it out of some of those. Is that what you would like for them to do?

Mr. PASSMAN. I desire to be abundantly fair. I am glad to see some former high AID officials in the room, I hope they will try to rebut what I have said because I will state the facts here and ask for rebuttal because they know I am quoting the facts correctly. This is what grows up in the agencies. They obligate funds for projects and subsequently deobligate these funds and these funds then become available for new projects. But the so-called $26,800 million on hand, they say that money has been obligated, of course it has, but they can draw from that to carry on other projects by deobligating funds. The $18,003,191,000 request for additional funds, that is to create new projects. All in all, if you kill this program there is still in excess of $44 billion available under 27 different spigots and 15 different places where you can go borrow money.

The CHAIRMAN. Congressman Passman, I think the record might as well reflect something. I am satisfied that it is true. You, at least, might know whether it is true or not.

Some years ago when Dwight Eisenhower was President, he invited a group to come down to the White House and talk about foreign aid. I was not there, but Senator Richard Russell told me he was there on that occasion. After he got through making the presentation about this matter, I guess in the Oval Room, you said well, Mr. President, they have not told you everything about this program. There are so many billions, so many hundreds of billions of dollars, down to the last penny according to the last report available. And the President asked John Foster Dulles, Secretary of State. And Dulles asked the man behind him. And that fellow asked the man behind him, who had a very big book. And they passed the answer on up. Yes, that is true, Mr. President. You have all of this money, so many billions, so many thousands down to so many cents, as of June 30 in this program over here. They have not told you that they did not even spend that money over there. Was that true, Foster? And Foster asked the man be-behind him. And he in turned asked the man behind him. And they passed the answer up. They went through the process like that for half a dozen questions. And then you said, Mr. President, furthermore, they do not need to pass these facts back. I can give you the facts. You have this much here and that much here and this much for this, and for that, and the other thing. I think by anybody's standards it would be a low priority item. And you gave a few of the facts. Someone in the room referred to you as the human calculator. Furthermore, you said that if these figures were not correct you would resign from the Congress. So when the meeting broke up, I was told by Senator Russell, President Eisenhower asked one of his assistants who the fellow was who had all of the facts. The fellow said his name is Passman. He is Chairman of a subcommittee over on the House side. The President said be sure the next time we discuss this subject he is not invited back.

Mr. PASSMAN. The greatest asset I possess is knowing my limitation. You can take a monkey and train him to do certain things if you expose him to the subject often enough. I have been chairman of this committee for 19 years and I want to extend a cordial invitation to all former Cabinet members, all former AID people, and all people connected with some organization drawing from foreign aid, and let me buy them a lunch and bring them before the committee for a session to discuss these programs. I extend an invitation to them, if they are right I want to know it, and if I am right I want them to admit it.

I am not a scholar and I do not have all of the answers, but it is frightening to think that we have given away $250 billion of our resources and some of the recipients, even developing countries, are now kicking us in the pants. What have we gotten for it? Nothing. But, if you insist on having the program, Mr. Chairman, how about using the Development Loan Fund? Why create another foreign aid spigot? They cannot even spend all of the money in that account.

I could have won a new automobile this afternoon, I would not take advantage of the man because he is a very prominent attorney and a member of the House. I mentioned to him about the multilateral organizations and the maintenance of value payments. What kind of mess have we gotten ourselves into?

Let us take this year for the Inter-American Development Bank. They are asking for $693 million in new funds. Then, they are asking for an additional $510 million for the Inter-American Development Bank in the MOV category. That is the maintenance of value payments. We have to put in an additional $510 to bring our original contributions in dollars up in value so they will buy the same things now as they would at the time we gave it to them.

When you go through the international organizations you find that this year you are going to have to appropriate $2,250 million and give it to the multilateral organizations so those dollars that we previously gave them will buy what they would buy at the time we gave it to them. Maybe we are both crazy but these statistics are accurate.

The CHAIRMAN. You mean we owe $2 billion on what we thought we gave away?

Mr. PASSMAN. We did give it away. There is no provision for any of it to come back but we have to give them $2,250 million more so that the dollars we previously gave them will maintain their value. It is unbelievable we have let such a thing go on.

I will answer any questions you may want to ask.

The CHAIRMAN. I am surprised every day. I did not realize we owe money on what we thought we gave away. I thought when you gave something away, that was the end of it. The other guy was that much richer. I am dismayed to find ——

Mr. PASSMAN. Under the bilateral program, the payments come back into the U.S. Treasury and we can use it to retire a debt or do something for our own people. Under the multilateral programs, it goes out and never comes back.

Senator HANSEN. I have no questions, Mr. Chairman. Thank you very much.

Mr. PASSMAN. Gentlemen. I do not know whether my prayers are listened to but I am going to pray that you kill this fund.

Senator BYRD. May I say, first, Congressman Passman, I think that your testimony is tremendously interesting and I want to as a citizen of our country, commend you for the work that you have done in this field over the past 19 years. I try to keep up with some, and I get some of your reports, I would be pleased if you would put me on the list to get all of them. I think you have done a great job in this field and let me ask you about a couple of figures.

I have been figuring that the total foreign aid cost has been in round figures, both current fiscal year, the one we are working on now, and also the one just passed, at $9.5 billion, to use the round figures. You mentioned $18 billion.

Mr. PASSMAN. That is right. May I have the privilege of reading them into the record? I delight in going over these programs because they are fantastic.

I will give you the sheet.

Senator BYRD. This is what was being sought?

Mr. PASSMAN. Foreign aid requests this year.

Senator BYRD. Requests for this year?

Mr. PASSMAN. That is correct. Here is the list.

Mr. PASSMAN [reading].

New requests for authorization and/or appropriation for foreign aid and assistance contained in the fiscal year 1974 budget document

1. Foreign Assistance Act (includes military assistance)	$2, 428, 850, 000
2. Overseas Private Investment Corp	72, 500, 000
3. Foreign military credit sales	525, 000, 000
4. Inter-American Development Bank	693, 380, 000
5. International Development Association	320, 000, 000
6. Asian Development Bank	100, 000, 000
7. Asian Development Bank (proposed)	108, 571, 000
8. Asian Development Bank (maintenance of value)	24, 000, 000
9. International Development Association (maintenance of value)	161, 000, 000
10. Inter-American Development Bank (maintenance of value)	510, 000, 000
11. International Bank for Reconstruction and Development (maintenance of value)	774, 000, 000
12. International Monetary Fund (maintenance of value)	756, 000, 000
13. Maintenance of value adjustment	25, 000, 000
Subtotal, maintenance of value (budget amendment)	(2, 250, 000, 000)
14. Receipts and recoveries from previous programs	394, 464, 000
15. Military assistance (in Defense budget)	1, 930, 800, 000
16. International Military Headquarters	85, 800, 000
17. MAAG's, missions and milgroups	168, 100, 000
18. Permanent military construction—foreign nations	190, 700, 000
19. Export-Import Bank, long-term credits	3, 850, 000, 000
20. Export-Import Bank, regular operations	2, 200, 000, 000
21. Export-Import Bank, short-term operations	1, 600, 000, 000
22. Peace Corps	77, 001, 000
23. Migrants and refugees	8, 800, 000
24. Public Law 480 (agricultural commodities)	653, 638, 000
25. Contributions to international organizations	199, 787, 000
26. Education (foreign and other students)	59, 800, 000
27. Trust Territories of the Pacific	56, 000, 000
28. Latin America Highway (Darien Gap)	30, 000, 000
Total	18, 003, 101, 000

NOTE:—Total appropriation requests for maintenance of value amount to $2,250,000,000.

Senator BYRD. I think I catch where we do not have the same, the reason we do not have the same figure. I did not know whether to include the fund for the Export-Import Bank.

Mr. PASSMAN. I will tell you why, Senator, they are included. I defend the Export-Import Bank as being one of our profitable, good agencies but you have three spigots to the Eximbank. They can go up to 25 years on industrial equipment, then again, you have one section of Eximbank where they may make loans on concessional terms. By that the credit criteria do not have to be up to standard. I thought I should make it all inclusive and put it in because the purpose of the Export-Import Bank is to finance U.S. commodities abroad, but this is only one out of 15 loan accounts. You can move on to some of the others. You have the Overseas Private Investment Corporation. They can make loans and, of course, you get into your multilateral organizations, like the Inter-American Development Bank. The Eximbank, they have one section whereby you can lower the credit criteria and, all in all, it is assistance. I am not criticizing the Bank but it is a source of funds to finance U.S. commodities.

Senator BYRD. Well, as I recollect from you reading that list very hurriedly, there must be $7 or $8 billi... in new funds.

Mr. PASSMAN. I am speaking of the limitation. I would like to leave you this sheet because some of the experts who are going to testify after I leave, who were previously with the AID agency, might try to dispute these figures but they have been certified. As you may note, I said foreign aid and assistance. All of this money is available to finance commodities abroad or to do anything else that you do with aid dollars.

Senator BYRD. Does any of that Exim money come back to the Treasury?

Mr. PASSMAN. Yes; it is a good agency, we have a substantial profit in it. I am consistent. I support the Eximbank.

Senator BYRD. So do I.

Mr. PASSMAN. It is a good agency, certainly it is.

Senator BYRD. And I am not clear in my own mind as to whether the Eximbank funds should be included as a part of——

Mr. PASSMAN. I would not know why not. You make it available to finance exports. It is strictly for financing exports. The bill before you is to finance U.S. exports. I expect you heard that all day long, we need this money so we can finance exports. Lots and lots of different countries are receiving loans out of the Eximbank. On some of these loans, it is very doubtful we will get any money back.

The CHAIRMAN. I suspect that I have found on this list you gave us, part of the explanation of what this whole thing is all about. Somewhere on the thing, I see that there is a list of receipts and recovery. This really is good news to me. Item 14. It really is good news to me. Receipts and recovery from previous programs, $394 million. That is what this bill is to take care of, I suppose. We are about to get something back for $250 billion.

Mr. PASSMAN. If you get it back, they will use it in the program. They want to take everything that has been sent out in the way of foreign aid and they say, "Do not let that money come back to the Treasury, give it to us and let us give it away for you again." It is that simple.

The CHAIRMAN. I have suspected for years that all of these soft loans—50 years with no interest or 1 percent—have been peddled out as loans because the Congress refuses to give the money away any longer. We are going to have to make the American Congress think that this money might come back into the United States some day. Do not worry, it will never come back. You will never really have to pay it back. That being the case, I suppose that when it comes time for some of these things actually to come back, the stage is set to come in and let us make sure that nothing ever does come back. So we would like to have your authority, if anything does come back to the Treasury, to give it back.

Mr. PASSMAN. Would you tolerate a little decent levity? I have been Chairman of this committee for 19 years and you have some wonderful people who work with the AID with big titles but by their actual background they could not qualify to be a member of a country bank capitalized at $50,000, yet they become overnight international bankers. You understand there has never been but two bankers appear before my committee in 19 years, yet they sit up there and they have the right to allocate millions of dollars for the areas.

Senator HANSEN. I did say I had no questions, but I am impelled to make this observation. It seems to me that this proposal before us today might be likened to a proposal that we add the OEO programs to all of the other welfare programs, and I would just observe that if these deficits are not important, if spending is not important, I cannot see why the President would find any justification for impounding funds. I thought the objective of that was to try to bring this budget more nearly in balance in order that we might accomplish some of the things you fought so ardently for in the House and others in the Senate have fought for, and would you not agree that it seems difficult, it does for me at least, I would like your observation, if it is important to impound funds, what justification can there be for spending this $3 billion in order to accomplish what by direction, it seems to me, the Congress has said they want very little more of?

Mr. PASSMAN. Let us let the readers arrive at their own conclusion and enjoy a good laugh. Foreign aid is a sacred cow. There has never been until 2 years ago, and I pushed them so hard, any reductions made in foreign aid by the Office of Management and Budget. Whatever they go to OMB with, and former aid people listening know I am telling you the truth, they got the full bucket of blood. There has never been a dime anywhere on the face of the earth impounded for a foreign aid project but there has been a lot of projects down in my congressional district impounded. What actually happens? You go out and cook up a foreign aid program in July, you fund it in August and you are making disbursements the following year. If there are projects for my district, it takes 11 years and 9 months to get a flood control project approved from the time you start until you get the first funding. If it is a million dollars project we come up here just on bended knees and plead for $100,000. You do not know if you will get another dime and you get one slice and we have to hound the Congress for 10 or 12 years to get the money to complete the project. There are 7 in my district now that funds have been impounded. You find me one foreign aid project where the funds have been impounded and I will give you my seat in the House.

I would assume at some point in time this new fund would try to bypass the appropriations process. They are trying to get out from our control and not let us know anything about it. If the people need an additional $3 billion, let them make their recommendations through the bilateral program. Let it be handled by the development loan fund in AID and increase their category to finance these loans. The fund is there, the money is there, why put another complicated program on top of another one?

Senator BYRD. Congressman Passman, may I ask you another? I just want to clarify. You said Export-Import Bank regular operations?

Mr. PASSMAN. That is a normal operation. There are actually three sections of it. And I would defend all of it, even the concessionary section, where you have lower credit criteria. The Export-Import Bank is under very good management and you do have the three different operations, long-term, regular operation, concessional operations. Now, to break them out, how much has been spent out of each, I do not have it and I cannot keep up with all of it.

Senator BYRD. I want to get the understanding of the term as you used it, regular operation.

One final question. Your note at the bottom says total appropriation requests for maintenance of value amounts to $2.2 billion. Is that figure included in the $18 billion?

Mr. PASSMAN. Yes; it is scattered throughout.

Senator BYRD. Scattered through, but you add it as a note?

Mr. PASSMAN. Yes; I want you to know the total because this $2.250 million is frightening, it is disillusioning, it is shocking, and ridiculous. To think we entered into agreements where we let these nations take our money with no provisions for a dime of it ever to come back to the U.S. Treasury. That is bad enough. But to come along later and say that we are going to have to give you $2.250 million so those dollars we previously gave you would buy as much as they bought at the time we gave them to you, if that is the way to run a show then I ought to check out.

The CHAIRMAN. I have got to ask one question. It may be embarrassing but I have to ask it.

Mr. PASSMAN. I have not been embarrassed for years.

The CHAIRMAN. One of the staff members said that that man makes an impressive statement, Senator, but I cannot understand this. With that man chairman of the subcommittee over there, how in the world did they ever manage to spend $250 million on this program?

Mr. PASSMAN. I would like to answer that question, if I may. I want to be very deliberate because the record is on my side. The end justified the means. I have never voted for one dime of foreign aid authorization, consistently I voted against the authorization. It is a new concept in foreign policy and I think by any fair evaluation we are on the minus side and not on the plus side of foreign aid. Of course, the people profit by it, the giveaway people and paid lobbyists, they have to make a living and they make pretty good cases if you do not know the other side of the coin. I say with humility that my committee supports me. Since I have chaired that committee we have reduced the budget requests by $14 billion. Our annual reduction is almost an average of $1 billion. So by riding herd on this program, keeping it before the public and before the Congress and making these people in the bilateral section justify the requests, we have been able to cut the bill. Under the rules of the House I must either defend and vote for the bill I bring out or I must step aside. One year I refused to handle the bill because one of our great chairmen died, after we marked up the bill, we had a new chairman. He said he wanted me to call the committee back and put some money back in. I went back and presided and put the money back but I would not handle the bill on the floor. The end justifies the means, I think I have done a fair job, Mr. Chairman, controlling these expenditures, staying on top of it, and knowing their schemes by which they try to bypass the Congress, and unfortunately, sometimes they succeed.

Finally, at the expense of being repetitious, I say without equivocation, without mental reservation, you have in the bilateral programs and you have in the multilateral programs the machinery, the law, and the money to do exactly what is being requested in this legislation before you. The difference being in the bilateral programs this money comes back into the U.S. Treasury and we have control over it, but if you turn it loose, as proposed here, you will have another program in which there will be no return to the U.S. Treasury.

I want to thank you, Mr. Chairman, for permitting me to sound off. I get carried away, I am frightened and frustrated for fear I do not have the persuassive power maybe to get through to some of my colleagues in the Senate and in the House, but we must bring this thing under control or we are going to be in more serious trouble. We have 80 billion U.S. dollars floating around the world that people are running from like they would from a dog with rabies. They do not want these dollars and I mean some of the underdeveloped nations, they have been dumping them, they have too many, and it is ridiculous to think you are going to add to the $80 billion floating around the world. If you do not think that they are trying to get rid of these dollars go into some of these countries and try to buy something. They will tell you to go and exchange it for Japanese yen or Swiss francs. I have had the experience.

Now, the time has come, to my way of thinking, to bring these things under control. This fund would be duplicating what you already have. They are not asking to cancel out some other program, this is in addition to everything else. Passman cannot defeat this bill but I will guarantee the statistics that I have given you this afternoon and others I have coming, can defeat the foreign aid bill.

Mr. Chairman, thank you for letting me appear before your committee.

The CHAIRMAN. Thank you very much.

Next, we will hear from Mr. Orville L. Freeman, president of the Business International Corp.

STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT, BUSINESS INTERNATIONAL CORP.

Mr. FREEMAN. Mr. Chairman, Senator Byrd, I will be very brief. This committee has been in session for a good many hours and it is not through yet, so I will curtail my statements very sharply.

Throughout the testimony and the questioning, there has been a good bit of attention focused on the balance of trade. The balance of trade is an extremely important item. Our relations around the world, our prestige, our effectiveness economically are related intimately to it, and as the dollar strengthens, which I hope it will, it will do so only if our balance of trade strengthens as well. Therefore, I think that every medium, every action that we can take which will improve our balance of trade should be followed. This bill, in my judgment, would make such a contribution.

Starting with Senator Humphrey, there have been a number of very effective itemizations of how this would be done. Let me quickly draw on my own experience and indicate that I think the fund's contribution could be quite substantial.

In the first place, our trade with the less-developed countries is highly significant. Until I prepared to come here I did not realize that our trade with the less-developed countries is roughly equivalent to our total trade with the European Economic Community and Japan. That is a mighty good hunk of trade.

But when we look at the countries with the per capita income under $200, we find a steady decline, and this is 60 percent of the world's people.

Now, if our trade is declining with 60 percent of the world's people in the low-income groups, with enormous potential demand, I think that is a rather serious prospect—particularly when we see how our trade has grown to such dimensions to the more affluent less-developed countries in the higher ranks.

I can remember very well testifying repeatedly before the House about agricultural technical assistance programs. One of the contentions made was that it did not make much sense for the United States to give agricultural assistance so that countries like Korea and Taiwan and a number of others would then be able to produce agriculturally and to compete with us. I took the position that that would not happen, that in the overall agriculture development was essential to the growth and progress of those countries and that they would become strong customers and good buyers. If you take a look and break down that trade record now of $16.3 billion to the less-developed countries, why that is where it has come from. And a good bit of that has been agricultural exports, because those countries have gotten to a level where they could afford to purchase from us.

Again, in the interest of time, I will not go down the line and repeat the numbers, but on page 7 of my statement it shows the percentage increases and the dollar increases of our trade with certain less-developed countries, which were the direct result of the economic progress of those countries, which again related to the agricultural assistance which made that possible.

The other point I would like to make, Mr. Chairman, is this: The importance and potential of the export development credit fund are underlined by an examination of the possible role of the fund in improving the global agricultural outlook. I am deeply concerned, as one who has had a little exposure to agriculture both in this Nation and globally, at the world situation today. We are more food-short than we have been for 2 years. If there should be bad weather any place around the world, we could be in bad trouble very quickly. This country has prevented famine around the world since the end of World War II. We could not do very much about it right now, because we do not have the stocks to do it. Now, our prospects at the moment look fairly bullish for good crops worldwide, and I would venture to hazard a prediction, and this considers weather continuing favorable, that we will get back into a more comfortable position in a couple of years. But it is going to be pretty tight during that period; we are paying pretty high prices, and we have disrupted our economy and contributed to our inflation and a number of other things, so it is not a comfortable situation. If the weather favors us, we can get back into a more comfortable situation.

What worries me, in looking down the road a little more, about 5 years, getting close to the end of this decade, is that unless something very dramatic takes place, we are going to face a situation with grave shortages, with potential famine, with great world disruption, because a second factor has come on the world scene so far as consumption is concerned, and that is not only the increasing number of people but the fact that these people are eating better. That means animal products, which are extremely expensive, which chew up a lot of grain, and which take a lot of land. Europe today in terms of animal products consumption is about where the United States was in 1940, and with an expanding economy and a higher level of affluence that demand is going to grow very strongly. By 1978 or 1979 I would venture to predict that the so-called developed world—Canada and the United States, really, in terms of prime agricultural producers—the developed world will no longer be able to afford the 50 million or so tons of grain that is now going to the less developed world, which means that the less developed world is going to have to feed itself and is not going to be able to get much from us. That means developing tropical agriculture, which our technology can do. I have stood on land around the world in tropical countries that can produce four, five, six, seven times as much as the best we have in the United States, because they can produce all the year around in five, six, and seven crops. But that requires a high level of skill and a major input.

The question is, How can we get tropical agriculture moving in time to prevent what could be a very serious development worldwide? It would affect the United States adversely in terms of our own food costs, it would affect our relations, it would affect our ability to get many of the resources, minerals, et cetera, that we need from that part of the world. Properly administered, the Fund can focus on agriculture, which is essential to the development of these countries anyway. Agriculture is an area in which we have great comparative advantage. The fertilizers, the pumps, the farm machinery, the trucks—agriculture draws on all of them, and the availability under the Fund could be focused to reach the less developed countries in tropical areas and carry forward the process that has begun with the so-called green revolution—which I submit to you is absolutely essential if we are not going to find ourselves in less than 10 years facing the very horrendous prospect of massive starvation in certain parts of the world.

So I suggest, Mr. Chairman, that on two counts the Export Development Fund would make a major contribution to this country. First, it would make a contribution to our own balance of trade that has been outlined here to a great extent. Second, properly administered, it could contribute to and stimulate the process of getting tropical agriculture moving in the poorest less developed countries.

Senator BYRD [now presiding]. Thank you very much.

We are very glad to have you, Governor Freeman. Thank you for your testimony. It was most interesting.

The main aspect that concerns me—I am very much worried and I am in the minority, I might say, about this deficit spending by the Federal Government. I am very much concerned about spending money

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we do not have and concerned about at this particular time borrowing money at 9 percent and lending at 3 percent; but, nevertheless, your testimony brought out some new points that have not been brought out today and it is most interesting, and thank you very much.

Mr. FREEMAN. Thank you, Mr. Chairman.

[The prepared statement of Mr. Freeman follows:]

STATEMENT BY ORVILLE L. FREEMAN,[1] PRESIDENT, BUSINESS INTERNATIONAL CORPORATION

SUMMARY

The Export Development Credit Fund is an important element in the proposals for a newly structured foreign assistance program. The United States is losing ground to other developed nations in the supplying of exports to the world's poorest nations. In many cases the reason for our lagging position is not our inability to produce competitively, but our failure to offer goods on terms commensurate with the ability of the poorest nations to pay. These nations need long-term concessionary financing of their necessary imports, such as the EDCF would supply.

In contrast with the United States, Europe and Japan have been increasing their level of concessionary export financing for the developing countries, and their share of this growing export market has risen as ours has fallen. Other donor nations have paid much greater attention than the United States to the development of export markets within the activities of their aid programs.

The EDCF would spur a significant growth in American exports to the poorest nations, creating tens of thousands of jobs at home and bolstering our weak balance of trade position. At the same time, the goods and services supplied could serve as a catalyst for sustained growth in the developing nations.

Experience demonstrates that entry into markets through subsidized financing can lead to future growth in commercial markets as the poorer economies develop. Our experience with the PL-480 program in agriculture provides strong evidence in this regard. In the case of many developing nations, trading patterns established initially with PL-480 assistance are now paying off in a phenomenal growth of dollar-producing agricultural exports.

There is some question as to whether the EDCF's subsidy will line the pockets of either U.S. businesses or private importers in the low-income countries. However, as I understand the Fund's operation, the only subsidy would go to the government of the borrowing country.

An examination of the global agricultural outlook underlines an additional possible benefit the EDCF could bring. Due to a rapidly rising global demand for food, a demand fueled both by population growth and rising affluence, it is likely that international supplies of important foodstuffs will be more or less chronically tight in the coming decades. This means that less food will be available for aid when poor nations are threatened with famine, and that food prices will be extremely volatile (and generally high) for everyone—rich and poor.

The greatest untapped agricultural potential in the world today lies in the developing countries—but the development of this potential will require, among other things, large-scale imports of fertilizers, pesticides, improved seeds, pumps, marketing technology, construction equipment, farm machinery, etc. The United States enjoys an international comparative advantage in many of these areas, and the EDCF could thus play an important role in increasing poor country food production, reducing pressures on global food supplies, and boosting U.S. exports of agriculture-related goods and services.

Mr. Chairman, it is a great honor to appear before this distinguished Committee, testifying on such on important subject.

I have followed with interest the progress through the Senate Committee on Foreign Relations and the House Foreign Affairs Committee of the creative new measures for foreign assistance initiated by a majority of each of the Committees. I find myself both in full sympathy with and in full support of the major aspects of the proposed changes.

[1] The views expressed in this testimony are those of the witness, and do not necessarily represent those of Business Internatioal Corp., or others of its directors, officers, or staff.

The reorientation of foreign aid proper to a concentration on problem solving in those areas which most immediately and directly affect the most distressed majority in the poor countries is especially welcome. In every developing country I have visited—and I have visited most of them—I have been impressed by both the primitiveness of agriculture and the eagerness of villagers for improved ways; by the prevalence of disease and the terrible toll it takes in human misery and inability to perform; by the desperate desire of people in the villages and slums throughout the world for better medical care; and by the enormous waste of human potential caused by lack of educational training. Concentrating our assistance efforts on problem solving in these areas is a direct and constructive approach.

The Export Development Credit Fund needs to be recognized as the complementary aspect of this major Congressional initiative. It too is a response to an inadequacy of past assistance efforts—indeed a continuing inadequacy in the total array of mutually beneficial economic relations between the United States and the poor countries.

As the members of the Committee may be aware, available evidence indicates that the United States is rapidly losing ground to other developed nations in supplying goods and services to the world's poorest nations: those countries with per capita incomes below $200. In many cases the reason for our lagging position is not our inability to produce the needed goods at competitive prices, but our failure to offer the goods on terms commensurate with the ability of the poorest nations to pay. Although the Export-Import Bank, which provides credit on only slightly concessional terms, has provided powerful support for American exports to those nations with incomes above $200, it has had little impact on sales to the lowest-income nations. This is proper and necessary under the Bank's statute and long-established relation to the Congress, which requires it to be fully self-supporting and to refrain from lending if there is appreciable risk of default. The poorest countries cannot meet those terms on a large scale, for they are striving to develop, and this process entails investing for extended periods of time more than they can save, and importing more than they can export. In short, they require not short- or medium-term credit, but *long-term financing*, such as has been available under A.I.D. and PL 480. However, neither of those programs any longer provides the muscle it used to for U.S. exports.

By contrast, Europe and Japan have continually increased their level of concessional export financing for the poorer countries and their share of this market has grown accordingly. From 1967 to 1971, total assistance and private investment from the United States to less developed countries increased by 22 percent while that from other donors doubled. At the same time, U.S. exports to all developing countries increased by 32 percent while those from other major donors increased by 60 percent to 135 percent. In eleven of the largest of the poorest countries, imports from the United States actually shrank from $1.7 billion in 1967 to $1.2 billion in 1972 while those from other donors increased from $2.9 billion to $4.3 billion.

These adverse trends are due not only to the greater willingness of other wealthy countries to provide aid, but to their superior flexibility and greater attention to export development in administering their aid. American aid programs sprang not from a long-range commercial impulse but from a generous and forward-looking vision of reconstruction, mutual support, and common development. Initially our assistance programs had to fight for supplies, at a time when U.S. businessmen faced virtually no foreign competition. European and Japanese assistance programs, on the other hand, have developed as an aspect of the search for foreign markets. They were given their initial impetus by the American tying of aid procurement in 1959, which cut off that source of financing for their investment goods exports.

The impact of these origins is still with us. There is a good clearance between A.I.D. and the Ex-Im Bank in the sense that there is noninterference, but there is no *positive* collaboration. There has been little if any communication between the export promotion staff at Commerce and A.I.D. programmers. In the U.S. Government, assistance problems and trade problems are looked upon as different; they are handled by different people who have little occasion to talk to each other or to affect each other's work.

This does not appear to be the case in other donor countries. Export market development appears to be consistently included among the criteria of selection for assistance projects. For example, the Germans and Canadians have included in their assistance programs a number of telephone systems, which open up strong prospects of follow-on sales of components for growth and maintenance.

The French have pushed TV stations. The British have offered products from depressed industries—pumps, railway equipment. The French and Japanese have on occasion offered a mix of hard export credit and concessional assistance finance to ensure a competitive offer for a particularly desirable piece of business. It has proved very difficult for the United States to compete on these terms.

The Export Development Credit Fund is designed to improve the U.S. ability in this area. The Fund is directed to the poorest countries, where there is the greatest need for financial support of long-range export market development on appropriate terms. Institutionally, the Advisory Committee will bring together A.I.D., Commerce, Agriculture, and Ex-Im Bank for active collaboration on the conduct of this new business. I was delighted to hear Senator Humphrey suggest that Commerce chair that committee, while I consider it fully appropriate that A.I.D. carry the operational responsibility. I expect there will be tension between them on how the Fund should be operated. Working through the policy and operational problems on a joint basis may prove very difficult. We certainly met such difficulties when the interagency committee ran PL 480. But the outside was constructive then, and I have every confidence it will be now—leading to a major improvement in the U.S. ability to conduct foreign assistance with long-run mutual benefit.

Therefore I feel that the proposed Export Development Credit Fund would fill an important gap in the American foreign assistance program. This Fund, if established, would permit a significant growth in American exports to the poor countries. This would mean tens of thousands of new jobs for American workers. At the same time, the goods and machinery we can supply could serve as a catalyst for sustained economic growth in many poor nations.

This economic growth, so badly needed in the poor nations, can be viewed as a worthy goal in itself. However, a generation of experience also indicates that economic progress in developing nations can lead to a future rapid growth in exports from the more advanced nations. Thus the economic development which today's financed exports can help promote can provide escalating future benefits both for the poor countries and for the United States.

I would also like to point out the proposed Fund's potential for improving our long-term balance of trade position. Many feel that our growing trade deficits constitute the greatest single threat to the welfare of the United States today. I do no think we would be wise to pass up the opportunity his proposed Fund provides to bolster our future trading position among such a large number of countries.

Our eighteen year of experience with Public Law 480, the legislation which enabled us to export farm products to low income countries on concessional terms, is instructive in considering this legislation.. That earlier legislation had two important objectives: to reduce U.S. farm surpluses and to alleviate hunger in the recipient countries, helping them buy time with which to modernize their own agricultural economies. A large number of these countries have been remarkably successful, as is evidenced by the pronounced decline in requests for food aid over the past six or eight years..

An important by-product of PL 480 was the development of dollar markets for U.S. farm exports as various developing countries acquired a capability for commercial imports. Fortunately for our balance of payments, U.S. commercial exports of farm products are soaring, climbing from under $5 billion in 1965 to an estimated $11 billion in fiscal year 1973, ending this month.

Looking only at the less developed countries, our commercial agricultural exports to them more than doubled betwene 1965 and 1972, rising from $894 million to $1,848 million. Meanwhile, PL 480 exports to the developing countries have declined somewhat—from $1.32 billion to $1 billion. Gradual reductions in concessional food shipments have been accompanied by a strong growth in commercial sales to many of the nations which benefited importantly from PL 480 in the past.

Commercial agricultural exports to Taiwan increased by 531 per cent in the seven year period, reaching a total of nearly $188 million in 1972. Similarly, our commercial farm exports to the Republic of Korea rose by 643 per cent, bringing in about $159 million in 1972, while our commercial farm exports to Mexico increased by 212 per cent, topping $181 million in 1972. In these countries and others, the trading patterns established initially with the help of PL 480 assistance are now paying off in a phenomenal growth of dollar-producing agricultural exports. Countries which became accustomed to using U.S. farm products when they were available under concessional terms have continued to use them as they have switched to commercial purchases. Previously established working relationships with U.S. exporters have facilitated continuing purchases of U.S. farm products.

In a sense, the proposed Export Development Credit Fund would be a PL 480 program for industrial production, paralleling our very successful program for agricultural production. In effect, what is being proposed in this legislation is a program to develop concessional markets for U.S. industrial exports in markets where we are losing out to other industrial exporters. Those countries where incomes are below $200 contain a majority of the world's people. Someday they will constitute a large and lucrative market for our exports, as do a number of the richer developing countries today. If we can establish ourselves as suppliers during their early stages of economic development, then we will have an opportunity to remain as suppliers in the future when markets will be far more lucrative than they are today.

If we are to ensure the participation of American producers in the future growth of the developing countries, we must act now to build the healthy trading relationships that are needed. Business experience indicates that export potential will be maximized through long-term buyer familiarity with American products, and American producer familiarity with the particular needs of the buying country. The soft-term financing which would be provided by the proposed Export Development Credit Fund would be an important step in the right direction.

Mr. Chairman, I am sure the members of this Committee share with me a concern that the U.S. Government not give an unwarranted subsidy to American business. Would the operations of the Fund do so? Who would get the subsidy—that is, the 4 percent difference between the (say 3 percent the Fund might charge for its credits and the (say) 7 percent it costs the Fund to borrow from the American public? Would this wind up in the hands of American business? Or would it wind up in the pockets of private importers in the lowest-income countries? The answer, as I envision the Fund's operations, is that neither of these two groups would get the subsidy. Rather, it would go to the government of the borrowing country. In some cases, the U.S. export may be for a government project. In others, the government may make the foreign exchange it borrowed from the Fund available to its importers in return for local currency. Thus from the point of view of both the importer who pays his money (local currency) into his central bank (government loan proceeds account) and of the exporter who gets his money (dollars) from the Export Development Credit Fund this would be an ordinary commercial transaction providing no price or credit advantage to either. The advantage to both would be that without the Export Development Credit Fund financing, the country could not afford it at all.

Therefore I think the Fund need not and would not give any subsidy to any private persons at home or abroad. Instead it would merely correct a deficiency in the current export picture by letting U.S. exporters compete with others on financing terms.

Both the importance and the potential of the Export Development Credit Fund are underlined by an examination of the possible role of the Fund in improving the global agricultural outlook. This is an area in which I have a special interest.

This year, while acting to meet the threat of famine in parts of Africa and India, we have seen world reserve stocks of wheat sink to their lowest level in more than two decades. The Director-General of the Food and Agriculture Organization of the United Nations, Dr. A. H. Boerma, has noted that the world is currently just one bad harvest away from widespread famine and critical shortages of foodstuffs. Fortunately, the outlook for this season's crops is good in many crucial areas of the world and, outside of portions of sub-Saharan Africa, starvation may be largely avoided.

But while keeping our fingers crossed during the coming year, we need to look forward to the next decade and beyond. In my opinion, the world food outlook is not a bright one. It seems very likely that global food reserves will not soon be rebuilt to the rather consistently high levels of the 1950s and 1960s. The capacity of food donor countries, including the United States, to aid countries which are having difficulty meeting their own food needs will be severely diminished. Such a new situation is likely because global demand for many important food commodities may rise considerably faster than our ability to expand supplies in the coming years.

Skyrocketing food prices in our own supermarkets have recently made many Americans aware for the first time of the inexorable logic of supply and demand. The news media have correctly pointed to several factors, including poor harvests

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in Asia and the Soviet Union, the disappearance of the anchoveta off the coast of Peru, and bad weather in the United States, as contributing to the current short supply of important food commodities. It is my feeling, however, that these short-term factors may be diverting our attention from some more fundamental longer term trends which are altering the dimensions of the world food situation.

Throughout human history, population growth has accounted for nearly all the growing demands which were made on the earth's food-producing capacity. During the seventies rapid population growth continues to generate demand for more food, but in addition we are now witnessing the emergence of rising affluence as a major new claimant on world food resources. Historically there was only one important source of growth in world demand for food, but now there are two.

At the global level, population growth is still the dominant source of growth in demand for food. Expanding at nearly 2 percent per year, it will double in a little more than a generation. Merely maintaining current per capita consumption levels will therefore require a doubling of food output over the next generation.

Rising affluence is being translated into a rapidly growing demand for food resources in the northern tier of industrial countries—beginning with Ireland and Great Britain in the West and including Scandinavia, Western Europe, Eastern Europe, the Soviet Union, and Japan—which are more or less where the United States was in terms of its economic advancement and dietary habits in 1940. As incomes continue to rise in this group of countries, which contains some two-thirds of a billion people, a sizable share of the income investments is being converted into demand for livestock products, particularly beef. These countries—many densely populated (such as the Western European countries and Japan) or suffering from a scarcity of fresh water (as in the Soviet Union)—lack the capacity to satisfy the growth in demand for livestock products entirely from indigenous resources. The result is growing imports of livestock products, or of feedgrains and soybeans with which to expand indigenous livestock production.

From both continuing population growth and spreading affluence, then, we can expect pressures on the world's food resources to continue increasing rapidly. I believe that it will be very difficult to meet these rising pressures adequately within the world's present pattern of food production. International stocks of important grains are likely to remain at a dangerously low level. Most of the roughly 50 million acres of cropland in the United States which were idled under farm programs through much of the sixties, and which in a very real sense have served as the world's food safety valve, are likely to be brought back into near-permanent production.

I do not mean to imply that surplus production might not occur at some point in the future. For example, I would not be surprised if two or three years from now, we were temporarily back in a commercial grain surplus position. For this reason, I feel we need to preserve the system of floor prices in the United States which has been so successsful for the last decade in protecting our farmers from sudden, drastic price falls beyond their own control. But if world economic and population growth continue at recent rates for the next five years, I would estimate that by 1980 at the latest, the developed world will be consuming virtually all the food it can produce. There will be little left for the poorer countries.

If this situation comes about, developing countries will have nowhere to turn to for food aid when bad weather, insects, or a disease outbreak sharply diminish or even destroy a year's crop—or if population growth greatly outstrips indigenous producing capacities. Global food scarcity may force us to tighten our belts, but in the poor countries it could require forfeiture of life itself.

This grave danger underscores the need for promoting agricultural development in the developing countries with a special urgency. The world's greatest reservoir of unexploited food potential is in the developing countries. Tropical agricultural in particular presents enormous potential in the decades ahead. Rice yields per acre in India and Nigeria are only one-third those of Japan, and corn yields in Thailand and Brazil are less than one-third those of the United States. In these countries and many others, dramatic increases in food supply are possible if farmers are given the necessary economic incentives, agricultural inputs, and technical know-how. The United States has proven its ability to play a valuable role in aiding agricultural development abroad, and we should take even fuller advantage of our expertise in this domain.

The Export Development Credit Fund could pay an extremely important role in this crucial area. The United States has many of the tools and skills needed by many poor nations as they modernize their agricultural sectors. The proposed

Fund would finance U.S. exports of fertilizers, pesticides, improved seeds, pumps, marketing technology, construction equipment, farm machinery, and other such agriculture-related goods and services. Fortunately, the United States enjoys an international comparative advantage in many of these areas. By subsidizing exports of the goods and services necessary for agricultural progress, the Fund's activities would nicely complement the stepped-up agricultural assistance efforts called for in this year's aid legislation. Both the United States (through increased exports) and the poor countries (through greater food production) would benefit greatly from this aspect of the Export Development Credit Fund's activities.

If the food-producing capacities of many important developing countries do not increase substantially within the next decade, there are also likely to be many unfortunate consequences for the United States. A growing worldwide increase in demand relative to supply will tend to drive food prices upward, not only in international markets, but also at home. If we should try to isolate ourselves from world scarcity, the situation could arise wherein famine and misery might take a growing toll in many poor countries while we in the United States consumed a disproportionately large share of the world's food production—clearly an unpalatable alternative. A policy of isolation on the food front might also seriously jeopardize many crucial foreign supplies of non-food resources, including energy and key raw materials. Yet if we should have to share food scarcity with the rest of the world, our own standard of living would suffer. Clearly, therefore, it is in the self-interest of the United States to aid the development of agriculture in the developing world.

I would like to close by adding a note at this point on the possible relation of normal bank export credit to this new Fund. I can see great advantage for the United States in involving both of these forms of credit in a tandem relationship in the same transaction. A.I.D. has not encouraged bank participation in commodity financing other than on a short-term, commercial-paper basis. To do so would have meant using A.I.D. funds to pay for U.S. bank interest in addition to paying for the commodities, when the country itself could have extended the same credit to the importer. While this is true, it has discouraged American banks from developing in the poorest countries the branches, the trade connections, the knowledge of commercial risks that they have developed so well in many less poor countries where they so actively support U.S. exports.

A parallel growth of banking services in support of trade in the poorest countries is possible with the support of the Export Development Credit Fund. If within an Export Development Credit Fund line of credit to a country a U.S. exporter arranges for two- or three- or five-year financing of a shipment of equipment or trucks on terms better than the importer could get at home, the Export Development Credit Fund could, by prior agreement, pay the dollars to the U.S. bank when and as the importer meets his obligations by depositing local currency into the central bank loan proceeds account of the government. The exporter would be better able to compete. The importer would have a preferred deal. The country would have what amounts to an automatic refinancing of an export credit onto concessional terms, and the Export Development Credit Fund would bear no risk until it had to make the deferred payment. The U.S. bank thus would become established in the market, able to carry on in full support of American trade when development had proceeded to the point where concessional credit no longer would be needed. I hope the Advisory Committee and A.I.D. will seriously examine the possibility of supporting with the Export Development Credit Fund the development of private financial support for trade with the poorest countries.

Senator BYRD. The next witness is Mr. James P. Grant, president, Overseas Development Council. Welcome, Mr. Grant.

STATEMENT OF JAMES P. GRANT, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. GRANT. Thank you, Mr. Chairman. I appreciate this opportunity to respond to the request of the committee for comments on the proposed export development credit fund. I have a rather lengthy statement here, and it has been a long day, so with your permission I would like to submit the statement for the record.

Senator BYRD. Yes, that will be published in full in the record.

Mr. GRANT. Thank you. The statement is fairly long because ever since this proposal surfaced last spring, I and some of my colleagues at the Overseas Development Council have been doing a good deal of investigation on it, and in my statement I discuss 13 questions which I believe are of concern to this committee.

The first is, where is the line between export credits and development loans? The second is, would the availability of credit on softer terms actually increase U.S. exports? The third is, would the fund create U.S. jobs? The fourth, would the fund's credits be an unwarranted subsidy of U.S. or foreign business? Fifth, would creating the fund mean moving in the direction of tying aid and, therefore, counter to desirable trends in aid-giving? Sixth, would fund credits be repaid, and would they ease or add to the financial problems of poor countries already saddled with a heavy debt burden? Seven, what about the use of American ships? Eight, which countries should be eligible? Ninth, what countries should be excluded? Tenth, why should the fund provide credit as low as 3-percent interest when interest rates are so much higher in this country? Eleventh, will the fund contribute to inflationary pressures in the United States? Twelfth, would fund-financed exports help development while promoting U.S. export objectives—the question that Senator Roth was discussing—and, finally, who should run the program?

If I may, I would like to comment very briefly on three of the questions that have been before the committee today. The first is, given the devaluation, do we continue to need this kind of a device? Second, can we afford it—the question, Mr. Chairman, that you just raised—and, third, should the action on the bill be postponed pending further information from the executive branch?

On the first question, does the need remain, I think it is worth noting, as Senator Humphrey said this morning, that by 1980 we need to increase our exports from roughly $50 billion last year to over $100 billion worth, if we are going to be earning the kind of receipts we need to pay for the increased oil and other imports we need. This is not going to be easy. This is why we need an agency like the Eximbank.

Second, the devaluations, while they do make it easier for the United States to sell in these markets, only meet part of the problem. It is interesting to note that in the more affluent developing countries, our exports increased by some $5 billion over the last 5 years, while to the 60 percent who live in the poorest countries our exports actually dropped over the past 5 years, while the exports of other countries went up very substantially.

And when one examines what is the principal difference between our exports to the more affluent developing countries and to the poorest, one finds that the U.S. credit mechanisms are available and have been for the more affluent countries; the Eximbank has done a tremendous job in increasing our exports to the more wealthy developing countries. Last year, in 1972, they made more than $2.5 billion worth of credits available to advance exports.

Unfortunately, for the 60 percent of the people who live in the poorest countries, Exim does not lend to these countries in any substantial amounts, because these countries are so poor they are not credit worthy for the kind of hard terms that Exim lends on. Thus, Exim last year advanced only $116 million to that market of 1 billion people—roughly one-twentieth of the amount they did for the much smaller group of more affluent developing countries. It is that hole that that export development credit fund is designed to fill.

It is quite ironic, Mr. Chairman, that we now have a situation where the U.S. Government has mechanisms for promoting U.S. investment in the poorest countries, for example, the Overseas Private Investment Corp.'s investment guarantee program, which enables American capital to go abroad and build factories there. But there is no comparable mechanism to finance the goods of American factories made in this country to go to those same countries. I think this explains in part why the labor unions in the United States have joined business in supporting this proposal—because they see this as a mechanism that will increase jobs here and our exports.

Then there is the question of can the United States afford it? Several times the comment has been made today that this program would be at no additional cost to the taxpayer. This has led to a certain amount of raised eyebrows, and I think properly so, but I think it is worth amplifying what is meant by that. The concept here is to help developing countries in effect have access to borrowings in our money markets, with the U.S. Government borrowing at the going rate of interest and then loaning at the 3 percent, with repayments coming back in due course and being applied to repay the borrowings.

There is obviously a subsidy element involved here—the difference between the 3 percent and whatever the rate of borrowing is.

I do believe it is worth emphasizing that the moneys that will be used to cover this subsidy are moneys which historically the Appropriations Committees of the Senate and the House have appropriated for use as foreign aid. In other words, the use of loan repayments to cover these subsidy requirements will result in a deduction in the amount of money that is available for foreign aid. It is in this sense that one can quite properly say this is not an additional cost to the taxpayer and, in fact, it is a way of getting $3 or $4 for the buck where the U.S. taxpayer formerly only got $1. In this sense, I think it should have great appeal for those of us who are concerned with getting the most return on the taxpayers' investment.

On the second question—what is the impact of this on inflation? I think it is worth remembering that these funds do not have to be spent in any given year, that if money markets are extremely tight, this form of fund can ease up on its borrowings. The amount itself is relatively modest in a trillion dollar economy, but the presence of the Treasury on the advisory committee, I think, gives some assurance of prudence in managing this.

Senator BYRD. I do not see your justification for that statement.

Mr. GRANT. Well, sir——

Senator BYRD. Your Treasury Department has advocated these tremendous deficits. The budgets that have come to the Congress have come recommending tremendous deficits. Where do you see the prudence of the Treasury Department?

Mr. GRANT. Well, sir, in this case there can be some management of when the borrowings take place. They do not have to be done at a particular time, and the goods that the fund itself will finance obviously will reflect, can reflect the scarcity situation in this country. It would make very little sense for this fund to make major credits to a very poor country to buy goods that are already in very scarce supply in this country.

Senator BYRD. The Treasury Department and the proponents cannot even agree as to whether the purpose of the bill is to help U.S. business or to help the poorer nations.

Mr. GRANT. It is, I believe, as Secretary Casey said, a bill whose purpose is to do both. If the fund finances a nuclear powerplant for Pakistan, enabling American electrical companies to get the bid rather than a German or English company, it helps American exporters, and it helps developing countries, too.

Senator BYRD. Let me ask you this question. But before doing so, I want to say frankly, that I am more deeply concerned about this matter of deficit financing than the majority of the people in the Congress, and I may be wrong about it, but anyway, it is my view.

Does not something have to give on our financial problems, can we continue to go into more and more new programs of a spending nature, can we continue to subsidize business, as you are suggesting the one purpose of this would be, we have got to stop somewhere, we have to get our own financial house in order, the dollar has deteriorated all over the world in value, is it not, I think you will agree about that.

Mr. GRANT. I agree.

Senator BYRD. And will you agree about that? Its deterioration, a major fact in its deterioration, if not the major fact, are these continued smashing Governments deficits that we are running.

Mr. GRANT. I would add to that, Mr. Chairman, that one reason why our dollar is deteriorating is that it appears to foreign countries that we have lost our ability to compete on foreign markets. This program here is designed to help U.S. business and labor be more competitive on the one major market in the world in which as of this moment we are not competitive.

Senator BYRD. I think the intention is good and I like the intention of it, but what impresses me is how are we going to get our financial, put our financial house in order, if it is important to do so, and many people think it is not important to do so. I happen to think it is. How are we going to put our financial house in order unless we are willing sometime, somewhere to say we are going to have to stop going into new programs or we are going to have to reduce other programs if we are going into these? Until we do one or the other our condition is going to continue to deteriorate.

Mr. GRANT. Mr. Chairman, I share your concerns, but obviously I am not competent at this point to go into the total picture. What I can say is that this particular proposal, if enacted, in 1974 and 1975, will not increase the burden on the American taxpayer. The bill that Congressman Passman was talking about, that has passed the House, has already reauthorized for use in the development aid program all receipts from these prior loans, so as now scheduled, they are going to be used for foreign aid. What this new proposal says is, let us use part of those proceeds that are already earmarked for use as foreign aid to help cover the interest differential so we can go out on the marketplace and help American exporters sell $700 million worth more goods annually to these poorest countries than we have been able to in the past.

There is a letter that was submitted by General Electric Co., to the House Foreign Affairs Committee—they may have already submitted one here, too—in which they point out that the availability of this kind of financing would make it possible for American electrical companies, over a 5-year period, to bid on another $4 billion worth of business that the present mechanism does not permit. I think it is very important to remember that if this program were enacted it would not require the taxpayers in 1974 or 1975 to pay any more than the amount already authorized by the House, which has completed its action on the authorization, or the amount authorized in the rest of this bill, S. 2335.

Senator BYRD. Well, it has already been testified that the Treasury would have to go out in the market and borrow $3 billion and the interest rate is now 9 percent.

Mr. GRANT. Yes, sir.

Senator BYRD. There is no indication that it is coming down and certainly it is not coming down unless we are able to do something about the Government's own fiscal situation.

Mr. GRANT. Yes, sir. I do not mean to imply that there is not going to be borrowing, but the cost to the American taxpayer here is the difference between the cost of the borrowing and what is returned from overseas.

Senator BYRD. You are assuming it will be repaid, which I do not. I am not certainn that I agree with that assumption. That is the intent of it, I know.

Mr. GRANT. It is worth noting on that, Mr. Chairman, that we have in recent years been getting several hundred million dollars a year in loan repayments from loans which people 10 or 15 years ago doubted very much would be repaid, but they are being repaid. And as Secretary Hennessey testified, we have had virtually no outright defaults; there have been some countries in situations where the loan repayments have been rescheduled, but basically, these repayments are coming in.

Senator BYRD. Congressman Passman has inserted in the record figures showing that we already without this legislation, will be spending $18 billion in the current budget for foreign aid and assistance and it seems to me, No. 1, that is way too much in my judgment, that should be sharply reduced. If you can sharply reduce that and in place of it go to the program that you suggest, that would have a good bit of appeal, but the trouble is that will not be done.

Mr. GRANT. Mr. Chairman, I happen to be a private citizen testifying, so I cannot quite make those manipulations. I would say this. It is important to remember that the $18 billion that Congress Passman was talking about includes Export-Import Bank money, includes military sales, and that our real dilemma is—I share your concern that some of that money is inappropriately allocated—but our real problem is, we have a market of a billion people who occupy half the globe and who control a tremendous amount of natural resources. Not only has the United States in the last 5 years dramatically lost its share of that market, but the actual volume of our exports has dropped.

Now, what are we going to do about it is a country? To me, sitting here as a private citizen looking at this problem, seeing what a good job Ex-Im has been able to do with its type of credit in promoting U.S. exports, it seems quite obvious that we need something comparable for the poorer developing countries. Now, if under its provisions

Ex-Im cannot lend to these countries because they cannot take the 6 or 7 percent interest rate that Ex-Im Bank has to——

Senator BYRD. So we ask the American people to do that?

Mr. GRANT. So we ask the American people to cover the interest differential in order to make sales over a long time. Now, it is interesting that the hardheaded Japanese, Germans, English, French—who are not known to be giving things away—have greatly expanded their 3-percent money, 25-year money, 58-year grace money to these countries over the last 5 or 6 years. This is a major reason why they have been able to increase their exports so very sharply and why U.S. goods such as heavy electrical equipment have dropped precipitously. We do not have a credit mechanism to meet the competition, and it is for this reason that I really think we have a very rare consensus outside of Government—the principal labor unions are supporting this, the principal major business organizations are supporting this, and there has been a good deal of favorable press commentary. There was an editorial in the Journal of Commerce on August 6, which with your permission, I would like to insert in the record.

Senator BYRD. Yes.

Mr. GRANT. The editorial discusses the fact that this committee was going to be considering this fund early in September and expresses the hope that this committee would advance its forward movement rather than kill it.

Senator BYRD. Yes, we will be glad to have you insert that in the record. You made a very interesting and appealing presentation, Mr. Grant. I regret that I am influenced a great deal by the condition of the Federal Treasury, which I am deeply alarmed about. Except for that, your testimony is most appealing.

I want to thank you on behalf of the committee for being here.

[The article referred to and the prepared statement of Mr. Grant follow:]

[From the Journal of Commerce, and Commercial, Aug. 6, 1973]

THE EDCF AT BAY?

It has been clear for nearly a decade that foreign aid has lost much of the support it enjoyed in those early postwar years when the United States sought to lead a shattered world out of the wilderness created by the 1939–45 war. No candidate for political office wins votes by promising more of it. No president enjoys writing his annual message to Congress on the subject. And few of the recipients seem to appreciate for long just what the Americans are sending their way.

Small wonder. Americans have discovered they have problems of their own and that Watergate is only one of them. A nation which has been running a balance of payments deficit for over a generation, which has glutted the world with a currency it has had to devalue twice in as many years, and then seen it further devalued by floats of other currencies, can hardly feel as free as it did in 1945–55 to ladle out its wealth as though from a bottomless larder.

Still and all, even the bitterest critics of past foreign aid programs seem to recognize the necessity for them, as witness the fact that on July 26 the House passed a $2.8 billion bill authorizing foreign economic assistance for fiscal year 1974–75 and foreign military assistance through next June 30. What was surprising, however, was that while the measure squeaked through by a margin of only three votes, a key provision providing for an Export Development Credit Fund was defeated 240–137. This fact is throught-provoking, to say the least.

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That U.S. foreign aid programs enjoy any congressional support at all is attributable in good part to the knowledge that practically all other industrialized countries are now engaged in such programs and find it to their advantage to do so. But it is also acknowledged in this country that the older forms of give-aways, whether in the form of goods or services, now serve only a limited purpose and that this nation's whole approach to such programs is in need of restructuring.

The Export Development Credit Fund was supposed to provide just that. It was not an administration proposal, but it eventually drew administration support because it promised to serve a dual purpose. On one hand, it would offer American help to the developing nations that need it most. On the other, it would help promote American exports to these areas, very much like the tie-in provisos of some earlier programs.

The main thrust of the EDCF would be to provide lesser developed countries with low-interest credits for the purchase of U.S. exports. Authorized to operate for five years at a level of about $1 billion per year, the fund would be financed by public debt authority. The fund would borrow money in the private market at prevailing rates and make up the difference between these rates and its lower lending rates with receipts from past development loans. Credits would be made available primarily to countries with a per capita GNP of less than $375 per year, with special attention to those having less than $200 annually. This means the really poor.

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There are certainly grounds for objections to an idea such as this. One is the artifice of pledging receipts of past credit operations for support of the fund—a device that smacks of the sale of participation certificates, the operations of the highway trust fund and the like. We have never had much use for these methods of committing spending outside the normal budget processes, and we don't now.

Perhaps it was this thought Rep. Donald M. Fraser, a Minnesota Democrat, had in mind when he termed it a sort of "soft-loan credit device." The idea is not unprecedented. It has been implemented for years by such praiseworthy institutions as the International Development Association, an affiliate of the World Bank. But opponents of the proposal envisaged, among other things, a soft-loan window at the Export-Import Bank which would cheerfully dole out big loans without any expectation of repayment.

Granted that there are always risks in soft-loan operations, we find it difficult to take these particular objections to the EDCF proposals seriously. The subject at hand, after all, is not sound banking practice; it is foreign aid. So long as this country distributed its largesse via direct grants-in-aid there was no risk at all. There was never any expectation that the funds so distributed would be returned. Consequently there were no grounds for grieving when they weren't.

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Under EDCF there would be at least a fair chance of it, as the experience of IDA and the United Nations Development Fund has demonstrated. And while EDCF was being tested, exporters in this country would be getting some business, the national balance of payments would be given some added help, and the poorer nations would be given it, too.

Both the House Foreign Affairs and the Senate Foreign Relations Committees seemed to recognize this for they passed the EDCF proposal by overwhelming margins. Still, there is something to be said for the complaints aired on the floor of the House to the effect that it appeared loosely worded in some respects and vaguely oriented in others. In any event a case can be made for those who argue that it needs a little more thought, particularly as it might involve stipulations as to who is to administer such a fund and how.

Fortunately, there is still a chance that the fund proposal may be revived (and hopefully improved upon) in the Senate. In that chamber the Foreign Relations Committee has arranged that the matter be referred to the Finance Committee. Its fate, as pointed out in a Washington dispatch to this newspaper from Richard Lawrence last week, is problematical. We regret that this is so. It seems to us that this promising move toward a necessary restructuring of the Nation's foreign aid programs should have made more progress than it has.

PREPARED STATEMENT OF JAMES P. GRANT[1] PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

SUMMARY

The Humphrey/Aiken proposals contained in S. 2335, of which the U.S. Export Development Credit Fund is an important part, stem from a recognition of the increasingly complex relationship evolving between the United States and the developing countries—a relationship that encompasses many common concerns in addition to aid (such as trade and monetary affairs, private investment, energy, environment, oceans, narcotics) and that is making these countries more and more important to our own well-being.

The Export Development Credit Fund would make credits available to finance U.S. exports primarily to the poorest developing countries, those with per capita GNP below $200 a year.

While U.S. exports to the developing countries as a whole totalled over $16 billion in 1972 and are growing, our exports to the poorest countries, a market of over one billion people, aside from China, and actually falling—unlike exports to those same countries from Europe, Japan, and other industrialized countries.

What we do export to the poorest countries with per capital income below $200 a year is mostly financed by the A.I.D. and P.L. 480 programs, with only a little over $100 million from Export-Import Bank (which in 1972 provided over $2.5 billion in loans and guarantees under harder terms to the more advanced developing countries). A major factor behind our poor performance in these markets is a shortage of financing on appropriate terms. The Fund is designed to provide that financing but a number of questions remain.

1. The line between export credit and development finance is not always clear, but what is clear is that credits extended for exports to the poorest countries must have a substantial concessional component, which is not now available for American exporters.

The Fund, in filling this gap, would differ from the present development loan program by financing goods which not only contribute to development but have export expansion potential and are not likely to affect U.S. employment adversly; by operating less obtrusively (not suggesting projects or policies, but merely screening requests for financing) and with fewer personnel; and by focusing exclusively on the poorest countries.

2. The availability of credit on softer terms would increase U.S. exports, because (a) it would be unlikely to displace existing financing, (b) the lack of financing on competitive terms is a major obstacle, and (c) given the poorest countries' need for development-oriented imports, which far exceeds their present ability to pay and the amount of suitable credit available, together with the dollar devaluations, an increase in the kind of credit the Fund would provide would result in a corresponding increase in imports from the United States.

3. The Fund would create an estimated 50,000–60,000 U.S. jobs in the short run, assuming the usual regulations to assure actual production in the United States.

The Fund would have to prevent long-range adverse effects on U.S. employment which are unlikely to occur since (a) production costs in the poorest countries (as opposed to more advanced developing countries) generally are high, (b) the Fund could take steps to assure that its funds were not used to enable other countries to erode U.S. markets, for example, by not financing factory equipment when it appears the resulting production will compete in U.S. markets, (c) the advisory committee, to which the Secretary of Labor should be added, would ensure continuing sensitivity to U.S. employment problems.

In the long run, the development of these countries, to which the Fund will contribute, will make them growing future markets for U.S. exports.

4. The Fund's credits would not be an unwarranted subsidy of U.S. or foreign business. The concessional terms would benefit the people of the importing country, through their government, not U.S. or foreign businessmen.

5. The Fund's creation would not mean moving toward more tied aid, since the Fund's credits are not intended to be aid, but financing for export promotion, and would in any case not affect bilateral aid administered by A.I.D. (which is already largely tied).

[1] The views expressed in this statement are those of the individual, and do not necessarily represent those of the Overseas Development Council, or others of its directors, officers, or staff.

6. Fund credits would be repaid and would ease, rather than add to, the external debt problem of these countries. Developing countries can and do repay their loans from the U.S. The Fund's credits would be commensurate with their ability to repay and would be used for development purposes; the Fund should help strengthen their economies so that they would more than be able to repay its credits.

7. The bill should permit the Fund to pay the difference between U.S. ships and other cheaper ships, so that the mandatory use of American bottoms for 50 percent of Fund-financed goods would not prevent U.S. exports from being non-competitive because of high shipping costs.

8. The Fund should finance exports primarily to countries with per capita GNP under $200 a year (since that is where the need and opportunity are greatest), but should take account of all relevant factors, including ability to pay, poverty, and the need for concessional credit to support U.S. exports.

9. Many countries, for example the Soviet Union and Eastern and Western Europe, do not fall within the Funds' eligibility requirements; the House version of the foreign aid bill would prohibit funding for North Vietnam without further Congressional approval; and the advisory committee would assure that Fund operations were in the best interests of the U.S.

10. The Fund's interest rates should be as low as 3 percent, despite current high interest rates in this country, because the Fund's purposes are important to the well-being of the United States, and the Fund can't work at all unless it can extend credits at low interest rates for long periods. In any event, the low rates would apply only to dollar repayments by governments, while the foreign businesses would have to pay local currency for the imports either in cash or at generally far higher interest rates than prevail in the U.S.

11. The Fund would not contribute in inflation in the U.S. because it would help stabilize domestic prices by helping us earn the foreign exchange needed to finance our imports. It is so small as to be *de minimis* with respect to the entire economy, and it could be managed so as to give priority to credits for goods for which domestic demand is slack or where production can be expanded readily.

12. Fund financed exports would help development while promoting U.S. export objectives. Even though all imports are not necessarily good for development, there is no inevitable conflict among the Fund's various purposes. The eligible countries are a very large market, the variety of U.S. goods and services they need for development is great, and the Fund is comparatively very small.

The Fund should finance only those development-oriented exports which also are likely to lead to expanded markets and take account of U.S. employment needs. These may not *always* be optimum from a development point of view: however, care would be required to prevent low-utility exports from being financed, and the Fund might also need to verify that the policies of the importing country were such that the Fund-financed exports had a reasonable chance of being constructively used.

The advisory committee should be valuable in helping the Fund deal with these varied considerations, bringing to bear U.S. government experience in such fields as export promotion, overseas development, domestic employment, etc.

13. The main policy-making body for the Fund should be the advisory committee, which would reflect the Fund's multi-purpose nature.

The bill leaves designation of the operational entity to the President, subject to dialogue between the Executive and the Congress.

(a) If the agency chairing the advisory committee is export-oriented, the implementation agency should be development oriented, or vice versa.

(b) A new agency to run the Fund (as opposed to an existing agency like A.I.D. or Ex-Im Bank) would increase overhead costs and cause confusions, while losing the experience of existing agency personnel.

(c) Both Ex-Im and A.I.D. have advantages over the other, and it would be reasonable to designate either.

(i) Ex-Im has more experience in export promotion working with business. A.I.D. has more experience in development and with poor country governments, as well as extensive commodity financing experience.

(ii) Ex-Im does more financing than A.I.D. in countries with annual per capita incomes over $200, and there would be benefit from close Fund/Ex-Im relationship there. But A.I.D. does much more business than Ex-Im in the primary Fund target countries with under $200 a year per capita incomes.

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(iii) Ex-Im conveys the export image, which is better with U.S. business and the public. A.I.D. has a development image, which is better with the poor countries as well as with the Europeans and Japanese.

The Humphrey/Aiken proposals, of which the Fund is an important part, warrant and are attracting the support of important segments of the American public. They should help "get America back on a true course in our relations with developing countries."

Mr. Chairman and Members of the Committee: I appreciate the opportunity to appear before this Committee to comment on the U.S. Export Development Credit Fund. In my opinion, the proposals introduced in the Senate on June 20 by Senator Humphrey for himself and Senator Aiken, and previously in the House by a bipartisan majority of the House Foreign Affairs Committee, and of which the proposed Fund is an important component, are among the most far-reaching and important of any broadly supported Congressional initiative over the past 25 years with respect to our interests in the developing countries of Asia, Latin America, and Africa.

The changes proposed stem from a recognition of the fact that our relations with the developing countries are no longer as simple as they once were. In place of a one-dimensional relationship of aid-giver and aid-receiver is a more complex interaction across a broad front of common interests in the fields of aid, trade and monetary affairs, private investment, energy, environment, use of the oceans, control of narcotics, and numerous other concerns. As a result, in place of a relationship of dependency is one of interdependence between the United States and the developing world—it is becoming clearer every day that we can no longer afford to overlook the importance of the poor countries to our own welfare. And because this increasing interdependence has been accompanied by a lessening of cold war tensions, in place of an overriding concern for our own security in our dealings with the developing countries there is a growing concern for our own economic and social well-being. The stake is no longer simply peace, but prosperity as well.

The bill reported by the Senate Foreign Relations Committee reflects these facts in a number of ways—by attempting to coordinate more effectively the variety of U.S. activities which affect the development of the poor countries, by adopting a more relaxed style of bilateral development aid which is less concerned with influencing governments to follow our political lead and more with using our aid to solve development problems affecting the welfare of the poor majority, and by building broader trade relations with the very poorest countries through an Export Development Credit Fund designed to bring more U.S. goods and services within their financial reach.

The Export Development Credit Fund would make credits available for financing U.S. exports having a developmental value primarily to those countries with per capita GNP below $200 a year. The Fund could mean a major breakthrough for American exports to a potentially substantial market and should also prove useful to the lowest-income countries. Quite apart from China, the United States in recent years has increasingly neglected the future market potential of the poorest billion people living elsewhere in the developing world—and the need for more American goods and services to advance their development. The Fund can help to correct this neglect by providing financing which is competitive with that of other industrial nations and which also increases the amount of suitable financing available for our exports—creating markets for the immediate future and for follow-on orders, as well as helping build stronger economies that can develop into better customers for U.S. goods over the long run.

U.S. exports to less developed countries as a whole totalled over $16 billion in 1972—nearly the same as our combined exports to Japan and the recently enlarged European Community (including the U.K.). These exports have been growing ~~at~~ about 10 per cent a year over the past few years. Yet several facts emerge from the statistics on U.S. exports to those developing countries with the very lowest annual income—below $200 per capita—in the tables in Annex A derived from the material released by the members of the House at their press conference on the House version of the Humphrey/Aiken bill:

First, total U.S. exports to the lowest-income category of developing countries are not expanding, but actually decreasing. With over 60 per cent of the population of the poor countries, this category now takes only 10 per cent of our exports to developing countries.

Second, other rich countries are expanding their exports to these lowest-income countries along with expanding their aid to these countries.

Third, American exports to these countries are heavily dependent on U.S. Government credits, which are not increasing to these countries.

Fourth, very little of the financing for the lowest-income countries, only slightly over $100 million in 1972, comes from the Export-Import Bank—most comes from A.I.D. and P.L. 480, which are decreasing. This contrasts sharply with the financing pattern for our rapidly growing exports to the much less populous, more advanced developing countries, for which the slightly concessional Export-Import Bank terms are suitable and where Ex-Im loans and medium-term guarantees have increased to over $2.5 billion in 1972.

Many U.S. exporters believe that a major factor behind our poor performance in these markets is the shortage of financing available on sufficiently concessional terms. Hence the idea of a Fund to make credits available to these markets at more attractive terms appears sound. Nevertheless, a number of questions about the proposed Fund need to be answered.

1. *Where is the line between export credits and development loans?* There is no easy answer to this question, other than the intention of the lender. It is clear, however, that large-scale export promotion to the lowest-income countries requires a substantial concessional component which is not presently available for American exporters.

There is a modest subsidy component in Ex-Im loans, which are usually at a rate lower than that at which the Bank borrows on the market, with the interest differential being made up from income available to the Bank. There obviously is a large concessional element in the typical IDA loan, and a still large but somewhat smaller element in A.I.D.'s concessional loans, which are on harder terms than IDA's.

In the United States, Ex-Im loans to developing countries have increasingly begun to resemble development finance as the Bank has extended repayment periods and followed flexible rules. For instance, direct loans by Ex-Im in FY 1970 for conventional electrical equipment had maturities ranging from 5½ years to 16, with a median of about 10. At the same time, A.I.D. development financing has begun increasingly to incorporate elements from export credits, shifting from untied to tied procurement, from largely grants to mostly loans, and from highly concessional loans to credits on increasingly hard terms. Other industrial countries—such as Canada, Germany, Japan, and France—promote exports to lowest-income countries not only by using their aid programs specifically to advance their export interests, but by blending a "cocktail" for individual transactions, using their public aid funds in combination with loans on commercial terms, so as in effect to reduce the hardness of commercial credits, especially the rate of interest.

A recent study[1] examining the interaction between development finance and export credits notes:

> "Unlike other donor countries, the U.S. government has sought to maintain a fairly rigid line between its foreign aid program and the activities of the Export-Import Bank of the United States. The line is based less on a clear distinction between what the two agencies actually do than on their stated motivations. What Ex-Im Bank does is labeled export credit, because the mission of that agency is to promote exports, despite the fact that Ex-Im Bank has been making long-term direct loans to developing countries (among others) for a longer time than any other development finance or national export credit agency. What USAID and the World Bank do is called development finance, or foreign aid, because here the motivation is to be bankers of the poor. Yet the loans of these agencies finance exports too, and, as far as the World Bank is concerned, often on terms comparable to those of the national export credit agencies."

The purpose of the Export Development Credit Fund is to increase U.S. exports that have a developmental character to the populous lowest-income countries. At the same time, these credits should help strengthen the economies of these countries, thus bringing a better life to their people, increasing their ability to meet their future obligations, and assisting them to become increasingly better markets for U.S. industry.

[1] "The Bankers of the Rich and the Bankers of the Poor: The Role of Export Credit in Development Finance," by Nathaniel McKitterick and B. Jenkins Middleton, Overseas Development Council Monograph No. 6 (1972).

Because of its heavy emphasis on export expansion, the Fund would be quite different from the present development loan program. Like the development loan program, it would have to restrict its financing to goods which are likely to contribute to the development of the importing country. But unlike development lending, it would have to look also at the export expansion potential of those goods and should also consider the impact of its activities on employment in the United States. Second, its style of operation would be less intrusive, since it would not be expected to suggest projects or policies to the importing country, but merely to screen requests for financing. Because of its complementary but differing goals, the Fund could be expected to make decisions in a somewhat more businesslike and less bureaucratic way than is possible with development lending, and with fewer personnel. Third, the Fund would focus exclusively on the poorest of the developing countries, which are not only those where U.S. exports are doing so badly, but where the need for the kind of credit the Fund would offer is greatest.

2. *Would the availability of credit on softer terms actually increase U.S. exports?* Or might it merely displace existing financing? Nobody can be certain what will happen in this inexact science, but the bulk of the credit used from this Fund should result in additional exports. We do know that the vast bulk of financing for the market represented by countries with annual per capita GNPs under $200 now comes from P.L. 480 and A.I.D. loans and grants. Since the Fund is not intended for financing exports of agricultural surpluses, there should be no effect on P.L. 480. Since A.I.D. loans and grants will be made available on terms generally better than those of the Fund, and since most of the developing countries need more rather than less concessional terms, A.I.D. financing should not be displaced unless the U.S. Government chooses—as a matter of deliberate policy—to withdraw it and substitute Fund credits. It is possible that some of the modest amount loaned each year to the poorest countries by the Export-Import Bank would be displaced by the Fund, but if so, it would again be a matter of deliberate U.S. governmental decision. Given the heavy debt burden some of the poorest countries carry, it might be good if the softer terms of the Fund were substituted for the harder terms of the Export-Import Bank; in any case the amount of exports involved is quite small. There is no way of knowing whether the also rather small amount of private financing (about $250 million) might be displaced by Fund credits. To the extent this financing covers sales from parent companies to subordinates, it probably would not be affected. Likewise, exports financed by private equity capital probably would not be affected. My own guess is that the residue of private loan financing that might be displaced by the Fund would be very small indeed.

Is the poor performance of U.S. exports to these markets relative to others due to uncompetitive financing—or to other causes? Clearly the overvaluation of the dollar until recently was a contributory factor, but this factor did not prevent our exports to the more advanced developing countries from rising rapidly. Another factor has been that the tied aid of other countries to these lowest-income countries has been rising while ours has been falling. Although we do not have comprehensive statistics, there is a great deal of material in the form of known cases of bids lost because of lack of competitive financing. U.S. exporters with whom I have talked in recent months believe that the lack of suitable financing is a very important factor in the situation. Many of them point out that exports are often lost because Americans do not bother to bid—believing that they cannot win because of inadequately competitive financing.

Whatever the history and causes of our poor export performance to this category of countries, I think there are at least two reasons to expect that more attractive financing would help. First, if a line of credit were extended by the Fund to the government of country A for a particular purpose, such as imports of electrical equipment or heavy construction equipment, that government would have an incentive to make sure that American exporters were given a fair opportunity to compete for business. Otherwise, country A would fail to make use of a valuable resource, and in due course the line of credit would be withdrawn. Second, and much more critical, once it became known that there was a substantial line of credit available to country A for imports from the United States, there would be an incentive for U.S. exporters to pay more attention to that market. If this were to happen, some dramatic changes probably would take place. U.S. exporters might be encouraged to send representatives to importing countries or to arrange, where warranted, for a local representative to ensure that they are notified of tenders to bid, to secure copies of specifications for them, and to represent their interests in general. These basic preliminary steps can be very important in increasing U.S. exports on commercial terms to a particular market on a long-run basis.

Now that there has been a substantial devaluation of the dollar, and that U.S. price indices are trending upward at a slower pace than those of our competitors, there is every reason to expect that American goods will be able to compete on price and quality for these markets. This is precisely the right time for U.S. Government action to make sure that U.S. exports can compete on financing terms as well.

I hope that the Fund would be administered in such a way as to correct more than the deficiency in U.S. financial competitiveness. It should also aim to help provide U.S. business with timely information and encouragement to seek sales in these markets, and it should analyze other obstacles to U.S. exports and make appropriate recommendations as to how they can be removed.

But the main point is that, as a general rule, the need of these countries for development-oriented imports far exceeds both their ability to pay for them in cash and the amount of suitable credit currently available to them. This means that if price and quality are reasonable and there are no extraordinary obstacles (such as lack of information or inability to obtain proper servicing), an increase in the kind of concessional credit offered by the Fund will result in a corresponding increase in the level of imports into these foreign-exchange-short countries.

3. *Would the Fund create U.S. jobs?* The Export-Import Bank has calculated that each additional $12,500 of exports creates one U.S. job. At that rate, if the Fund were to stimulate an average of three-quarters of a billion dollars of exports each year, some 50,000–60,000 jobs would be created. The U.S. Department of Labor has made similar calculations.[1]

Obviously, jobs in this country can be created only if the goods exported are actually produced in the United States. The Fund would have to be subject to source, origin, and componentry rules similar to those applied to exports under AID development lending and Export-Import Bank programs, to make sure that the U.S. goods financed by the Fund were American in fact.

The Fund would have to prevent the short-run increase of jobs from Fund-financed exports from being offset by longer-range adverse effects on U.S. employment caused by those same exports. There are several reasons why these adverse effects are unlikely to occur.

First, the Fund would extend credit only to the poorest of the developing countries. In most of these countries the cost of industrial production are generally high, despite lower wages than in the industrialized countries, because of factors such as lack of supporting services, high transport costs, production and transportation delays, poor management, and small markets. Most of these countries are not, and will not be for many years, in a position to compete with the United States except on a very selected basis.

Where there is cause for concern that some of the products a country eligible for Fund credits might produce would be able to compete successfully with U.S. manufactures—especially in industries which are in trouble in this country—the Fund would have to take steps to assure that its funds were not used to enable other countries to erode U.S. markets. To take the simplest case, the Fund should not finance textile mills, shoe factories, or assembly equipment or components for TV sets when it appears that the resulting production would compete in U.S. markets.

The advisory committee set up to help guide the Fund's activities includes a number of government agencies—Treasury, Commerce, and Agriculture—whose concerns are primarily domestic and which should be sufficient to make sure not only that the U.S. economy is not hurt by the Fund's activities, but that the mutuality of benefit (to the United States as well as to the importing country) is real. In addition, to ensure a continuing concern and sensitivity to the specific problems of employment in this country, the Secretary of Labor should be added to the advisory committee.

In the long run, of course, the Fund would help create future markets for U.S. exports by supporting the development of the lowest-income countries. While development may enable countries to become more competitive with the

[1] See "Employment and Exports, 1963–72," Donald P. Eldridge and Norman C. Saunders, *Monthly Labor Review*, Aug. 1973, pp. 16–27.

United States in certain special areas of production, experience has shown that our exports to poor countries with growing economies expand very rapidly too, and that these exports tend to be in higher wage-paying sectors—thereby increasing living standards for American workers. It bears remembering that U.S. exports to developing countries have more than doubled in value since 1965 as they have developed, and the United States has consistently maintained a trade surplus with them. The way to avoid injury to specific U.S. industries and their workers caused by competition from developing countries as they develop may be through trade legislation, negotiation, adjustment assistance, or other means, but it is surely not to refuse our aid and cooperation in order to try to keep the mfrom developing—especially those who can hurt us the least and need our help the most.

4. *Would the Fund's credits be an unwarranted subsidy of U.S. or foreign business?* No. Any actual element of subsidy or concessionality stemming from low interest or long maturity would benefit the people of the importing country, through their government, not U.S. or foreign businessmen, since most credits would be extended to governments, though they would make possible commercial transactions between the traders involved.

One object of the Fund is to make U.S. exports competitive with other industrialized countries in financing terms. But they must still compete on price and quality with exports from Europe and Japan and any other country whose financing is available on comparable terms. In addition, commodities purchased with credits provided by the Fund would be subject to the price test contained in Section 604(b) of the Foreign Assistance Act, which would prohibit any exporter under Fund financing from charging more for his exports than the prevailing market price in the United States. The U.S. exporter would receive no payment other than the price of the goods, no government susidy, no tax break—merely the opportunity of making additional sales because the credit provided would enable the country to import the U.S. goods.

There are at least three reasons why the concessional terms of the Fund credits should not be extended to the individual business in the importing country. First, it would be a breach of the GATT and the Berne Union Agreements, where the United States and other countries have pledged not to use subsidized credit terms to compete unfairly with each other. Second, it would mean a real windfall to the foreign business, at U.S. Government expense. And third, it is unnecessary, since the need of the eligible countries for additional imported goods is so much greater than the amount of the Fund (an average of only three-quarters of a billion dollars a year) that the availability of Fund dollar credits to the importing country should generally be incentive enough without offering a financial lure to the private importer as well.

5. *Would creating the Fund mean moving in the direction of tying aid and threfore counter to desirable trends in aid-giving?* The Fund's credits are not intended to be aid or a substitute for existing aid, but financing for export promotion. The Fund would do for our exports to the lowest-income countries what the Export-Import Bank does for increasing American exports to more advanced countries. As far as bilateral aid administered by A.I.D. is concerned, that is already largely tied, and creating the Fund would do nothing to tie it further.

6. *Would Fund credits be repaid, and would they ease or add to the financial problems of poor countries already saddled with a heavy debt burden?* Of course, compared with a grant, any loan is hard. As a supporter of development, I hope that an increasing flow of grant funds will be made available. But it is not reasonable to suppose that all low-income country imports could be financed with grants. Some must be paid for with cash (the hardest form of import), and some with commercial loans and investments. The Fund would add a new dimension between grants and commercial credits.

The experience with loans to the developing countries over the past 20 years is that they can and do repay their loans. Occasionally, they need to reschedule repayments, when the terms of their debt are too hard. But they do not normally default on loans. Their repayment record has been outstanding.

Since the Fund's terms would be more commensurate with the poorest countries' ability to pay, and for goods and services of a developmental character which would strengthen their economies, there should be fewer problems or need for debt relief than if those credits were not available or were available only on harder terms. Used productively, Fund credits should help build up their economies so that they would more than be able to repay those credits.

7. *What about the use of American ships?* The mandatory use of American ships for 50 percent of Fund-financed goods could make U.S. exports much more expensive than they would otherwise be. To prevent our exports from being non-competitive because of high shipping costs. I propose that the bill be amended as the House bill was to permit the Fund to use aid receipts to pay for the difference between the cost of U.S. ships and other cheaper ships.

8. *Which countries should be eligible?* The bill provides that countries with less than $200 per capita annual GNP are to be the main recipients of Fund credits, but avoids making per capital GNP a rigid test of eligibility for being included in the category of "lowest-income countries." Although per capita GNP is the best measure we have of poverty, it is not a perfect measure. Nor does it measure precisely the relative ability of countries to borrow on commercial terms or to service debt. Finally, it does not measure accurately the countries where U.S. exports are having particular difficulty. For those reasons, the record on the legislation should make clear the Congressional intent that the Fund be administered flexibly to take account of all relevant factors, including ability to pay, poverty, and the need for concessional credit terms to support U.S. exports. The table set forth below makes it clear, however, that the need and opportunity for the Fund is greatest, though not exclusively, in the category of countries with per capita incomes below $200 a year:

Free world	Countries (number)	Population (millions)	GNP (billions)	U.S. Government 1972 commitments (millions): Ex-im bank	Public Law 480	AID	1972 U.S. exports (millions)	Total U.S. Government commitments as percent of U.S. exports
Below 200	40	1,072.9	$110.1	$115.6	$523.8	$694.3	$1,615.3	82
200 to 249	8	146.4	30.5	71.8	162.0	448.8	1,046.0	65
250 to 299	8	61.6	16.1	52.3	76.6	295.9	1,106.6	38
300 to 375	11	108.7	34.8	367.5	64.1	197.1	1,199.1	52

Note: Population and GNP data from 1972 World Bank Atlas; 1972 commitments data from AID sec. 657 report; U.S. export data from Department of Commerce "Highlights of Foreign Trade."

9. *What countries should be excluded?* The statutory definition of eligible countries as both poorest and needing such assistance eliminates the USSR and the balance of the Soviet bloc along with the rest of Europe. In addition, any funding for North Vietnam without Congressional approval would be prohibited by the currnet foreign aid bill as passed by the House. Beyond this, the statutory advisory committee and the requirement for a detailed semi-annual report to the Congress provide substantial assurance that Fund operations will be responsible and in line with the considered best interests of the United States.

10. *Why should the Fund provide credit as low as 3 per cent interest when interest rates are so much higher in this country?* Incentives in the form of lower interest rates or tax deductions for interest paid have often been and continue to be used by the U.S. Government to achieve specific goals. In the case of the Fund, its purposes could not be accomplished at all if credits were extended at commercial or near-commercial rates. Most of the goods to be financed by the Fund simply would not be imported from the United States (on such terms) by countries without the foreign-exchange-earning capacity to service the kind of debt burden which commercial terms entail.

In short, if the Fund's purposes are important for the well-being of the United States and we want it to fulfill them, it must be able to extend credits at low rates of interest for long periods of time. Otherwise, it simply won't work.

It must be remembered, moreover, that the low rates would apply only to the dollars to be paid by the government of the importing country to the U.S. Government. The foreign businessman would not be getting these low interest rates, but would be paying local currency for the imported goods and services either in cash or at generally far higher interest rates than prevail in this country.

11. *Will the Fund contribute to inflationary pressures in the United States?* Its net effect over the long run should be to help stabilize prices in the United States through increasing our capacity to earn the foreign exchange which is required to finance needed imports. Domestic expenditures, of course, contribute to inflationary pressures at times of tight supply, either in the whole economy or in

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particular sectors, such as with grain today. With respect to the former, it should be remembered that the Fund's expenditures are so small relatively that they would be almost *de minimus* with respect to the entire economy. Its potential for directly contributing to inflationary pressures in particular fields can be largely met through giving priority in extending credits to those goods for which domestic demand is relatively slack or which are of a type where production can be expanded readily to meet increased demand. The Fund can and should be managed in such a manner as to promote the sale of those goods which it is in the U.S. interest to export.

12. *Would Fund-financed exports help development while promoting U.S. export objectives?* Or would the fact that the Fund would need to focus on the export expansion potential of the goods and services financed, while avoiding the promotion of industries abroad that would jeopardize U.S. jobs at home, mean that development of the poor countries might get lost in a crush of conflicting purposes?

This is a tough question, and a critical one, for not all imports are necessarily good for development (nor do all U.S. exports carry with them the opportunity for expanding markets, nor is it possible to guarantee that every U.S. export will increase U.S. employment in the long run). The bill provides that the Fund may only be used to finance goods that promote development. But it will not be easy to reconcile the various interests the Fund will have to serve.

The short answer, I believe, is that there is no necessary conflict among these purposes—particularly since the eligible countries are a very large market, the variety of U.S. goods and services they need for their development is so great, and the Fund is relatively so small. These facts mean that it should be possible—with a little effort—for the Fund to finance only those development-oriented exports which also are likely to lead to expanding U.S. export markets and at the same time take account of the legitimate needs of our own domestic economy, especially of the American worker.

This means that the Fund would not *always* be able to finance those goods and services which might benefit a particular country's development *most*. By the same token, it might sometimes be necessary to refuse to extend credits for exports that are not likely to contribute to a country's development, despite their export expansion potential. And it might also be necessary to avoid financing exports even though they serve the dual purpose of development and export expansion if, for example, they would strengthen a country's ability to compete successfully with a distressed U.S. industry.

Because of the purposes other than development that the Fund must serve, care would be required in administering the Fund to prevent low-utility-exports from being financed. I believe that the Fund should have a flexible commodity eligibility test, designed to make certain that its exports support development in the importing country. Beyond that, there may be good reason for the Fund to verify that the import and investment policies of the importing country are such that Fund-financed exports to that country have a reasonable prospect of being constructively used. Such tests should not lessen the Fund's usefulness as a promoter of U.S. exports, since the range of U.S. goods and services helpful to development is very broad.

In order to take these varied considerations into account, the advisory committee established by the proposed bill should prove valuable, for wherever the President might locate the Fund administratively, the committee would ensure that the extensive experience accumulated by the U.S. Government in advancing U.S. interests in such different fields as promoting exports, overseas development, jobs at home, security, et cetera, would be brought to bear on its decisions. The P.L. 480 Interagency Committee has proved extremely valuable for this purpose with respect to agricultural commodities.

13. *Who should run the program?* The legislation recognizes the multipurpose nature of the Fund by requiring the President to establish an advisory committee of representatives of the principal U.S. Government agencies concerned and, as in the case of the surplus agricultural commodity program under P.L. 480, the interagency committee should be the principal policy forum. The designation of the operational entity is left to the discretion of the President, subject to the

dialogue between the Executive Branch and the Congress obviously contemplated by the legislative postponement of the effective start of Fund operations until July 1, 1974, and the requirement for the President to submit a detailed implementation plan to the Congress by April 15, 1974.

Certain criteria can be suggested for consideration in developing the detailed implementation plan. These include:

(a) To best reflect the varied purposes sought to be advanced by the Fund, if the implementation agency is an institution with an essentially export-oriented background such as Commerce or Ex-Im, then the chairmanship of the advisory committee should be an agency which better reflects other U.S. interests as well, such as the Department of State. Conversely, if the implementation agency has had more of a development orientation, such as A.I.D., the chairmanship might be in an agency such as Commerce, reflecting the major export interest.

(b) There is much to be said for not creating still another implementation agency to operate in countries where existing U.S. agencies, notably Ex-Im and A.I.D., already operate. Not only would the creation of a new agency result in further overhead costs (either existing agency would require very little additional personnel) and confusion to businessmen and foreign governments, but it would not have the advantage of the wealth of experience available in the personnel of the existing agencies.

(c) If the choice of the implementation agency is narrowed to Ex-Im and A.I.D. (or its successor), each agency would have certain advantages over the other. My own conclusions are that it would be reasonable to designate either, with the agency so designated drawing on the expertise of the other through the advisory committee mechanism and other means. The considerations include:

(i) Ex-Im has more global experience in the export promotion field working directly with business. A.I.D. has more experience working in development and with the governments of the poorest countries, as well as extensive experience in financing U.S. commodities on both a loan and grant basis. For the reasons of avoiding windfall profits to business and problems with GATT and the Berne Convention, the bulk of the Fund's commitments probably should be made on a government-to-government basis as are the commitments of other industrial countries which have been increasing their exports to the poorest countries in recent years.

(ii) Ex-Im currently does more financing than A.I.D. with countries in the over $200 per capita income category, and while A.I.D. works in all these countries too, there would be many benefits from a close working relationship between the Fund and Ex-Im in those countries. A.I.D., however, does much more business than does Ex-Im in countries in the under $200 per capita income category that is to be the primary target of the Fund. With respect to the latter category of countries, in FY 1972 A.I.D. financed six times as much U.S. goods and services as Ex-Im, including a considerably larger amount on credit terms than Ex-Im. This pattern will continue in FY 1974 and FY 1975 since at least 50 percent of the A.I.D. funds must be spent on a loan basis, and Ex-Im will do relatively little business with those governments—such as Pakistan, India, and Ceylon—which have limited short-term repayment capacity.

(iii) Ex-Im conveys more of the image of the new export emphasis; A.I.D. has the more traditional development image. The export image is probably better with U.S. business and the public; the development image is probably better for the U.S. Government and business working with the poorest countries, and to avoid European and Japanese charges of unfair competition.

Finally, Mr. Chairman, I would like to express again my enthusiastic support for the Congressional initiative represented by the Humphrey/Aiken bill, of which the Fund is such an important part. These proposals are a major improvement in substance over present legislation; they warrant and are attracting the support of important segments of the U.S. public. They should do much, to use the words of Senator Humphrey in introducing the bill, ". . . to get America back on a true course in our relations with developing countries."

ANNEX A

TABLE I.—U.S. FOREIGN TRADE

	With the European economic community and Japan	With the less developed countries	With Canada and other countries	Total
U.S. exports:				
1958	4.9	8.1	3.4	16.4
1962	7.5	8.3	5.2	21.0
1967	10.7	11.0	9.3	31.0
1972	16.8	16.3	16.1	49.2
U.S. imports:				
1958	3.3	6.1	4.0	13.4
1962	5.0	6.3	5.2	16.5
1967	9.5	8.2	9.2	26.9
1972	21.6	15.3	18.7	55.6
U.S. balance of trade:				
1958	1.6	2.0	-.6	3.0
1962	2.5	2.0	0	4.5
1967	1.2	2.8	.1	4.1
1972	-4.8	1.0	-2.6	-6.4

Source: The Annual Report of the Council on International Economic Policy, the White House.

TABLE II.—UNITED STATES SHARE OF THE MARKET IN 11 OF THE POOREST DEVELOPING COUNTRIES[1]

	Total country imports (millions)	Imports from United States		Imports from other donors[2]	
		Millions	Percent of share	Millions	Percent of share
1966	$6,400	$1,672	26.1	$2,856	44.6
1967	6,212	1,725	27.8	2,770	44.6
1968	6,115	1,241	20.3	2,716	44.4
1969	6,194	1,165	18.8	2,978	48.1
1970	6,851	1,576	23.0	3,376	49.3
1971	7,655	1,501	19.6	4,048	52.9
1972	[3] 7,650	1,192	15.6	4,311	56.4

[1] India, Pakistan, Bangladesh, Indonesia, Sri Lanka, Nigeria, Tanzania, Zaire, Ethiopia, Bolivia, and Haiti, together comprising 89 percent of the population of the non-Communist countries with per capita GNP below $200.
[2] Western Europe, United Kingdom, Canada, and Japan.
[3] Estimate.

Sources: IMF, "Direction of Trade," 1966–70, and April 1973.

TABLE III.—CONTEXT OF U.S. EXPORTS

Countries	Rich	Emergent	Poor	Poorest
GNP per capita, 1970[1]	+$1,000	$1,000-$500	$500-$200	-$200
Total population (millions)[1]	813.5	182.6	536.4	1,942.2
Of which Communist	(317.7)	(31.0)	(1.3)	(871.1)
1970 GNP (billion)[1]	$1,706.7	$134.5	$156.5	$239.3
Of which Communist	(572.7)	(26.7)	(.6)	(128.7)
1972 U.S. exports (billions)[2]	$35.2($29.4)	$6.1($5.2	$7.0($6.2)	$1.6($1.8)
As percent of importer GNP[3]	3.0	5.6	4.6	1.4
As percent of importer trade[3 4]	16.2	25.2	25.6	14.8
U.S. Government, fiscal year 1972 commitments (billions).	$1.9	$0.9	$3.2	$1.3
As percent of calendar year 1972 U.S. exports[5]	5.5	14.2	46.0	81.8
Sources of commitments:				
Eximbank loans and medium-term guarantees	1,840	776	1,840	116
AID (including technical assistance)	50	50	905	695
Public Law 480	55	46	490	524

[1] IBRD Atlas.
[2] 1971 U.S. exports in brackets.
[3] Excluding Communist countries.
[4] Excluding areas not covered by IMF statistics.
[5] U.S. Government commitments in fiscal year 1972 were only partially disbursed during calendar year 1972, but this table serves as a crude indicator of the degree of relationship between U.S. Government financing commitments and U.S. exports. The percentage figure is somewhat overstated since actual disbursements for exports will be less because these commitment figures include technical services, and actual disbursements frequently fall some degree below the commitment amounts.

Note.—U.S. exports to the lowest income countries depend heavily on U.S. Government financing. Most of that financing is through Public Law 480 and AID; very little is by the Export-Import Bank. However, the latter is the largest financer of exports to countries in each of the 3 income groups above the lowest.

TABLE IV.—EXPORTS, AID AND PRIVATE FLOWS TO LDC'S—THE U.S. AND OTHER INDUSTRIAL COUNTRIES COMPARED

U.S. exports to less developed countries have expanded during recent years—by 82.4 percent from 1967 to 1971,* (but as shown in Table II, in 1972 they lost ground in the poorest countries). But other industrial country exports to LDCs grew faster during the same period.[1]

	Percent
United Kingdom	51.4
France	60.5
Germany	67.0
Canada	64.1
Japan	135.4

U.S. official and private resource flows to LDC's increased during the same period by 22.1 percent.[2]

But other industrial country aid and investment increased far faster.[2]

	Percent
United Kingdom	97.6
France	22.0
Germany	67.2
Canada	178.9
Japan	168.4
Total DAC other than United States	98.2

TABLE V.—COMPARISON OF RESOURCE FLOWS TO DEVELOPING COUNTRIES WITH EXPORTS TO THEM

	U.S. fiscal year 1971 economic aid commitments as percent of calendar year 1971 U.S. exports to [1]	Average 1969–71 economic aid receipts from all countries as percent of 1968–70 imports by [2]
Countries with GNP/capital below $200 per year:		
India	71	32
Pakistan	57	32
Indonesia	68	36
Cameroon	14	28
Ethiopia	82	22
Guinea	93	33
Kenya	22	14
Nigeria	25	10
Zaire	33	13
Countries with GNP/capital of $499–$200 per year:		
Jordan	21	21
Korea	36	18
Ghana	37	14
Ivory Coast	37	10
Algeria	16	8
Zambia	11	3
Taiwan	11	3
Malaysia	10	3
Dominican Republic	17	15
Nicaragua	24	10
Brazil	20	8

[1] AID "U.S. Overseas Loans and Grants" and Department of Commerce "Highlights of Exports and Imports."
[2] OECD DAC Chairman's Report for 1972 table 23.

[1] IMF *Direction of Trade,* October 1972.
[2] OECD, 1972 Review, by Chairman of the DAC, "Development Cooperation."

TABLE VI.—U.S. EXPORTS AND GOVERNMENT FINANCING TO DEVELOPING COUNTRIES

Country	GNP (per capita)	Population (millions)	GNP (billions)	Export-Import authorized fiscal year 1972 (million)	AID authorized fiscal year 1972 (million)	Public Law-480 authorized fiscal year 1972 (million)	Total (million)	U.S. exports calendar year 1972 (million)
Burundi	$60	3.5	$0.2			$0.7	$0.7	$1.3
Rwanda	60	3.6	.2			.5	.5	1.3
Upper Volta	60	5.4	.3		$0.1	2.8	2.9	2.4
Somali	70	2.8	.2					5.1
Mali	70	5.0	.3	$0.7	.1	1.5	2.3	1.6
Malawi	80	4.4	.3		2.6	.8	3.4	1.2
Niger	80	4.0	.4		.1	.9	1.0	2.0
Chad	80	3.6	.3		.1		.1	.7
Afghanistan	80	14.3	1.1		9.6	24.7	34.3	17.5
Ethiopia	80	24.6	1.9	.4	31.1	.8	32.3	24.1
Zaire	80	18.8	1.6	1.9	2.0	2.3	6.2	37.3
Nepal	80	11.1	.9		2.0	8.2	10.2	8.6
Burma	80	27.6	2.2	2.8		.7	3.5	10.5
Indonesia	80	115.6	8.9	17.1	115.7	124.6	257.4	307.6
Bangladesh	80	70.2	5.0		199.1	87.2	286.3	(1)
Dahomey	90	2.7	.2		.1	.2	.3	8.4
Lesotho	90	.9	.1		.1	1.0	1.1	1.7
Tanzania	100	13.3	1.4	.4	1.9	1.2	3.5	11.9
Yemen	100	7.0	.4			.1	.1	2.2
North Vietnam	100	21.2	2.2					(2)
India	110	538.1	57.3	15.1	19.5	100.3	134.9	350.0
Haiti	110	4.9	.5		3.2	1.7	4.9	52.6
Sri Lanka	110	12.5	1.4	.2		17.1	17.3	28.3
Botswana	110	.6	.1		.1	9.8	9.9	2.4
Pakistan	120	60.0	7.2		62.4	102.7	165.1	[1] 183.0
Laos	120	3.0	.4		48.9	3.3	52.2	8.2
Gambia	120	.4	(3)			.2	.2	.8
Guinea	120	4.0	.5	.7		.7	1.4	10.5
Nigeria	120	55.1	6.7	30.9	24.9	.2	56.0	114.5
Sudan	120	15.7	1.9	4.0		.1	4.1	18.2
Cambodia	130	7.5	1.0		37.1	20.1	57.2	72.7
Sierra Leone	130	2.6	.5		.1	2.1	2.2	6.5
Uganda	130	9.8	1.3	.1	5.3		5.4	2.9
Central African Republic	140	1.6	.2	4.4	.2	.2	5.0	.7
Mauritania	140	1.2	.2	.1		1.4	1.5	4.5
Togo	140	2.0	.3		.1	.4	.5	4.4
Kenya	150	11.3	1.7	6.8	2.1	.5	9.4	25.6
China (Peoples Republic of China)	160	836.0	121.9					60.2
Malagasy Republic	170	7.3	1.0	.3		.4	.7	11.5
Bolivia	180	4.9	.9	4.9	55.6	4.2	64.7	45.2
Cameroon	180	5.8	1.1	21.5	.1	.2	21.8	37.0
Swaziland	180	.4	.1	.1	.1		.2	1.8
Thailand	200	36.2	7.1	11.7	17.4	14.8	43.9	169.9
South Vietnam	200	18.3	3.7		386.9	67.8	454.7	317.6
Egypt	210	33.3	69.0	8.3	1.5		9.8	76.1
Philippines	210	36.9	7.7	43.0	30.5	37.6	111.1	365.6
Morocco	230	15.5	3.6	1.0	1.6	35.7	38.3	57.8
Senegal	230	3.9	.9		.1	1.1	1.2	13.9
Liberia	240	1.5	.4	7.8	12.3	2.9	23.0	41.2
Mauritius	240	.8	.2			.6	.6	3.9
Jordan	250	2.3	.6	.7	55.6	3.8	60.1	65.2
South Korea	250	31.8	7.9	16.2	43.1	211.7	271.0	735.4
Tunisia	250	5.1	1.3	.6	17.1	23.4	41.1	64.6
Paraguay	260	2.4	.6	.8	2.8	1.7	5.3	18.3
Rhodesia	280	5.3	1.5					.7
Honduras	280	2.5	.7	5.7	3.7	1.2	10.6	79.1
Equador	290	6.1	1.7	28.3	5.0	3.1	36.4	133.6
Syria	290	6.1	1.8			.3	.3	19.7
Algeria	300	14.3	4.3	79.0			79.0	97.7
Congo (Brazzaville)	300	.9	.3					5.5
El Salvador	300	3.5	1.1	4.3	6.7	1.4	12.4	73.9
Turkey	310	35.2	10.9	75.0	59.0	7.5	141.5	300.3
Ghana	310	8.6	2.6	.8	2.6	10.7	14.1	43.6
Ivory Coast	310	4.9	1.5	49.4			49.4	22.3
Iraq	320	9.7	3.1			.2	.2	23.3
North Korea	330	13.9	4.6					
Colombia	340	21.6	7.4	136.6	93.3	20.7	250.6	317.3
Dominican Republic	350	4.1	1.4	13.2	7.4	19.1	39.7	183.3
Guatemala	360	5.2	1.9	6.6	12.5	3.4	22.5	101.9
Gyana	370	.7	.3	2.6	15.6	1.1	19.3	30.0
Iran	380	28.7	10.8	229.9		1.1	231.0	558.6
Malaysia	380	10.9	4.1	35.2		.6	35.8	128.0
Taiwan	390	14.0	5.5	382.3	.2		382.5	630.9
Zambia	400	4.1	1.6	60.1		.3	60.4	34.4

See footnotes at end of table.

TABLE VI.—EXPORTS AND GOVERNMENT FINANCING TO DEVELOPING COUNTRIES—Continued

Country	GNP (per capita)	Population (millions)	GNP (billions)	Export-Import authorized fiscal year 1972 (million)	AID authorized fiscal year 1972 (million)	Public Law-480 authorized fiscal year 1972 (million)	Total (million)	U.S. exports calendar year 1972 (million)
Brazil	420	97.8	38.5	563.6	13.9	5.7	583.2	1,242.9
Nicaragua	430	2.0	.9	4.8	2.5	1.7	9.0	74.5
Saudi Arabia	440	7.4	3.2	16.2			16.2	314.2
Peru	450	13.6	6.1	43.0	31.8	11.1	85.9	292.3
Mongolia	460	1.3	.6					(2)

1 A separate figure for exports to Bangladesh is not available. It is included in the $183,000,000 for Pakistan.
2 Less than 100,000,000,000.

Table VII.—FINANCIAL FLOWS UNDER THE EXPORT DEVELOPMENT CREDIT FUND

[In millions of Dollars]

Year	Payments by EDCF on $2,700,000,000 in loans ($3,000,000,000 less 10 percent reserve) over 3½ year period (=$770,000,000/year) at 7 percent with 5-year grace period			Payments to EDCF by LDC's on $2,700,000,000 in loans over 3½ year period (=$770,000,000/year) at 3 percent with 5-year grace period			Subsidy needed (col. 2 minus col. 3)	Repayments on AID loans made as of Dec. 31, 1972	Balance (col. 5 minus col. 4)
	Principal	Interest	Total	Principal	Interest	Total			
1		2			3		4	5	6
1. 1974	(1)	54	54	(1)	23	23	31	326	295
2. 1975	(1)	108	108	(1)	46	46	62	371	309
3. 1976	(1)	162	162	(1)	69	69	93	417	324
4. 1977	(1)	189	189	(1)	81	81	108	452	344
5. 1978	(1)	189	189	(1)	81	81	108	492	385
6. 1979	31	187	218	31	80	111	107	522	414
7. 1980	62	182	244	62	78	140	104	534	430
8. 1981	93	176	269	93	75	168	101	557	456
9. 1982	108	168	276	108	72	180	96	613	517
10. 1983	108	161	269	108	69	177	92	582	490
11. 1984	108	153	261	108	66	174	87	534	447
12. 1985	108	146	254	108	62	170	84	522	438
13. 1986	108	138	246	108	59	167	79	513	434
14. 1987	108	131	239	108	56	164	75	501	426
15. 1988	108	123	231	108	53	161	70	493	423
16. 1989	108	116	224	108	50	158	66	486	420
17. 1990	108	108	216	108	46	154	62	480	418
18. 1991	108	100	208	108	43	151	57	477	420
19. 1992	108	93	201	108	40	148	53	473	420
20. 1993	108	85	193	108	37	145	48	466	418
21. 1994	108	78	186	108	33	141	45	457	412
22. 1995	108	70	178	108	30	138	40	451	411
23. 1996	108	63	171	108	27	135	36	440	404
24. 1997	108	55	163	108	24	132	31	435	404
25. 1998	108	47	156	108	20	128	28	399	371
26. 1999	108	40	148	108	17	125	23	390	367
27. 2000	108	32	140	108	14	122	18	383	365
28. 2001	108	25	133	108	11	119	14	376	362
29. 2002	108	17	125	108	7	115	10	369	359
30. 2003	108	10	118	108	4	112	6	350	344
31. 2004	77	4	81	77	2	79	2	322	320
32. 2005	46	1	47	46	0	46	1	(2)	(2)
33. 2006	15	0	15	15	0	15	0	(2)	(2)
34. 2007	0	0	0	0	0	0	0	(2)	(2)

1 Grace period.
2 Not available.

Senator BYRD. The hearing is adjourned and the committee will recess until 9:15 tomorrow morning, when we will meet in executive session.

[Whereupon, at 4:55 p.m., the committee was adjourned, to reconvene at 9:15 a.m., Friday, September 7, 1973.]

Appendix A

Communications Received by the Committee Expressing an Interest in the Export Development Credit Fund

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INTERNATIONAL COUNCIL FOR EDUCATIONAL DEVELOPMENT,
OFFICE OF THE CHAIRMAN,
~~New York~~, N.Y., August 16, 1973.

RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate, Dirksen Senate Office Building, Washington, D.C.

MY DEAR SENATOR: In June of this year the members of two Presidential Advisory Committees on Foreign Assistance Programs met in Washington to review the status of the inter-connected set of programs in which they have a deep and continuing interest.

During two days of meetings we were briefed by members of the Executive Branch and studied with great care the legislation that had been initiated in the House. As a result of the meeting, we prepared a report which, as one of the co-chairmen of that meeting, I wish to officially present to you as part of the hearings you proposed to hold on September 6.

Specifically, I would like to draw your attention to our endorsement of the proposed "Export Development Credit Fund," an instrument important in itself, but also important as part of a larger strategy for our government.

I think I can say that those who endorsed this report are very greatly encouraged by the Congressional initiatives that put "muscle" in the U.S. position precisely at a time when the rest of the world had become concerned that a withdrawal of military power in Southeast Asia meant a general withdrawal of U.S. interest in the poor peoples of the world.

I hope you will give our report a careful review because I can assure you it was prepared with considerable care.

Sincerely yours,

JAMES A. PERKINS.

Enclosure.

INTERNATIONAL COUNCIL FOR EDUCATIONAL DEVELOPMENT,
OFFICE OF THE CHAIRMAN,
New York, N.Y., July 23, 1973.

President RICHARD M. NIXON,
The White House,
Washington, D.C.

MY DEAR MR. PRESIDENT: I enclose a report of importance to your administration and to our country. This report involves an integrated set of recommendations with respect to the posture of the United States toward the poor countries. I am told that this report, prepared by members of two Presidential Advisory Committees, reflects many if not all of the views which you, members of your administration, and Congressional leaders have determined are proper components of wise foreign policy.

We believe therefore that our report will be both useful and supportive. We trust you will give our recommendations your personal attention.

Respectfully,

JAMES A. PERKINS.

Enclosure.

[Press release, Wednesday, July 25, 1973]

MEMBERS OF FORMER ADVISORY GROUPS TO PRESIDENTS JOHNSON AND NIXON PROPOSE STEPS TO IMPROVE WORLD DEVELOPMENT

Bipartisan members of two former Presidential advisory groups on foreign aid met informally in Washington recently and expressed concern that international cooperation is faltering on a subject increasingly vital to the well-being of the United States and to the health of our fragile planet—the development of the low-income countries. After noting that just as the United States has been able to achieve imaginative breakthroughs in dealing with the Soviet Union and China, it should be able to achieve similar advances in relationships with the poor countries containing a majority of the earth's people, the group stressed that

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a fortunate "coincidence of circumstances offers the United States a unique opportunity to adopt . . . policies . . . which could go far toward restoring the United States to proper partnership with others in the development effort."

The group was composed of members of President Johnson's General Advisory Committee on Foreign Assistance Programs which was headed by James A. Perkins, then President of Cornell University and now Chairman of the International Council for Educational Development, and President Nixon's Task Force on International Development chaired by Rudolph Peterson, then President of the Bank of American and presently Director of the United Nations Development Program. The two groups are the most recent Presidential commissions on United States foreign aid programs.

The group proposed specific steps in the five following fields which, taken together, could change both the image and the reality of American cooperation in the development of the poor countries on which it increasingly depends:

(1) *Reform of U.S. bilateral development assistance.*—As indicated in the press release following its meeting on June 26, the group unanimously endorsed an innovative bilateral development assistance program proposed in both Houses of Congress and endorsed by the Administration. The bill would focus U.S. aid on the problems of the poorest majority in low-income countries and would expand exports of U.S. goods needed by the lowest-income countries.

(2) *Renewed U.S. support for multilateral development programs.*—The group proposed that the United States should among other things, increase its contributions to the activities of the International Development Association, the soft loan window of the World Bank, the United Nations Development Program, and the Asian Development Bank. The United States should not be the laggard among the major industrial nations in supporting the growth of those institutions.

(3) *Revised trade policies.*—U.S. trade legislation should include tariff preferences for manufactured goods from developing countries. Preferences have been legislated by the European Community and Japan, and have been requested of Congress by President Nixon in the Trade Reform Act of 1973. The latter also should include a greatly improved program for assisting workers and firms adversely affected by imports from abroad.

(4) *Monetary reform to benefit low-income countries.*—Without losing sight of the primary need in the monetary field facing the United States—and all countries—to secure international arrangements that will make possible the continued expansion of trade, the U.S. should support the position taken by the poor countries that the Special Drawing Rights issued by the International Monetary Fund be distributed in a manner more equitable to the developing countries.

(5) *Indochina reconstruction.*—A durable peace in Southeast Asia will require sizable reconstruction assistance for South Vietnam, Cambodia, Laos, and, when in compliance with the cease-fire agreement, North Vietnam, to be given in ways that would start a new pattern of cooperation. While the prospects for a settlement are being clarified and the details negotiated on the ground, significant amounts of interim aid will be required for South Vietnam, Laos, and Cambodia.

The group pointed out that these steps could be taken without major budgetary outlays additional to those already contemplated by the Administration. It added that by taking action on the full range of these steps, the United States could trigger actions that could not only significantly improve prospects for world development, but could also promote the international cooperation needed by all countries—rich and poor—as the world grows more interdependent.

Members of the two advisory groups who subscribed to the findings of the group are listed below and their present positions are listed for purposes of identification only:

Bell, David E., Vice President, Ford Foundation
Black, Eugene, American Express Company
Case, Josephine Young
Cooke, Terrence Cardinal
Curtis, Thomas B., Vice President and General Counsel, Encyclopedia Brittannica
Foster, Luther H., President, Tuskegee Institute
Gookin, R. Burt, President, H.J. Heinz Company
Gruenther, Alfred M., General, U.S. Army (Retired)
Haas, Walter A., Chairman and Chief Executive Officer, Levi Strauss
Harrar, J. George, Rockefeller Foundation
Hesburgh, Theodore, President, University of Notre Dame
Hewitt, William A., Chairman, Deere and Co.
Hewlett, William R., President, Hewlett-Packard Co.

Linowitz, Sol, Coudert Brothers
Mason, Edward S., Professor Emeritus, Harvard University
Murphy, Franklin D., Chairman of the Board, Times-Mirror Co.
Perkins, James A., Chief Executive Officer and Chairman of the Board, International Council for Educational Development
Peterson, Rudolph, Administrator, U.N. Development Program
Rockefeller, David, Chairman of the Board, Chase Manhattan Bank
Wood, Robert J., General, U.S. Army (Retired)

U.S. Cooperation With the Developing Countries in the Mid–1970's

(Recommendations of Members of the Peterson and Perkins Committees Reassembled)

Sensing that development cooperation is in jeopardy today, we members of the two most recent Presidential advisory committees on foreign assistance (the Peterson and Perkins Committees) convened an informal meeting in Washington on ~~June 25 and~~ 26 to review the situation and explore how we might be of assistance to the President, the Congress, and the public generally. The group is composed of members of President Johnson's General Advisory Committee on Foreign Assistance Programs, which was headed by James A. Perkins, then President of Cornell University and now Chairman of the International Council for Educational Development, and President Nixon's Task Force on International Development, chaired by Rudolph Peterson, then President of the Bank of America and presently Director of the United Nations Development Program.

At the conclusion of our meeting on June 26, we indicated through a press release our approval of the innovative bilateral development assistance program recently proposed in both Houses of Congress and endorsed by the Administration. Our general consensus on the broader sweep of issues with respect to the developing countries is set forth in the attached report. We came to two principal conclusions. First, that at a time when America's need for the cooperation and resources of the developing countries is growing, the United States by its recent actions has indicated less interest in them and their needs, a situation which they sense increasingly. Second, a coincidence of circumstances offers the United States a unique opportunity to adopt in the coming year a combination of policies with respect to trade, monetary matters, investment, and development assistance which could go far toward restoring the United States to proper partnership of responsible leadership with others in the development effort from which it has gradually, but clearly, withdrawn over the past decade. The additional direct budgetary cost above that now contemplated by the Administration would be modest.

Bell, David E.; Case, Josephine Young; Cooke, Terrence Cardinal (represented by James Norris); Curtis, Thomas B.; Foster, Luther H.; Haas, Walter A.; Hesburgh, Theodore; Linowitz, Sol; Mason, Edward S.; Perkins, James A.; Peterson, Rudolph; Wood, Robert J.

The following members of the Perkins and Peterson Committees were not able to be present at the meeting in Washington but wish to associate themselves with the general thrust of the recommendations:

Black, Eugene,
Gookin, R. Burt,
Gruenther, Alfred M.,
Harrar, J. George,
Hewitt, William A.,
Hewlett, William R.,
Murphy, Franklin D.,
Rockefeller, David.

Development Cooperation in the Mid-1970's

The New Era

While the United States has dramatically improved its relations with China and the U.S.S.R. since the report to President Nixon of his Task Force on International Development in 1970, no such progress has marked its relationships with Asia, Africa and Latin America. Yet many of this country's most pressing national problems can be solved only through cooperation with other countries—rich and poor. Secretary Brezhnev's visit may serve to remind us that a nation able to achieve imaginative breakthroughs in dealing with the Soviet Union and China should be able to achieve similar advances in relationships with the poor countries of the world containing a majority of the earth's people.

The welcome winding down of the cold war has removed a major argument accepted by many for development cooperation. New arguments for cooperation relevant to the changed circumstances of the 1970s have not yet been widely accepted. In large part as a consequence, the United States bilateral assistance effort has declined significantly. The United States alone among the major industrial nations resists a major expansion of multilateral aid and now imposes substantially more barriers to the manufactured products of the poor countries than to those of the more advanced. Once a world leader in helping the poor countries it now ranks twelfth in the share of national wealth devoted to this purpose.

During this same period of preoccupation with Vietnam and with successfully building bridges to China and the Soviet Union, the position of the United States in the world has changed. New problems and opportunities are beginning to emerge: the improvement in our environment, a successful attack on inflation, the conservation of resources, the expansion of trade, the resolution of the energy shortage—all require cooperative solutions in both rich and poor countries. In certain areas the resources and cooperation of low income countries may be decisive. The United States is neither so rich nor so powerful that it can put aside the friendship of any country. And friendships are made *before* they are needed. We may well find that collaboration in economic and social matters may provide the sense of international community that could increase the prospects for a peaceful world.

NEXT STEP IN DEVELOPMENT COOPERATION

Since 1970 it has become clear that the unprecedented economic growth achieved by the developing countries over the past decade is not sufficient to meet the minimum needs of their population as a whole. At the same time it is becoming apparent that jobs, health services and education need to be broadly available to lower income groups. These services could also contribute to the growth of motivation for maintaining smaller families and this, in association with stepped-up family planning programs, could lead to population stabilization.

Despite growing awareness of interdependence with the developing world, the United States finds itself today in a posture of increasing aloofness vis-a-vis the development problems of the poor countries. This trend can be reversed, and possibly dramatically so. A turnaround would not require massive budgetary expenditures above those now contemplated by the Administration, but would require a conscious and comprehensive effort by the United States to take the needs of the low-income countries into account in its national decision making. In a number of areas in which decisions are imminent, the United States is already on record in favor of proposals that offer some measure of support for development, although in several areas the U.S. position clearly falls short of being responsive to the level of cooperation required. Building on what it is already doing or on proposals for which it has already voiced some support, the United States can take a number of modest additional steps which would collectively make a significant contribution to ensuring constructive development within these countries as well as in our relations with them.

1. *U.S. bilateral development assistance*

We unanimously support the Administration-endorsed Congressional initiative of the past month to restructure and expand bilateral mechanisms for working with the poor countries. It provides a welcome and unique opportunity to achieve objectives set forth in our advisory reports to Presidents Johnson and Nixon and, most recently, in President Nixon's State of the World Message on May 3.

The proposed legislation would redirect U.S. bilateral aid so that it is focused on the problems of the poor majority in the developing countries and on enabling them to participate more effectively in the development process. It would authorize funding aimed primarily at rural development and food production, population and health, and education and human resource development. It reduces the priority under bilateral development aid for large-scale capital transfers for infrastructure and large industrial plants, and supports and gives legislative form to the problem-solving approach that the United States has pioneered in areas such as disease control, food grain production, and population planning. In these respects, it is a legislative embodiment of a profound shift which has recently taken place in the methods considered most likely to produce the greatest development benefits in the poor countries.

It should be clearly understood that a shift in emphasis toward social and economic problems brings development assistance in direct touch with sensitive internal affairs that require sensitive handling and long-run attention. We firmly support the government's new priorities which will require patience and understanding by all parties concerned. It should also be clearly understood that new emphasis on technical assistance for high-priority problems does not invalidate the importance of the development of infrastructure that is always a necessary part of any internal development. It is our view that U.S. bilateral assistance, should give higher priority to technical assistance, leaving the international and regional agencies and banks to give the highest priority to capital transfers for internal development. We are aware of, but we did not examine, the need for a hard look at the administrative arrangements and structures, national, regional and international that are necessary to carry out this new posture and policies.

The second main feature of the new legislation, the proposed United States Export Development Credit Fund, is designed to increase the flow of American goods and services of a developmental character by close to $1 billion annually, and on concessional terms which the poorest countries can afford. It would impose relatively little additional burden on the United States' budget, being funded primarily through public borrowings, with reflows from prior aid loans which are now earmarked primarily for reloaning to developing countries being used to cover the interest subsidy. This proposal for linking American productive capacity with the more than one billion people in the poorest countries could benefit both the United States and the purchasing countries through concessional sales of industrial goods in much the same way that the Food for Peace Program (P.L. 480) has done and continues to do for agricultural commodities, and the Export-Import Bank does for American industrial exports to the more advanced developing countries.

2. Multilateral development assistance

The United States should resume its traditional role of supporting the expansion of international institutions in the development field as rapidly as it can. Given the willingness of other countries to do their fair share, this could be achieved at a modest additional cost.

For the past four years, the U.S. contribution to the United Nations Development Program has stabilized at about $86 million a year. In the meantime during these four years the contributions of our European and Canadian friends have gone up 52 percent. A U.S. contribution in the order of, say, $110 million next year would be acclaimed as a sign of renewed U.S. confidence in the work of the UNDP.

Most industrial countries are supporting an expansion of the IDA to about $1.6 billion a year. The United States has been supporting a much lower figure, closer to $1.2 billion, as well as a reduction of the U.S. share from 40% to one-third. It is important that the United States support the same $1.6 billion figure that has been agreed to by the other developed countries. The current insistence of the United States on reducing its share to one-third would generally be regarded by most developing countries as a matter between the United States and the other industrial countries.

A special effort should be made to secure Congressional appropriation of the initial U.S. contribution of $100 million for the soft loan window of the Asian Development Bank—a contribution to be made over three years which the Congress has already authorized. This failure to honor a United States undertaking in the development field is not only impairing the U.S. image generally but is seriously weakening the capacity of the Asian Development Bank to play its proper leadership role in Southeast Asia in the post-Vietnam war era.

Finally, the United States should make at least a modest contribution, say $30 million over a three-year period, to the comparable fund of the African Development Bank. The amount is not large, but would be evidence of our willingness to join in cooperative efforts in which African nations have taken the lead.

3. Trade

The Congress should enact the preferences provisions for manufactured goods from developing countries, perhaps in strengthened form, which President Nixon has requested from the Congress under the Trade Reform Act of 1973. It should also enact a greatly strengthened program for assisting those workers and firms adversely affected by increased trade between the developing countries and the United States. Preferences have taken on a symbolic value for the developing countries far beyond their impact on trade, and adjustment assistance is indispensable if the preferences and the trade system generally are to meet the needs of poorer countries to earn their own way.

The greatest need of the low-income countries is for rapidly expanding trade with the industrial nations, and U.S. trade, aid, investment, and monetary policies should reflect this priority. Excluding major oil exporters, developing countries have increased their exports from approximately $23 billion in 1960 to $47 billion in 1970, but need to increase exports at a more rapid rate in the 1970s—especially manufacturers, which need to increase from some $7 billion in 1970 to an estimated $30 billion in 1980, with United States importing 40 per cent or more. If the Congress enacts the legislation as suggested above, the United States will be able to refer not only to its expanded trade with developing countries, but also to the fact that it currently imports nearly half of developing country manufactures, compared with roughly half that amount taken by the Europeans (even though their GNP is more than two-thirds that of the United States).

4. Monetary

In the international monetary field the major need facing the United States—and all countries—has been to secure with other countries international arrangements that will make continued expansion of trade possible. It is highly desirable, however, to solve this problem in a way that will meet the urgent needs of others and those of the United States simultaneously. It should be possible to meet U.S. needs and at the same time distribute Special Drawing Rights (SDRs) of the International Monetary Fund in a way that will benefit developing countries more. The poor countries have assigned an importance to the redistribution of SDRs that is now second only to their insistence on trade preferences. The cost would be modest, and the United States would gain both from increased exports to the poor countries and from a better working of the world monetary system. SDR reallocation, like trade preferences, offers the United States, as well as other developed countries, a way of responding to strongly felt needs of the LDCs without assuming a significant burden on its own economy.

5. Indochina reconstruction

While we recognize the existing uncertainties, economic assistance for all Indochina countries is clearly indispensable if there is to be a successful implementation of the Indochina settlement. Over the next several years sizable reconstruction assistance will be required for South Vietnam, Cambodia, Laos and, most probably, North Vietnam. In addition significant amounts of interim aid will be required for South Vietnam, Laos, and Cambodia while the prospects for a settlement are clarified and the details negotiated.

Furthermore, a unique aspect of Indochina today is that all major powers—United States, the Soviet Union, China, Japan, and the European Community—have a common interest in removing the threat of prolonged turmoil in Indochina, which would interfere with their more important interests elsewhere. Were all the major powers to undertake, by 1975, a major cooperative effort over many years to rehabilitate Indochina, this could mark not only a closing phase of the cold war, but a starting point for a new pattern of cooperation.

In providing assistance, the United States should seek to do so in ways that would provide aid to all countries in the region and that would involve to the maximum degree possible, the participation of other countries and of regional and international financial institutions. This course would not only reduce the financial burden on the United States and increase the aid available to the Indochina countries, but also serve to reassure those Americans who fear that large-scale Indochina resonstruction aid could reinvolve the United States militarily in Indochina.

The greatest possible use should be made of international organizations in providing relief and humanitarian assistance in the near future, and of multilateral consortiums involving the active participation of the Asian Development Bank and the World Bank. The United States also should actively support and encourage regional institutions, ranging from the Mekong Committee to the Asian Development Bank, to reduce the prospects of further Balkan-type conflicts between the countries in the region. Finally, a special effort should be made to set up the machinery by which China, the Soviet Union, the United States, Japan, and possibly Europe, can be at least loosely associated in Indochina reconstruction, even though their assistance priorities will undoubtedly differ.

NO SIGNIFICANT BUDGETARY COMPETITION WITH DOMESTIC PRIORITIES

The increased direct budgetary cost in FY 1975 of such a comprehensive package of initiatives would be less than $160 million above the total already contemplated by the Administration. As noted earlier, the Congressional initiative in restructuring bilateral development aid and adding the Export Development Credit Fund is within the Administration's present budgetary allocation. The additional budgetary cost would consist essentially of some funds for the UNDP, a modest amount for participation in the African Development Fund and, assuming a reduction of the U.S. share to one-third, approximately $125 million for an expanded IDA replenishment at the level being urged by the other industrialized nations. The competition with domestic budgetary needs is not only very nominal but the additional outlays should be recouped through the improved cooperation this comprehensive approach should generate on many pressing national problems which require international solutions.

CONCLUSION

The United States has a special opportunity now to inspire a new dimension of international cooperation on the problems of developing countries. At a time when the cooperation of the low-income countries is increasingly required to help solve problems of vital concern to the well-being of the United States and of the world generally, a U.S. initiative to help the poor countries with their problems would be a highly appropriate follow-up to the recent progress in ending the cold war era and current initiatives with regard to Europe and Japan.

We should emphasize that for this initiative to have the desired impact, the elements described above should be seen as comprising a whole that is greater than the sum of the parts. The success of the Congressional proposals for restructuring bilateral development aid and establishing an Export Development Credit Fund would mean not only a far more effective program overseas at virtually no additional direct budgetary cost, but should also provide a new base of Congressional and public support for cooperative programs. Expanded soft loan financing for IDA and the Asian Development Bank by the United States would enable them to mobilize far more resources from others and would increase their capacity to make the effective financial and leadership contribution to the international reconstruction effort needed for Indochina peace. Because of the symbolic importance attached by the developing countries to preferences and to a revised formula for allocating SDRs, some responsiveness on these fronts will be required for an effective package but would also allow the United States to demonstrate its concern for the strongly felt needs of low-income countries. To omit any one of these elements would significantly reduce the effect of the whole, both in terms of impact on the developing countries and on the ability to achieve adequate supporting consensus in the United States.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers, a voluntary, non-profit association of American business, large and small, located in every state and representing the producers of over seventy-five percent of our nation's manufactured output, welcomes this opportunity to present its views on the Export Development Credit Fund.

NAM believes this proposal represents a postive approach to one of the most difficult problems in our foreign economic policy—How can the United States assist the economic development process in less developed countries and participate commercially in it at the same time, without overburdening these countries' debt-servicing structures beyond their expected ability to repay? Basically, this query reflects the manufacturers disposition toward supporting the "trade not aid" slogan. In this regard the "Fund" concept recognizes two trends of major significance for U.S. exporters (1) the growing importance of government-backed financing programs for projects and capital goods sales within developing country markets and the resulting severe competition between exporters to offer the most favorable financing packages and (2) growing inability of developing nations to repay their debts at standard commercial rates coupled with their need for the greater capital goods exports necessary for industrial growth.

The United States has long recognized the existence of a balance between ideals and self-interest in developmental assistance to the lesser developed nations. However, earlier U.S. efforts in foreign aid did not meet the expectations the programs created. In this context cutbacks in aid programs which occurred were not surprising. On the other hand many businessmen are concerned, looking at the growing disparities between the economic growth rates and per capita income of industrialized states and the developing countries. We believe new efforts must be launched to close this potentially explosive divergence while increasing the developing nation's understanding and adaptation of the competitive enterprise system.

EXPORT DEVELOPMENT CREDIT FUND (EDCF)

The approach has the potential to yield solid benefits to the U.S. economy as well as recipient nations. Contemplated low interest rate loans, insulated from the fluctuations of the domestic capital markets, would provide an important additional tool for U.S. exporters in these types of higher-risk markets. The shortage in recent-years of officially supported concessional financing with the phasing down of the earlier Agency for International Development, has opened a vacuum particularly acute in the longer term, low interest rate credit deals. These generally fall in a "gray zone" between commercial and concessional financing (although the Export Expansion Facility was widely misinterpreted in the business community as a move in this direction) with limited resources and personnel. In addition with a historically conservative approach to risk management, Eximbank is not anxious to increase its exposure in such developing countries. The important exception has been Eximbank—commercial bank joint-financing of power plants where the Bank takes the longer maturities. However, these operations are not concessional. The Bank's small loss ratio to loans made remains the best indicator of its extremely cautious approach in this area.

NAM believes that an effective EDCF, perhaps administered as a branch of Eximbank, and closely coordinated with the National Advisory Council on International Monetary and Financial Problems would add an important dimension to the U.S. export program. This would be timely, recognizing the important price adjustments achieved through currency realignment (as opposed to the financing package aspect of total cost) and the growing export competition in fast-growing markets of the developing world. The EDCF program could provide additional stimulus for export with an accompanying multiplier effect on American jobs. It could also lead to increased export demands from developing economies by promoting higher consumption of U.S. goods—with ongoing business in supplementary or replacement parts.

Recent analysis of international financing issues reflects a steady proliferation of concessionary financing programs among major economic competitors abroad, aimed at the developing markets. At the same time there is little question that the U.S. has fallen off the pace in development of these markets. Preferred financing schemes offered by Japan, Germany, Italy and others are important, amid a host of factors, for this U.S. slippage. Japan in particular has led the way with well outfitted government-supported export programs which permit the Japanese manufacturer to penetrate the new market. Often the Japanese view preferred financing for such markets as needed loss-leader aspects of doing business. Subsequently their salesmen will return with the customer satisfied to bargain on harder terms.

The preferential trading arrangements and financing programs of the European Communities, aimed at their members' former colonial territories, also serve to bias developing countries away from the U.S. toward Western European products.

NAM believes it imperative that the U.S. Government move swiftly to halt further erosion of U.S. competitiveness in these developing markets. In the aftermath of successive devaluations it will be necessary to program imaginatively, both to awaken latent export potential, as well as stimulate existing export operations. NAM would encourage the Senate Finance Committee to give careful consideration to the administration of the EDCF and how it will be financed. Recognizing the important interrelationship any such program would have with international lending institutions (particularly the International Bank for Reconstruction and Development) we would encourage early coordination of the concept through the existing NAC for International Monetary and Financial Problems and these bodies in order to obtain their considered viewpoints.

GEORGETOWN UNIVERSITY,
Washington, D.C., August 29, 1973.

HON. RUSSELL B. LONG,
HON. WALLACE F. BENNETT,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG and SENATOR BENNETT: On behalf of Georgetown University I would like to offer support of the concept in the Senate Economic Foreign Aid Bill S. 2335 by Senator Humphrey to the effect that low interest loans should be made available to especially needy nations and people.

Georgetown University is actively interested in the population planning provisions in this bill because of the commitment of our School of Foreign Service and our Population Center, as well as our relationships with universities in Brazil, Mexico and Colombia.

I believe there is a natural nexus between the provision of cooperating with developing nations in their assessment of population growth implications and the offering of financial loans to the poor in these nations so that they may perceive that it is within their grasp to better their individual and community lives and the health and education of their children. To offer the opportunity of borrowing money on conditions they could fulfill would be an excellent way to encourage planning their family size so as to better their economic condition.

Since there are in excess of a billion people who are truly poor and whom our country should influence for their good as well as our own, a program to lend about $3 per person or $18 to $21 per family seems to be reasonable.

For the above reasons, the program in S. 2335 seems desirable, and even necessary.

On behalf of Fr. Henle, President of Georgetown University, I wish to thank you for your consideration of this matter.

Sincerely,

T. BYRON COLLINS, S.J.

NEW YORK, N.Y., *August 22, 1973.*

HON. RUSSELL B. LONG,
Chairman, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I regret that I am not able to appear personally before the Senate Finance Committee to testify on the proposed United States Export Development Credit Fund on September 6, 1973. However, in response to your call for written comments I offer the following views.

I strongly favor the imaginative proposal for an Export Development Credit Fund. For some time I have been concerned that the United States is falling behind the Western European nations and Japan in exports to those developing countries with relatively low per capita income. I have no doubt that U.S. exporters are quite capable of improving their performance in this respect. However, they suffer from the disadvantage that they are unable to obtain financing on terms that are competitive with those offered by other industrialized countries. Some people may believe that the market we are talking about—that is the least developed countries—is not worth pursuing. I believe that is a short-sighted view. While it is true that U.S. exports to this market have not been large to date, it is important for us to plan for the future. I believe that this market will one day be very important. Judging from their actions, other industrialized countries believe the same thing and have adapted their policies to that belief. The proposed U.S. Export Development Credit Fund gives the United States an opportunity to do likewise.

I especially call to your attention the innovative proposal to finance the difference between the interest paid by the Fund and the interest that it will earn. By using the repayments on old aid loans, the Fund can be financed by Public Debt Authority on a perfectly viable and sound basis. When I was in the Department of State in 1957, a proposal was made to Congress for Public Debt Authority to finance the Development Loan Fund. It was approved by the Senate but was rejected on the floor of the House.

The DLF would have had a similar deficit between the interest that it earned and the interest that it was required to pay on its borrowings. However, that deficit would have had to be financed out of annual appropriations, whereas now it can be financed by the use of repayments of former aid loans. This makes it practical for us to create the Export Development Credit Fund and to finance it with public debt authority.

In fact there is nothing basically new in this proposal inasmuch as we already use borrowing authority and investment income to finance exports to Europe, Japan and to the more developed low income countries at subsidized rates of interest. The Export Development Credit Fund would do the very same thing for the least developed countries. Of course in dealing with the least developed countries the rates would have to be more concessional and consequently the deficit would be greater. However, the alternative is to allow our competitors from Europe and Japan to shut us out of this potentially important market. This would deprive Americans of jobs and give them to our competitors in Europe and Japan.

Sincerely,

DOUGLAS DILLON.

DAWSON, QUINN, RIDDELL, TAYLOR & DAVIS,
WASHINGTON BUILDING,
Washington, D.C., August 29, 1973.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate, Dirksen Senate Office Building, Washington, D.C.

DEAR CHAIRMAN LONG: In compliance with the press release of the Committee on Finance, dated August 9, 1973, which announced the scheduling of hearings, on September 6, 1973, on the proposed United States Export Development Credit Fund, we hereby submit the following written views for inclusion in the printed record of the hearings.

We are Washington counsel for the West Indies Sugar Association which includes the sugar producing industries of Jamaica, Guyana, Trinidad-Tobago and Barbados. The four countries participate as a group in the United States Sugar Program. We also represent the sugar industry of Belize (formerly British Honduras), which has a separate quota in the Sugar Act. In our capacity as counsel to the above mentioned industries, we have appeared before your Committee on several occasions during consideration of amendments to the Sugar Act.

By this submission we are taking the liberty of speaking on behalf of the nations mentioned above, as well as the "lesser developed countries" of Antigua, St. Christopher/Nevis, Anguilla, Montserrat, Dominica, Grenada, St. Lucia and St. Vincent. Jamaica, Guyana, Trinidad-Tobago and Barbados are independent nations having diplomatic relations with the United States. The foreign affairs of the other countries are conducted by Great Britain.

On August 1, 1973, the Caribbean Common Market came into being with the four independent nations as charter members. The smaller countries have been invited to join as of May 1, 1974, and it is expected they will do so. The new arrangement replaces the Caribbean Free Trade Association (CARIFTA). The Caribbean Common Market is a long-awaited intra-regional trade arrangement having as its purposes economic integration, functional cooperation and foreign policy coordination.

Because the Caribbean Common Market is in its inceptual stage it has not yet been able to formulate specific policy objectives nor is it well enough administratively organized to express itself before your honorable Committee on the very important subject you will consider on September 6th. Hence, following telephonic coordination with the respective Embassies, who have given us their approbation to do so, we are submitting this statement for the benefit of a group of countries with which we have considerable familiarity and in whose continued development we are desirous of assisting.

The countries we have mentioned are located in a region of great strategic importance to the United States. They are all underdeveloped and faced with ever mounting unemployment. Because of American extractive and refining industries in several locations, and their proximity to the United States, they are in especially valuable market for American exports.

We heartily endorse the concept of the United States Export Development Credit Fund and believe it could be of substantial benefit to those actual and potential exporters to the countries of the Caribbean Common Market and certainly to the countries themselves. The launching of the Common Market is a badly needed and bold venture, the fruits of which may not be realized for some years to come. The four larger countries will be called upon to assist the smaller ones and the group will need all the help it can obtain from the United States. An increased ability to purchase American goods and equipment could be of enormous assistance.

However, one provision of the proposed Section 16 to the Foreign Assistance Act of 1973 causes us concern, and we are certain would be troublesome to the countries of the Caribbean Common Market. The new Section 809 defines, for purposes of the Act "lowest income countries" as those countries with per capita national product of less than $375.00 a year. These are the countries described as being most in need of concessional foreign exchange financing from the United States or other international donors to finance goods and services on terms they can reasonably afford. On pages 35 and 36 of the report of the Committee on Foreign Relations on S. 2335 a list of "developing countries" is given with per capita GNP's ranging from $60.00 to $460.00. On this list, of the nations of the Caribbean Common Market, only Guyana is mentioned as having a per capita GNP of $370.00. We submit that if the per capita national product of less than $375.00 is used as a criterion for Export Development Credit Fund eligibility, all but one of the major nations of the Caribbean Common Market would be excluded. The per capita national products of Jamaica, Trinidad-Tobago and Barbados are artificially high, principally because of the presence of bauxite extraction and oil refining industries. That the per capita GNP figures for these countries are above $375.00 per annum does not change the fact they are underdeveloped and poor.

We hope the Committee will give serious consideration to this point because it may apply to other countries as well. For instance, we know that several countries on the list have been recipients of large Export-Import Bank funded loans, that probably could not be afforded by any of the nations within the Caribbean Common Market.

Also, we urge the Committee to give consideration to making Export Development Credit Funds available to exporters who would be dealing with regional investment corporations. For example, the Caribbean Common Market, as a means of promoting the establishment of industries in its less developed members, intends to set up the Caribbean Investment Corporation. Such an organization would make a useful vehicle through which American exporters could work.

We thank you for the opportunity of submitting this statement and we hope the Committee, in its deliberations, will bear in mind what we have presented.

Respectfully submitted.

Yours sincerely,

ARTHUR L. QUINN.
ARTHUR LEE QUINN.

STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. Chairman, the International Economic Policy Association has long been on record in our publications and in testimony before this and other Congressional committees, in favor of providing foreign assistance in the form of U.S. goods and services. For example, in our book, *The United States Balance of Payments: A Reappraisal 1968*, we stated that "International sharing of aid burdens could be more easily arranged under a concept of aid in kind." Likewise, in our 1972 book, *The United States Balance of Payments: From Crisis to Controversy*, we recommended that "All foreign aid, bilateral and multilateral, should be put on a 'zero balance of payments' basis for the duration of the U.S. deficit emergency." And before the Subcommittee on International Trade of this committee, in 1971, I pointed out that "We are a debtor nation and no longer earn enough foreign exchange to give away dollars—as opposed to goods and services."

As the Committee well knows, the balance of payments emergency is far from over, despite occasional pieces of encouraging news on that front; and the United States has far from recovered from its debtor position, with $91 billion in liquid, convertible, and nonliquid liabilities held abroad, in contrast to our meager $14.3 billion in reserve assets. Therefore, we have found it encouraging that the Congress has chosen to deliberate upon a proposal for an Export Development Credit Fund, S. 2026, which would extend the principles of Export-Import Bank loans to development assistance—which, hopefully, would help further the cause of economic development without harming the precarious U.S. balance of payments. We therefore support the basic principle of S. 2026 which would tie aid credits to domestic procurement and exports.

Because of our long-standing advocacy of such an aid device, and our desire to facilitate the passage of the measure, we have a number of questions to raise before this Committee, and hope that our input into your deliberations will lead to a more effective bill.

First, are the means of financing set out for the Fund appropriate? As I understand it, the "President is authorized to borrow from whatever source he deems appropriate, . . ., and to issue and sell such obligations as he deems necessary to carry out the purposes of this part: *Provided*, that the aggregate amount of such obligations outstanding at any one time shall not exceed one-fourth of the amount specified in section 7 of the Export-Import Bank Act of 1945, as amended." Section 7 of the Export-Import Bank Act authorizes $20 billion. Twenty-five percent amounts to $5 billion. There are prospects that a request will be made to increase the Export-Import Bank authorization to $30 billion. This would raise the Export Credit Fund limit to $7.5 billion. This certainly is not an insubstantial amount. Yet I do not find a specification in the bill which indicates how rapidly the Fund's operations may be expanded to this limit.

On the same issue, do we wish to create a new source of public debt, scarcely controlled by the legislative process? Would it not be preferable for the Fund to be annually or biennially reviewed and authorized by the Congress, to some specified level of operations for that period, and with full benefit of regular Congressional review of its efficacy and continued desirability?

Another question concerns the administration of the Fund. Should it not clearly fall under one of the existing agencies, perhaps the Agency for International Development (AID) or the Export-Import Bank (Eximbank), which would have clear responsibility to insure coordination of the Fund's lending activities with the development assistance and export promotion lending activities currently being carried on? The old problems of insuring "additionality" of aid-financed exports come to my mind. Do we not want to insure that the lending of the new Fund does not displace exports on a regular commercial basis, or even Eximbank-financed exports which could otherwise be made to the Fund beneficiaries, on terms more advantageous to the United States from an immediate or medium-range balance of payments standpoint?

Admittedly, the "lowest income countries" are not well equipped to purchase massive amounts from us or from other industrial countries—but they do make significant purchases, presumably not all financed by foreign assistance monies.

The Senate version of the Export Credit Development Fund has specified a cutoff point for recipient countries of $375 per capita gross national product (GNP) per annum as a qualification for Fund credits. Appendix I lists the relevant countries, from a recent AID source: of course the currency realignments and ongoing development activities have doubtlessly moved some of these countries, such as Brazil, over the borderline. (Indeed, any further dips in the dollar's international standing may move many more countries over that cutoff point—especially those with currencies tied to West Europe and Japan—and possibly leave the Fund with only a handful of recipients.)

Looking through the list of Appendix I, there are many countries which probably have a limited capability to absorb the Fund's resources in a meaningful, developmental way. While they certainly could easily absorb massive volumes of food, now in short supply in the United States, and even become dependent on our grain fields, some of the states plainly do not have the ability to plan, carry out, and succeed in productive development operations, using goods and services provided by the Fund. This problem stems in part from the vastness of some needy nation's populations, their extremely low levels of literacy, their rapidly doubling populations (as listed in Appendix I). Do we really believe that the entire proposed Fund, if channeled into only one country in the situation of, say, Bangladesh, would make a sizeable dent, unless it is poured in year after year at the same rate? And we are not talking of just one needy large country to assist, but of 97 in Appendix I, with an aggregated population of almost 2.5 billion living at a group average per capita GNP of well under $375.

I am afraid that the Fund may not be an effective tool for development if these hard facts are not contemplated—and if an arbitrary GNP cutoff is imposed. Appendix II lists some 50 countries which are definitely excluded (and of course, as noted previously, the currency realignments of 1971 and 1973 will have excluded even more countries). Some of the developing countries listed in Appendix II are oil-rich, and do not need the Fund's assistance, although they may yet need technical assistance from the United States and other industrial countries in properly utilizing the wealth they have gained. But others on that list have raised themselves without the benefit of "black gold." Does it suit our purposes to cut them off from this new resource, especially when they are at a development stage where small sums from the Fund may prove not to be a "drop in the bucket," but rather seed money which sparks the development of new private industry, a dynamic addition to their growing infrastructure, or helps them to achieve agricultural development and self-sufficiency in a world of tightening food supplies?

I do not believe that the arbitrary $375 limit will serve the cause of development well. Indeed, I feel that it may make much of the new Fund's lending activities amount to humanitarian effort or a charity in the long run. At best, the effort is likely to be less productive than it could be if all development projects were considered on their own merits, and the money put where the main chance is, or where U.S. national interests are especially strong.

Despite these questions and suggestions, I am very much in favor of the concept of the Development Credit Fund. Indeed, I would much prefer to see it applied across the board to all U.S. bilateral aid. I hope that the points which I have raised are taken into account by the Committee, and find expression in amendments to the bill, in order to provide the Third World with an additional, meaningful, development assistance, and the United States with a way out of our balance of payments difficulties.

APPENDIX I

PER CAPITA GROSS NATIONAL PRODUCT AND DEMOGRAPHIC DATA—COUNTRIES WITH GNP PER CAPITA $375 OR LESS

Country	Estimated population, Jan 1, 1972 (thousands)	Years estimated to double population (by current growth rate)	Urban population, 1971 (percent)	Labor force in agriculture (percent)	Literate population (percent)	Per capita GNP, 1970-71
Western Hemisphere:						
Bolivia	4,832	27	35	65	40	$199
Brazil	99,988	25	56	44	67	364
Columbia	22,164	22	61	45	73	313
Ecuador	6,490	20	40	56	68	263
El Salvador	3,696	23	39	59	49	294
Guatemala	5,582	26	36	64	38	348
Guyana	746	25	36	30	80	350
Honduras	2,843	21	27	67	45	251
Paraguay	2,345	21	36	53	74	243
Antigua	65	33	44	42	89	340
Cuba	8,707	33	60	37	94	280
Dominica	72	27	19	50	59	300
Dominican Republic	4,464	21	42	61	65	343
Grenada	96	36	19	40	(1)	230
Haiti	5,021	27	19	83	10	90
St. Kitts, Nevis, and Anguilla	58	43	44	46	88	320
St. Lucia	104	20	19	48	52	240
St. Vincent	89	29	19	40	76	220
Africa:						
Algeria	14,570	20	43	60	20	304
Angola	5,872	33	15	82	10-15	210
Botswana	644	32	25	91	20	105
Burundi	3,712	29	3	95	10	64
Cameroon	5,995	33	13	84	10-15	170
Cape Verdi Islands	266	28	9	40	27	120
Central African Republic	1,660	32	25	90	5-10	135
Chad	3,842	29	11	92	5-10	70
Comoro Islands	287	28	3	(1)	58	130
Congo	970	29	31	64	20	249
Dahomey	2,592	29	14	84	20	94
Equatorial Guinea	299	53	31	(1)	20	270
Ethiopia	26,111	32	9	88	5	69
Gambia	373	35	10	86	10	125
Ghana	9,528	23	32	56	25	272
Guinea	4,055	30	12	85	5-10	80
Ivory Coast	4,493	29	24	86	20	338
Kenya	12,539	20	11	88	20-25	141

See footnote at end of table.

APPENDIX I—Continued

PER CAPITA GROSS NATIONAL PRODUCT AND DEMOGRAPHIC DATA—COUNTRIES WITH GNP PER CAPITA $375 OR LESS—Continued

Country	Estimated population, Jan 1, 1972 (thousands)	Years estimated to double population (by current growth rate)	Urban population, 1971 (percent)	Labor force in agriculture (percent)	Literate population (percent)	Per capita GNP, 1970-71
Africa—Continued						
Lesotho	956	35	1	98	(1)	90
Liberia	1,601	20	10	80	9	231
Malagasy Republic (Madagascar)	6,989	30	14	84	39	120
Malawi	4,611	28	5	81	22	72
Mali	5,279	30	12	90	5	100
Mauritania	1,209	32	7	90	1-5	154
Mauritius	832	36	44	38	61	266
Morocco	16,655	21	35	54	14	211
Mozambique	7,963	32	6	69	7	210
Niger	4,026	23	3	96	5	82
Nigeria	56,769	29	23	80	25	105
Portuguese Guinea	566	58	18	85	3-5	260
Rwanda	3,752		0	95	10	54
Senegal	3,959	29	29	74	5-10	178
Sierra Leone	2,743	30	14	75	10	160
Somali Republic	2,878	33	20	89	5	65
South West Africa (Namibia)	652	35	33	55	15	(1)
Southern Rhodesia	5,862	20	18	73	25-30	269
Sudan	16,461	22	10	78	10-15	120
Swaziland	440	24	4	(1)	36	215
Tanzania	13,846	26	7	95	15-20	100
Togo	2,043	26	14	79	5-10	144
Tunisia	5,317	30	46	63	30	235
Uganda	10,185	25	10	89	20	133
Upper Volta	5,548	35	4	87	5-10	60
Zaire	18,305	30	17	69	15-20	109
Near East:						
Egypt, Arab Republic of	34,473	35	41	57	26	200
Iran	31,187	23	42	42	23	355
Iraq	9,868	21	48	48	14	300
Jordan	2,400	21	47	35	32	288
Oman	688	22	5	(1)	(1)	210
Syrian Arab Republic	6,565		44	66	31	261
Turkey	36,768	27	39	72	46	257
Yemen (Aden)	1,337	23	30	78	10	110
Yemen (San'a)	5,994	23	6	89	10	80
South Asia:						
Afghanistan	17,650	28	8	87	8	88
Bangladesh	75,293	26	5	75	22	105
India	583,000	32	20	73	29	93
Nepal	11,636	32	5	92	9	80
Pakistan	60,297	26	23	59	16	150
Sri Lanka (Ceylon)	12,930	33	20	49	75	169
Southeast Asia:						
Burma	28,549	30	19	70	60	75
Indonesia	124,708	26	17	66	43	105
Khmer Republic (Cambodia)	7,436	23	12	80	41	111
Laos	3,082	27	16	81	15	73
Malaysia (including West Malaysia, Sabah and Sarawak)	11,253	25	42	55	43	355
Philippines	40,078	20	37	57	72	266
Portuguese Timor	619	39	11	(1)	(1)	110
Thailand	39,043	21	15	74	68	174
Vietnam, North	20,086	58	18	80	(1)	85
Vietnam, South	19,059	27	25	65	65	175
East Asia:						
China, Peoples Republic of	779,444	41	26	63	25	160
China, Republic of	15,159	32	65	34	85	373
Korea, North	14,481	26	39	70	(1)	246
Korea, Republic of	32,746	36	39	48	71	258
Macao	255	30	100	(1)	70	150
Oceania:						
British Solomon Islands	168	30	7	(1)	(1)	180
New Guinea	1,816	32	5	86	(1)	300
Papua	682	26	4	34	(1)	300
Tonga	90	23	20	(1)	90-95	290
Western Samoa	150	21	25	74	86	140

[1] Not available.

APPENDIX II

SELECTED COUNTRIES WITH GNP PER CAPITA ABOVE $375 PER YEAR

Country	Estimated population, Jan 1, 1972 (thousands)	Years estimated to double population (by current growth rate)	Urban population, 1971 (percent)	Labor force in agriculture (percent)	Literate population (percent)	Per capita GNP, 1970-71
Western Hemisphere:						
Greenland	51	30	67	35	99	$840
Argentina	24,828	53	81	18	91	1,055
British Honduras	126	19	58	36	89	520
Chile	9,597	39	74	21	84	794
Costa Rica	1,810	26	37	48	84	530
French Guiana	50	29	56	30	72	890
Mexico	53,126	20	59	40	76	662
Nicaragua	2,010	22	48	51	58	433
Panama	1,500	23	48	37	79	708
Peru	14,057	22	52	45	61	436
Surinam	410	20	38	25	80	633
Uruguay	2,941	58	79	21	91	819
Venezuela	11,316	21	69	22	76	921
Barbados	239	58	44	25	98	618
Guadeloupe	339	36	48	(1)	88	540
Jamaica	1,928	26	38	36	82	630
Martinique	344	36	51	28	85	690
Trinidad and Tobago	950	41	51	21	89	89
Europe:						
Albania	2,225	26	34	56	72	571
Malta	322	99	94	6	83	694
Portugal	9,751	87	38	40	63	646
Spain	34,300	63	61	30	86	964
Yugoslavia	20,646	77	28	49	80	902
Africa:						
French Territory of Afars and Issas	99	28	57	(1)	5	600
Gabon	488	69	20	84	12	603
Libya	1,996	23	27	60	27	1,670
Reunion	463	32	28	42	63	660
South Africa, Republic of	22,503	29	51	29	35	805
Zambia	4,609	24	24	81	15–20	405
Near East:						
Bahrain	226	22	65	9	29	420
Cyprus	639	43	45	39	76	844
Greece	8,818	87	49	54	80	1,071
Israel	3,116	35	80	9	84	1,487
Kuwait	862	19	80	1	53	3,725
Lebanon	3,100	22	42	55	86	529
Qatar	82	23	70	(1)	10–15	1,550
Saudi Arabia	5,622	23	24	72	15	584
United Arab Emirates	202	22	48	(1)	20	1,590
South Asia:						
(No countries with GNP per capita over $375 per year.)						
Southeast Asia:						
Brunei	138	20	47	34	43	1,220
Singapore	2,157	41	81	7	75	960
East Asia:						
Hong Kong	4,086	50	92	5	71	885
Mongolia	1,301		38	59	95	615
Ryukyu Islands	966	41	57	26	76	1,050
Oceania:						
American Samoa	29	23	11	0	94	744
Figi	552	28	24	54	64	430
French Polynesia	123	19	30	41	94	1,890
Gilbert and Ellice Islands	58	36	22	(1)	90	390
New Caledonia	108	27	44	38	84	2,430
New Hebrides	87	28	12	(1)	(1)	430
Pacific Islands	96	22	0	7	(1)	437

[1] Not available.

Sources: Cols. 1 through 6, "Population Program Assistance," Agency for International Development, December 1972.

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APPENDIX III

DEVELOPED COUNTRIES

Country	Estimated population, Jan. 1, 1972 (thousands)	Years estimated to double population (by current growth rate)	Urban population, 1971 (percent)	Labor force in agriculture (percent)	Literate population (percent)	Per capita GNP, 1970-71
Northern America:						
Bermuda	54	58	100	(1)	85	$1,460
Canada	21,731	69	78	6	(1)	3,446
United States	207,336	87	74	4	99	5,073
Other Western Hemisphere:						
Canal Zone	45	50	6	0	(1)	1,810
Bahamas	186	36	73	16	91	1,880
Netherlands Antilles	228	41	48	2	(1)	1,260
Puerto Rico	2,779	39	58	10	89	1,358
U.S. Virgin Islands	69	18	24	1	93	2,967
Europe:						
Austria	7,451	347	54	20	98	1,936
Belgium	9,718	231	70	5	97	2,656
Bulgaria	8,565	99	53	40	90	1,375
Channel Islands	125	(1)	45	(1)	(1)	1,140
Czechoslovakia	14,442	139	62	19	(1)	2,240
Denmark	4,955	173	81	11	99	3,110
Faeroe Island	41	50	85	26	99	2,010
Finland	4,695	231	61	23	99	2,175
France	51,480	116	71	14	97	2,096
Germany (East)	17,045		74	14	99	2,320
Germany, Federal Republic of	60,030	693	82	9	99	3,027
Hungary	10,374	231	44	24	98	1,530
Iceland	211	53	72	35	99	2,351
Ireland	2,977	58	47	28	98	1,393
Isle of Man	56		63	9	(1)	1,420
Italy	55,007	99	54	19	95	1,736
Luxembourg	342	693	74	11	98	2,926
Netherlands	13,267	63	81	7	98	2,398
Norway	3,919	99	43	14	99	2,936
Poland	32,852	87	52	37	95	1,420
Romania	20,577	69	41	49	89	1,200
Sweden	8,115	173	80	8	99	4,052
Switzerland	6,312	116	59	10	98	3,261
U.S.S.R.	246,300	69	57	31	99	2,000
United Kingdom	55,519	173	81	3	99	2,172
Africa: (With the possible exception of South Africa, included with the selected countries in app. II, there are no countries which should be considered developed in Africa.)						
Near East: (With the possible exception of the oil-rich countries included in selected countries in app. II, there are no countries to be considered developed in the Near East.)						
South Asia: (There are no developed countries in South Asia.)						
Southeast Asia: (There are no developed countries in Southeast Asia.)						
East Asia:						
Japan (This GNP per capita figure stems from before the currency re-alinements of 1971 and 1973. The Japanese per capita GNP is currently estimated as considerably larger than this figure.)	105,312	58	72	17	98	1,904
Oceania:						
Australia	13,121	53	86	8	98	2,649
Guam	89	23	25	0	(1)	2,507
New Zealand	2,889	53	79	13	98	2,165

[1] Not available.

Sources: Cols. 1 through 6, "Population Program Assistance," Agency for International Development, December 1972.

APPENDIX IV

TRADE AND RESERVES[1]—COUNTRIES WITH GNP PER CAPITA $375 OR LESS

[In millions of dollars]

Country	Total exports, 1971-72	Exports to United States, 1971-72	Total imports, 1971-72	Imports from United States, 1971-72	Total reserves (central bank)
Western Hemisphere:					
Greenland	15.0	2.40	60.0	0.60	
Argentina	1,740.0	162.00	1.869.0	416.00	644.0
British Honduras	17.0	6.00	30.0	10.00	
Chile	1,253.0	177.00	961.0	344.00	133.0
Costa Rica	279.0	112.00	373.0	123.00	35.5
French Guiana	3.0	2.00	39.0	3.00	
Mexico	1,457.0	911.00	2,407.0	1,479.00	1,320.0
Nicaragua	187.0	66.00	211.0	70.00	1,320.0
Panama	114.0	56.00	390.0	138.00	794.5
Peru	893.0	257.00	753.0	221.00	449.0
Surinam	130.7	56.20	110.0	39.90	
Uruguay	214.0	7.00	187.0	19.00	211.0
Venezuela	3,203.0	1,215.00	1,780.0	863.00	1,674.0
Barbados	45.0	6.00	142.0	27.00	
Guadeloupe	42.0	7.00	124.0	7.00	
Jamaica	347.0	156.00	555.0	220.00	182.0
Martinique	30.0		143.0	6.00	
Trinidad and Tobago	524.0	237.00	657.0	115.00	53.0
Europe:					
Albania	11.2	.20	27.0		
Malta	45.0	2.00	157.0	7.00	318.9
Portugal	1,287.0	137.00	2,183.0	194.00	2,613.0
Spain	3,803.0	622.00	6,796.0	1,077.00	5,339.0
Yugoslavia	2,238.0	150.00	3,228.0	199.00	1,049.0
Africa:					
Afars-Issas	29.0	.10	45.0	1.10	
Gabon	121.0	5.00	80.0	9.00	
Libya	2,366.0	63.00	554.0	76.00	2,805.0
Reunion	44.0		170.0	1.00	
South Africa	2,645.0	191.00	3,658.0	605.00	1,800.0
Zambia	758.0	3.00	565.0	49.00	188.0
Near East:					
Bahrain	284.0	9.40	234.0	11.8	
Cyprus	134.0	1.00	317.0	19.0	345.0
Greece	870.0	85.00	2,350.0	146.0	1,121.0
Israel	1,140.0	223.00	1,891.0	365.0	1,462.0
Kuwait	2,305.0	36.00	650.0	94.0	588.0
Lebanon	244.0	7.00	645.0	74.0	799.0
Qatar	259.0		140.0		
Saudi Arabia	2,361.0	19.70	734.0	138.00	3,306.0
United Arab Emirates					
Southeast Asia:					
Brunei	85.0		72.0		
Singapore	1,755.0	207.00	2,828.0	360.00	654.0
East Asia:					
Hong Kong	3,477.0	1,163.00	3,901.0	465.00	
Mongolia	2.2	.70	.7		
Ryukyu Islands	95.5	9.10	421.0	53.00	
Oceania:					
American Samoa	1.0				
Fiji	71.0	13.00	128.0	5.00	
French Polynesia					
Gilbert and Ellice Islands					
New Caledonia	191.6		230.38		
New Hebrides	10.0		12.0		
Pacific Islands					

[1] All figures are the most current available from the 1969–72 period.

Sources: (1) "International Financial Statistics," IMF, vol. XXVI, No. 7, July 1973; (2) "Direction of Trade," annual 1966–70, IMF and IBRD.

APPENDIX V

TRADE AND RESERVES [1]—COUNTRIES WITH GNP PER CAPITA $375 OR ABOVE

[In millions of dollars]

Country	Total exports, 1971–72	Exports to United States, 1971–72	Total imports, 1971–72	Imports from United States, 1971–72	Total reserves (central bank)
Western hemisphere:					
Bolivia	182.3	22.8	166.9	65.1	74.40
Brazil	2,904.0	760.0	3,701.0	1,064.0	4,476.00
Colombia	729.0	265.0	844.0	404.0	447.00
Ecuador	218.2	108.7	216.6	127.0	171.00
El Salvador	228.0	49.0	214.0	63.0	114.00
Guatemala	283.0	87.0	296.0	97.0	182.90
Guyana	150.0		134.0		28.56
Honduras	172.0	93.0	221.0	91.0	44.24
Paraguay	86.0	13.0	70.0	13.0	43.32
Antigua					
Cuba	1,043.0		1,300.0		
Dominican Republic	243.0	181.0	289.0	164.0	44.40
Grenada					
Haiti	41.0	24.0	52.0	24.0	24.30
St. Kitts					
St. Lucia					
St. Vincent					
Africa:					
Algeria	1,009.0	8.0	1,257.0	100.0	468.00
Angola	408.0	83.0	422.0	47.0	
Botswana					
Burundi	8.0	1.0	30.0	1.0	21.81
Cameroon	231.0	22.0	242.0	19.0	42.70
Cape Verde					
Central African Republic	32.0	.1	34.0	2.0	1.82
Chad	28.0	.02	61.0	2.0	6.65
Comoro Island					
Congo	30.8		60.0		6.52
Dahomey	28.0	3.0	55.0	3.0	
Equatorial Guinea					
Ethiopia	126.0	55.0	188.0	17.0	142.00
The Gambia	19.0		25.0	1.0	24.86
Ghana	338.0	76.0	418.0	63.0	192.00
Guinea	56.8	5.4	65.2	10.6	
Ivory Coast	469.0	88.0	388.0	31.0	
Kenya	314.0	16.0	560.0	46.0	287.50
Lesotho					
Liberia	213.0	49.0	150.0	46.0	
Malagasy	164.0	34.0	202.0	8.0	72.20
Malawi	80.0	4.0	130.0	3.0	44.90
Mali	24.4		39.0		4.30
Mauritania	90.1	.7	47.0	4.6	
Mauritius	68.0	4.0	83.0	6.0	83.90
Morocco	488.0	7.0	686.0	76.0	268.00
Mozambique	160.0	22.0	335.0	25.0	
Niger	32.0	.1	58.0	3.0	
Nigeria	1,811.0	320.0	1,510.0	212.0	536.00
Portuguese Guinea					
Rwanda	22.0		33.0	2.0	15.33
Senegal	125.0	1.0	218.0	13.0	
Sierra Leone	119.0	7.0	120.0	8.0	57.90
Somali Republic	31.0	.2	45.0	4.0	
South West Africa (Namibia)					
Southern Rhodesia	367.0	.1	292.0	.545	
Sudan	329.0	11.0	331.0	8.0	45.00
Swaziland	51.9		1.9		
Tanzania	278.0	19.0	382.0	15.0	145.90
Togo	49.0		70.0	4.0	
Tunisia	311.0	11.0	460.0	55.0	279.80
Uganda	260.0	52.0	250.0	14.0	43.50
Upper Volta	16.0		51.0	3.0	
Zaire	644.0	35.0	410.0	48.0	136.00
Near East:					
Egypt	762.0	23.00	773.0	89.0	176.00
Iran	2,354.0	60.00	1,658.0	359.0	1,138.00
Iraq	1,532.0	38.00	627.0	34.0	1,398.00
Jordan	32.0	.01	184.0	21.0	259.00
Oman	605.0		110.0		
Syria	195.0	2.00	440.0	30.0	130.00
Yemen (Aden)	145.0	.10	200.9	3.0	67.18
Yemen (San'a)					
Turkey	892.0	104.00	1,512.0	175.0	1,758.00

See footnotes at end of table.

APPENDIX V—Continued

TRADE AND RESERVES [1]—COUNTRIES WITH GNP PER CAPITA $375 OR ABOVE—Continued

[In millions of dollars]

Country	Total exports, 1971-72	Exports to United States, 1971-72	Total imports, 1971-72	Imports from United States, 1971-72	Total reserves (central bank)
South Asia:					
Afghanistan	81.9	2.40	125.0	7.0	54.74
Bangladesh					
India	2,110.0	351.00	2,409.0	562.0	1,278.00
Nepal	56.7	1.50	60.2	1.5	105.00
Pakistan	679.0	33.00	666.0	143.0	435.00
Sikkim					
Sri Lanka	342.0	24.00	389.0	22.00	65.00
Southeast Asia:					
Burma	124.0		169.0	6.0	50.00
Indonesia	1,242.0	182.00	1,174.0	176.0	630.00
Khmer Republic	63.1	1.20	76.7	2.5	
Laos	4.3	.20	82.8	6.0	
Malaysia	1,718.0	238.00	1,601.0	144.0	1,214.00
Philippines	1,121.0	453.00	1,330.0	331.0	820.00
Timor					
Thailand	829.0	109.0	1,295.0	183.0	1,280.0
North Vietnam	9.6		8.7		
South Vietnam	8.0	.2	373.0	174.0	205.0
East Asia:					
China, PRC	1,359.2		1,728.0		
China, Republic	2,910.0	1,277.0	2,254.0	545.0	779.0
Korea, North	63.0		53.0		
Korea, ROK	1,629.0	762.0	2,523.0	648.0	820.0
Macao	48.0	3.0	74.0	1.0	
Oceania:					
British Solomon Island					
New Guinea	98.0	11.0	211.0	26.0	
Papua	17.0	1.0	77.0	8.0	
Tonga					
West Samoa	6.0	1.0	13.0	1.0	

[1] All figures are the most current available from the 1969-72 period.

Source: (1) "International Financial Statistics," IMF, vol. XXVI, No. 7, July 1973. (2) "Direction of Trade," annual 1966-70, IMF and IBRD.

MACHINERY AND ALLIED PRODUCTS INSTITUTE,
Washington, D.C., September 4, 1973.

HON. RUSSELL LONG,
Chairman, Senate Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR CHAIRMAN LONG: We respectfully request that this letter concerning the proposed Export Development Credit Fund, provided for in S. 2335, the Foreign Assistance Act of 1973, be included in the written record of the Committee's hearings on the Fund.

We appreciate the opportunity to present our views on the proposed Fund. As you may know, the capital goods and allied equipment manufacturers represented by the Institute have a vital stake in foreign trade. To take but one measurement, these industries' exports in 1972 were some $17 billion, about one-third of total U.S. exports.

While we realize that many important aspects of the scope and acitivity of the proposed Fund have not yet been worked out, we welcome the Fund concept as a means of improving the competitive position of U.S. exporters and of sharpening the favorable impact of our foreign aid programs on the present and future balance-of-payments position of the United States.

Although most of the congressional and public discussion of the Fund has centered on its possible role in connection with economic development, we believe its establishment could also fill a longstanding gap in U.S. Government export financing programs administered by the Export-Import Bank. Governments in other industrial nations frequently provide, particularly for big project activity, a mixture of financing on conventional terms with that on aid-type concessionary terms—a practice that the Export-Import Bank is not able to meet because of legislative restrictions. Further, there is increased activity by the East European Communist countries in the area of export financing on purely concessionary terms. As our export financing programs presently are constituted, the U.S. Government does not have an effective means of countering this type of financing. We think it is unfortunate that, in connection with the most recent extension and expansion of Export-Import Bank operating authority, the report[1] of the Senate Banking, Housing and Urban Affairs Committee insisted that there continue to be a clear separation between aid-type concessionary financing assistance and transactions supported by the Bank. With the nature of the competition encountered by U.S. exporters today, we believe that this sort of clear line of demarcation between the two types of financing no longer makes sense.

We hope that the Fund, if adopted by the Congress, will be designed and administered so that the Bank could devise a financing package which would make the U.S. exporter fully competitive in this "gray zone" between conventional export financing terms and foreign aid. If principal responsibility for administration of the Fund is placed in an agency other than the Export-Import Bank, we believe that consideration should be given to reserving some portion of its resources for commitment by the Bank. Our concern is that jurisdictional lines between agencies with respect to use of the Fund's resources not prevent the Bank from meeting promptly competitive situations calling for a mixture of conventional and concessionary financing. Further, to enable the Bank to provide a competitive financing package, its authority to extend concessionary terms in gray zone and other competitive situations should *not* be limited to the lowest income countries since these terms may be needed to meet the competition in other less developed countries with per capita GNP higher than $375 per year.

We have the following more general observations concerning the proposed Fund:

There has long been a feeling among many in the U.S. export community that insufficient attention has been given in the administration of U.S. foreign assistance programs to the development of follow-on export business for U.S. companies. To the extent that the Fund gives attention to such matters, the U.S. should be able to look forward to increased business on normal commercial terms with the lowest income countries in future years.

Because of the long affiliation with European countries of many of the lowest income countries, and certainly the most populous (e.g., India, Pakistan, Indonesia and Nigeria), an extraordinary effort would seem to be in order to improve the U.S. export position in those markets. Even when exporters from the former colonial powers do not enjoy preferential treatment in their former territories, they benefit from follow-on business for earlier installations and from traditional buying habits of businessmen in those countries. In this connection it is our understanding that U.S. exporters generally have received a smaller share of the procurement under financing extended by the International Development Association, the soft-loan affiliate of the World Bank which lends largely to the lowest income countries, than under procurement financed by the other international financing agencies. It would appear that this shortfall in U.S. procurement in these countries is due in large part to the fact that the loans have gone to areas where local buyers have less familiarity with U.S. equipment and techniques.

While the developmental aspects of its operation may suggest the desirability of placing principal responsibility for administration of the Fund in the Agency for International Development (or a possible successor organization), which has the greatest depth of experience with respect to economic development in the LDCs, an important voice in its management should be assigned to government agencies responsible for export promotion, such as the Export-Import Bank and the Department of Commerce. We believe that because of their roles these agencies have a better appreciation for the constantly changing international competitive relationships, particularly in the area of export finance, and would be better able to evaluate potential transactions in terms of their possible future contribution to the U.S. balance-of-trade with the developing countries. In this connection, as noted above in the discussion of the present gap with respect to "gray zone" financing, it might be advisable to permit the Export-Import Bank to commit at least some portion of the Fund's resources so that the Bank could develop promptly a competitive export financing package for a particular transaction.

[1] Report No. 92-51, U.S. Senate, 92d Cong., 1st Sess., March 31, 1971.

We appreciate this opportunity to comment on the proposed Export Development Credit Fund. If we can be of any further assistance in your deliberations, please let us know.

Cordially,

CHARLES STEWART,
President.

GENERAL ELECTRIC,
INTERNATIONAL SALES DIVISION,
New York, N.Y., August 31, 1973.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN LONG: The General Electric Company would like to take this opportunity to comment in support of the proposed Export Development Credit Fund, Section 16 of the foreign aid authorizations bill now before you. We believe the net effect of this legislation would be to stimulate U.S. exports, contribute to an improved balance of payments and support thousands of jobs in this country.

As you know from information already before the Committee, U.S. exports to less developed nations have been decreasing relative to exports from other industrialized nations which have been using such concessionary financing. When U.S. industry loses export business because of the unavailability of suitable financing, the effect is to transfer employment potential out of the U.S. since these less developed countries can buy equipment they need from a number of sources other than the U.S.

This legislation can expand the export potential of many U.S. industries, but we can testify from particular knowledge only on the electrical equipment industry. The market projection of $4.1 billion of electrical equipment that will be purchased by less developed countries from all supplier nations during 1976–80 period represents a potential of sixteen thousand direct manufacturing jobs on an annual basis. (This estimate is based on the current ratio of employment to sales in this company.) At least as many more jobs would be supported on an indirect basis in the form of materials and services.

We have identified as examples the export potential for four classes of electrical equipment to Far Eastern and African countries of $200 GNP per capita or less. This is shown in Attachments A and B. We have chosen the period 1976 to 1980, in order to reflect the real potential impact on U.S. sales, since orders for equipment for that period will be placed in 1974 and 1975, and will not be reflected in sales until the following years. If this legislation covers countries where the GNP per capita is approximately $350, the export potential is, of course, significantly greater.

These estimates for four market segments (power generation equipment, power transmission and delivery equipment, transportation, and metal industries) reflect electrical equipment content only such as is made by the General Electric Company. Therefore, these estimates are on the conservative side, since they do not reflect the potential drawthrough of allied equipment normally purchased in conjunction with the products.

U.S. export participation in these market segments currently can be described as negligible, with limited prospects for growth, unless we can compete on a fairly equal basis with nations who offer a variety of financing programs.

The Export-Import Bank does an outstanding job, but its terms must exclude many of the poorer countries. To be competitive with other industralized nations, U.S. exporters need a variety of financing options that will supplement the Export-Import Bank, and cover a much wider market spectrum. We believe the proposed Export Development Credit Fund will help meet that need.

The impact of this legislation would be to equalize the competitive opportunities of U.S. exporters with those of other nations now serving underdeveloped nations. In addition it would have a substantial effect on U.S. exports, the generation of employment directly producing the export goods, and an equally positive impact on related employment of vendors and suppliers. We feel that it is quite likely that the corporate and personal tax payment to the Government that should result from increased export income and employment would more than offset the interest subsidy for the Fund.

Accordingly, we strongly endorse the objectives and approach of this legislation as being in the interest of both the United States and the underdeveloped nations which would be benefited.

Yours very truly,

HOYT P. STEELE.

ATTACHMENT A

Market potential, 1976-80—African and Asian countries of $200 per capita GNP or less electrical equipment

	Millions of dollars
Africa:	
Fossil steam turbine generator	19
Nuclear steam supply	33
Gas turbine	96
Hydroelectric	407
Power generation, total	555
Transformers	304
Switchgears	99
Other electrical	81
Power delivery, total	484
Basic iron and steel making	5
Semifinishing metals	3
Finishing metals	35
Metal industries, total	43
Transportation equipment, total	178
Total electrical equipment—Africa	1, 260

ATTACHMENT B

Asia/Far East:	
Fossil steam turbine generator	311
Nuclear steam supply	169
Gas turbine	304
Hydroelectric	404
Power generation, total	1, 188
Transformers	724
Switchgears	265
Other electrical	221
Power delivery, total	1, 210
Basic iron and steel making	23
Semifinishing metals	13
Finishing metals	148
Metal industries, total	184
Transportation equipment, total	276
Total electrical equipment—Asia/Far East	2, 858

[Telegram]

WASHINGTON, D.C., *September 6, 1973.*

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
Dirksen Building, U.S. Senate, Washington, D.C.:

I urge you and the members of your committee to support section 16 of the Foreign Assistance Act of 1973, Senate Bill S. 2335, which deals with the proposed export development credit fund. This fund represents a sound concept that would assist in promoting U.S. exports as well as compliment our emerging foreign assistance program with its increasing emphasis on greater multilateralization of our efforts. The fund would give American producers a means to expand the sale of U.S. goods to the worlds poorest countries. Other major industrial nations already have similar devices to aid them in this growing sector of the worlds market. I firmly believe that this measure is in the best interest of the United States and the world economy. It is a measure in which we can find our self-interest in the common interest.

Regards,

C. M. VAN VLIERDEN,
Executive Vice President.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., August 31, 1973.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We wish to present to the Senate Committee on Finance the views of Farm Bureau with respect to Section 16 of S. 2335, the "Foreign Assistance Act of 1973." Farm Bureau is the largest general farm organization in the United States with a membership of 2,175,780 families in forty-nine states and Puerto Rico. It is a voluntary nongovernmental organization and represents farmers and ranchers who produce virtually every agricultural commodity produced in the entire country.

Section 16 of S. 2335 provides for establishment of a new "United States Export Development Credit Fund." It would authorize the President to extend or refinance export credits at interest rates of not less than 3 percent per year with repayment within thirty years but with no requirement for annual repayments of principal during the first five years. The objective would be to facilitate "the sale of goods and services which are of developmental character" to countries "with per capita national product of less than $375 a year." The program would become effective July 1, 1974.

Farm Bureau's policies relative to international trade, export financing, aid to developing countries, and the proposal to establish a special export development credit fund may be summarized briefly as follows:

1. We *favor* expanding exports of U.S. agricultural and industrial products through the development of mutually advantageous trade with other nations.
2. We *favor* new or improved federal programs to provide more flexible credit terms for commercial exports of agricultural commodities.
3. We *favor* economic assistance to developing nations based on well formulated, long range plans designed to assure the proper utilization of aid funds.
4. We *oppose* the proposal to establish a new export development credit fund to finance exports to developing nations at token rates of interest.

The fourth position is the natural and logical sequel to the first three.

Farmers and nonfarmers can benefit from trade that permits producers in each country to specialize in production of the commodities which they can produce at lowest relative cost. In recent years farmers and ranchers, consumers, and the entire economy have benefited from a high level of agricultural exports. The huge surplus of these exports over agricultural imports has reduced substantially our country's international trade deficit and contributed to the surplus in the U.S. balance of international payments that developed during the quarter ending June 30, 1973. It is essential that we *expand* our *commercial* exports of agricultural and industrial products but *reject* proposals to increase exports through subsidies, including interest rates far below the levels paid by American consumers.

The problem of providing supplemental credit for commercial exports is one that should be met by the two principal U.S. government export credit agencies: CCC (Commodity Credit Corporation, U.S. Department of Agriculture), and Eximbank (Export-Import Bank of the United States). The experienced, specialized, business-oriented staffs of these established agencies can extend credit for export sales to developing countries in a far more professional and practical manner than could the staff of the Agency for International Development.

Farm Bureau provided leadership in the private sector in the development of P.L. 480 as a means of assisting the export of agricultural products to developing countries. We have consistently supported this program since its inception. The proposed Export Development Credit Fund would overlap, and to some extent duplicate, the authority that is already available under P.L. 480.

In view of (1) the urgent need to control inflation by reducing government spending, (2) the weakness of the U.S. dollar as reflected by the recent devaluations, (3) our increasingly burdensome national debt, (4) the all-time record high interest rates now prevalent in the U.S., (5) the controls recently imposed on exports of certain agricultural commodities, (6) rising domestic food prices and a resultant clamor for further export controls, and (7) the general uncertainty and instability prevailing in our economy, *we believe that total appropriations for foreign aid should be reduced and any proposals for new and costly programs should be rejected.*

In your Finance Committee press release of August 9, 1973, you asked for suggestions on the technical aspects of financing the proposed export credit program. We have not addressed our remarks to this matter because the proposal is fundamentally unsound and no financial arrangements—no matter how meticulously constructed—can make it sound.

We recommend that the Senate Committee on Finance state in its report on Section 16 of S. 2335 that the proposed Export Development Credit Fund is economically unsound and that no method of financing would make it sound.

We respectfully request that this letter be made a part of the record of the hearing on this proposed legislation.

Sincerely yours,

WILLIAM J. KUHFUSS,
President.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA–UAW,
Detroit, Mich., August 31, 1973.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: I am writing on behalf of the UAW in response to your announcement that the Senate Finance Committee will hold a hearing on the proposed U.S. Export Development Credit Fund. We support this proposal. Like the other changes in foreign economic assistance endorsed by the Foreign Relations Committee, it can lead to a major reorientation and improvement of U.S. development assistance programs in order to more directly benefit workers and disadvantaged people both in the United States and abroad.

We are impressed not only by the enormous need of the people in the poorest countries for assistance, but by the dependence of U.S. exports to them on concessional financing. We are also greatly impressed that as development gets underway in these countries, their demand for, and ability to pay for, American products rises dramatically. The billion people in the poorest, non-Communist countries with per capita incomes of $200 a year or less, by only an average of $1.50 of U.S. goods per person per year, and most of that is financed by AID or PL 480. It is illustrative that our sales to countries where average incomes are between $200 and $500 a year are dramatically greater—$13 per person per year—and not nearly so dependent on government assistance. From the point of view of increasing U.S. exports, helping poor countries break out of the vicious circle of poverty, illiteracy, ill health, inadequate food and growing population clearly will pay off.

Our aid programs have already helped in this direction, although they focus exclusively on development and foreign policy problems. However, the reorientation which the Export Development Credit Fund entails will for the first time introduce a structure for active collaboration between development-focused and business-focused agencies. We welcome this development and the introduction into foreign assistance affairs of a real concern for the impact of assistance criteria and procedures on long-term U.S. export development.

We are concerned, however, that this new dimension of development assistance not be exclusively business-oriented. I suggest that the balance of the EDCF Advisory Committee would be improved if the Secretary of Labor were added to its membership. He could help assure that the EDCF was administered so as to maximize the net increase in American employment resulting from EDCF operations. One way to do this would be for the EDCF to maintain firm source and origin criteria so that financed exports really are the products of American labor and not simply assemblies of imported components. Another would be to adopt commodity and project selection criteria that would help to avoid adverse effects on U.S. employment. Statutory language has not proven to be very effective to that end; the active participation in policy formation of the cabinet officer particularly sensitive to the problem would be mofe effective.

I would like to stress again our endorsement of the very constructive initiatives on foreign assistance taken by the Foreign Affairs and Foreign Relations Committees, including the proposal for the EDCF. I would hope your Committee will support the EDCF as an imaginative and welcome attempt to deal with the needs of workers at home as well as abroad.

Sincerely yours,

LEONARD WOODCOCK,
President, International Union, UAW.

Appendix B

Background Material Submitted by Secretary Shultz on Behalf of the Administration

20-954—73——14

JULY 25, 1973.

Hon. GEORGE P. SCHULTZ,
Secretary, Department of the Treasury,
Washington, D.C.

DEAR MR. SECRETARY: On July 18, the Committee on Finance agreed to request that the Foreign Assistance Act be referred to this Committee when it is reported by the Foreign Relations Committee. The Foreign Relations Committee has agreed to this request. Section 16 of the Foreign Relations Committee bill would establish a "United States Development Credit Fund," financed by the issuance of securities under the Second Liberty Bond Act, which would obviously affect the public debt of the United States.

The initial level of borrowing authorized would be $3 billion over a three-year period, and the monies would be used for soft term export financing to "poorer" developing countries.

When the bill is referred to the Committee, it is anticipated that we will call you as a witness to testify on this legislation. In preparing to consider the proposal, we would like to ask you to have your staff prepare the answers to the following questions:

1. What effect would the proposal have on the budget and public debt of the United States?
2. How would the fund be coordinated with AID and Export-Import Bank financing?
3. What is the import absorptive capacity of developing countries with per capita gross national products of $375 a year or less?
4. What has been the level and composition of U.S. exports to these countries?
5. What is the level of private and public debt outstanding for these countries, and the record for "debt rescheduling"?
6. What are the prospects that these soft loans will be used to help these countries repay hard loans from other countries or international institutions?
7. What are the export credit terms of other developed countries to the poorest of the developing countries?
8. Will export credits of the Export-Import Bank likely be replaced by soft export credits from this proposed new fund?

I would appreciate it if you would send me the answers to these questions by September 4.

We will be in touch with you shortly before the hearings begin.

With every good wish, I am

Sincerely,

RUSSELL B. LONG,
Chairman,
Committee on Finance.

THE SECRETARY OF THE TREASURY,
Washington, September 5, 1973.

Hon. RUSSELL LONG,
Chairman, Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to respond to the questions in your letter of July 25 which dealt with S. 2335, a bill "To amend the Foreign Assistance Act of 1961 and for other purposes."

I appreciate your invitation to me to appear as a witness before your Committee to testify on this legislation, but regret to inform you that I shall be unable to attend. I have therefore asked John M. Hennessy, Assistant Secretary for International Affairs, to appear in my place. He is knowledgeable in this area and I am confident that he will be able to answer any questions you may have regarding our position on this proposed bill.

The Treasury Department has been advised by the Office of Management and Budget that there is no objection to the submission to you of the attached responses from the standpoint of the Administration's programs.

Sincerely yours,

GEORGE P. SHULTZ.

Question 1. What effect would the proposal (Section 16 of S. 2335, the "Foreign Assistance Act of 1973," as reported by the Senate Committee on Foreign Relations on August 2, 1973) have on the budget and public debt of the United States?

Answer. As the proposal stands, receipts and outlays of the Fund would statutorily be excluded from the Federal budget totals. The Administration, however, takes the position that Federal receipts and outlays should be reflected in budget totals to assure full disclosure and appropriate review of the economic and financial consequences of Federal programs. Current budgetary concepts would call for the net principal disbursements on loans and the net interest expenses of the Fund to be shown as budget outlays. Thus, Section 801(d) of Part V should be deleted, or alternatively there could be substituted for Section 801(d) the following language: "The totals of the budget of the United States Government shall include the funds appropriated to the Fund and the net effect of the receipts and the disbursements of the Fund."

The obligations issued by the Government to finance the Fund would probably not be included in the public debt subject to limitation under present interpretations of the relevant provisions of the Second Liberty Bond Act, as amended. Accordingly, the Treasury Department believes that the public interest would be better served by financing the Fund's activities through regular Treasury securities, which are subject to the public debt limitation. Moreover, experience has demonstrated that the interest cost of financing through other types of United States obligations is significantly higher, even though such other obligations may also be full faith and credit of the United States.

Question 2. How would the Fund be coordinated with A.I.D. and Export-Import Bank financing?

Answer. Section 805 of S. 2335 establishes an Advisory Committee consisting of the Secretaries of State, Commerce, Treasury, Agriculture, the President of the Export-Import Bank and the head of the Agency primarily responsible for administration of the Fund. This committee will provide overall policy coordination. The presence of the President of the Export-Import Bank on the Advisory Committee will insure that the policies governing the operation of the Fund are consistent and compatible with the policies and activities of the Export-Import Bank. It is envisioned that specific policies governing loan criteria and Fund operations would be set forth through the Advisory Committee and that these policies would be designed to insure that loans made by the Fund not infringe upon or compete with credit financing offered by the Export-Import Bank. These procedures could include, for example, an administrative mechanism to avoid fund financing in cases where Exim financing is appropriate. In practice, the activities of the Fund should not conflict with those of the Bank since the Fund will operate primarily in the poorest of the LDC's—where Ex-Im exposure is limited—and for the financing of exports which do not obtain Ex-Im financing.

In regard to coordination with AID activities, it is the current intention of the Administration to lodge operating responsibilities for the Fund in that Agency.

Coordination of the Fund's activities with our international monetary and financial policies can be achieved to the extent necessary and desirable through the National Advisory Council on International Monetary and Financial Policies.

Question 3. What is the import absorptive capacity of developing countries with per capita gross national products of $375 a year or less?

Answer. The initial lending volume for the Export Development Credit Fund would be well within the "import absorptive capacity" of the countries with per capita gross national products below $375. If the Fund were to commence operations Janaury 1, 1974, as proposed by the Administration, the average annual lending volume over the four year period would be $675 million. As shown in Table 1, there are 67 countries currently with a per capita income below $375; excluding communist countries, which, it is presumed, will not initially receive financing from the Fund. Most of the eligible countries are in Africa and Asia. While loans may not actually be extended to all of these countries by the Fund, data for these countries provide an illustrative basis for measuring absorptive capacity. Their total merchandise imports in 1972 were approcimately $30 billion. If "import absorptive capacity" is defined as capacity to utilize increased imports productively, there can be little doubt that the $675 million average annual flow could be "absorbed," since it would constitute less than 3 percent of the existing import level.

Since debt servicing is an increasingly important problem for the LDCs, their import capacity is severely constrained under conventional, harder term export lending. It is this very fact—limitation on import financing capacity—which makes the new soft-term export credit fund an appropriate vhicle for supporting U.S. exports to these countries.

Another indicator of "absorptive capacity" is the level of investment within the recipient countries. The 67 countries in question have a current aggregate GNP of $260 billion. The World Bank estimates that for Africa and Asia, gross investment is on the order of 18 percent of GNP. Thus, total investment in these poorer countries is on the order of $47 billion annually. The need of those countries for additional capital far exceeds the additional resources that would be made available under the Fund.

Question 4. What has been the level and composition of U.S. exports to these countries?

Answer. U.S. exports to these countries in 1972 totaled only $4.8 billion out of a total U.S. exports of $49.7 billion. (See Table 2) This $4.8 billion in U.S. exports to those countries represents only 17.3 percent of their total imports. In contrast, for countries with per capita income from $375-$1,000 the U.S. held 28.6 percent of the market.

In the 67 countries in the $375 or less per capita income category, U.S. exports have increased from $3.7 billion to $4.6 billion, or 24 percent, from 1965 to 1971. At the same time, the other members of the OECD have increased their exports to these countries from $9.0 billion to $14.3 billion, or 59 percent.

In 11 of the poorest LDC's, comprising 89 percent of the population of the countries with per capita income below $200, U.S. exports fell from $1.7 billion in 1966 to $1.2 billion in 1972. At the same time, these same countries increased their imports from the other major Development Assistance Committee (DAC) donors from $2.9 billion to $4.3 billion. This decline in U.S. exports contrasts sharply with an increase of 44 percent in U.S. exports to all LDC's over the 1966-1972 period.

The composition of major U.S. exports is shown for the 12 largest purchasers in the group, in Table 3. In terms of broad categories, 31 percent of U.S. exports to the group are in agricultural goods; 28 percent in raw and intermediate materials; and 41 percent are manufactured machinery and equipment. Greater detail is given in the table.

Question 5. What is the level of private and public debt outstanding for these countries, and the record for "debt rescheduling?"

Answer. As of December 31, 1970, the last date for which composite data are available, the 67 countries with per capita incomes of $375 or less had a total external public debt outstanding (including undisbursed) of $40 billion. Of this amount $33 billion is in the form of debt owed to bilateral and multilateral donors and institutions and the remainder is owned to private entities. The largest debtors were India, Pakistan (Bangladesh), and Indonesia. These three countries accounted for $17 of the $40 billion total.

LDC external debt levels are growing rapidly and have almost doubled between 1965 and 1970. Debt service payments are also growing rapidly, as grace periods on loans made in the early 1960s are running out.

Since 1956, ten developing countries have participated in a total of 23 multilateral debt reschedulings. Six of these countries, accounting for 13 of the reschedulings, fall in the under $375 per capita income category. (In addition, the U.S. reached a bilateral rescheduling agreement with the UAR in 1971.) Rescheduling negotiations with countries in this category are currently in process with India, Pakistan/Bangladesh, and Ghana.

While the LDC debt servicing problem is serious it can be managed. By providing commercial credits on softer terms than normally available, the Fund itself will tend to ease the debt servicing burden in these countries, while encouraging them to do business with the United States rather than turning elsewhere to develop long term commercial relationships.

Question 6. What are the prospects that these soft loans will be used to help these countries repay hard loans from other countries or international institutions?

Answer. The dollars flowing out under this program are to be 100 percent tied to U.S. exports. To the extent that Fund dollars result in additional U.S. exports—i.e., purchases from the U.S. the recipient nations would not otherwise have made—there is no addition to free reserves that could be used to repay loans from other sources. On the other hand, if the Fund dollars were used to finance purchases from the U.S. that would have been made anyway, the dollars originally intended for that purpose are thereby freed for other uses such as debt repayment, imports from third countries, or reserve accumulation. It is highly likely that the activities of the Fund will generate exports that are fully additional to the level of exports that would have otherwise occurred. Experience has indicated that in the case of A.I.D. commodity financing, additionality is in the order of 90 percent for all countries but is higher than this—approaching 100 percent—in the poorest LCDs.

In view of the low and declining U.S. share of the imports of these countries, their continued growing need for goods in which the U.S. is competitive, and the heavy dependence of these sales on concessional credits, it is reasonable to expect that the leakage of Fund dollars to other uses would be minimal.

Question 7. What are the export credit terms of other developed countries to the poorest of the developing countries?

Answer. It is difficult to compare export terms offered by other developed countries with those offered by the U.S. because the distinction between development assistance financing and export credits tends to be less distinct in those countries than it is in the U.S. with our two separate agencies—Ex-Im Bank and A.I.D. Official credits offered by other developing countries are often blended with private credits in varying combinations. The relative competitiveness of other nations official export credits depends on a mix of factors including the cash down payment required, grace periods, amortization period, whether or not some local currency financing is authorized, as well as interest rates. Table 4 offers a brief summary of the terms offered by major foreign industrialized countries.

Question 8. Will export credits of the Export-Import Bank likely be replaced by soft export credits from this proposed new Fund?

Answer. Procedures would be formulated by the Advisory Committee to insure that the activities of the Fund would be compatible with the activities of the Export-Import Bank. It is the intention of the Administration that the Fund's soft export credits not replace but be additional to the harder-term credits offered by the Bank Replacement of Eximbank loans should not in practice pose a serious problem due to the nature of the Fund and the nature of Eximbank's current pattern of operations.

The Export-Import Bank has been relatively inactive in 62 of the 67 countries with per capita income of $375 or less. The authorizations for Eximbank direct loans and guarantees to all countries during FY 1973 totalled $1,258 million. However, 5 of the 67 countries accounted for $950 million, or 75 percent of the $1,258 million authorized, leaving only $308 million for the remaining countries. (The five countries are Turkey, Algeria, Indonesia, South Korea, Zaire.)

The terms of Eximbank lending, which average 10 years maturity and have a blended interest rate of Export-Import Bank and commercial bank funds which conform to accepted international practice may, nevertheless, prove to be an excessive burden on the debt service capacity of some of the countries falling within the $375 or less per capita income bracket. Therefore, the softer terms of the Fund could be appropriate for some transactions in many of these poorer countries.

TABLE 1.—SELECTED ECONOMIC DATA FOR THE POOREST DEVELOPING COUNTRIES

Country	GNP (per capita)	Population (millions)	GNP (billions)	U.S. exports, calendar year 1972 (millions)	Total imports, 1972 (millions)	Exim authorized, fiscal year 1972 (millions)
Burundi	$60	3.5	$0.2	$1.3	$31.3	0
Rwanda	60	3.6	.2	1.3	35.0	0
Upper Volta	60	5.4	.3	2.4	[1] 49.3	0
Somali	70	2.8	.2	5.1	[1] 67.9	0
Mali	70	5.0	.3	1.6	55.0	0
Malawi	80	4.4	.3	1.2	122.0	0
Niger	80	4.0	.4	2.0	[1] 58.6	0
Chad	80	3.6	.3	.7	67.2	0
Afghanistan	80	14.3	1.1	17.5	[1] 75.4	0
Ethiopia	80	24.6	1.9	24.1	176.9	.2
Zaire	80	18.8	1.6	37.3	[1] 533.0	1.0
Nepal	80	11.1	.9	8.6	[4] 49.7	0
Burma	80	27.6	2.2	10.5	122.5	1.9
Indonesia	80	115.6	8.9	307.6	1,262.1	17.2
Bangladesh	80	70.2	5.0	(3)	(4)	0
Dahomey	90	2.7	.2	8.4	[1] 75.3	0
Lesotho	90	.9	.1	1.7	(4)	0
Tanzania	100	13.3	1.4	11.9	[1] 383.5	0
Yemen	100	7.0	.4	2.2	[1] 63.9	0
North Vietnam	100	21.2	2.2	(3)	(4)	0
India	110	538.1	57.3	350.0	2,112.1	1.5
Haiti	110	4.9	.5	52.6	[1] 56.6	0
Sri Lanka	110	12.5	1.4	28.3	[1] 336.6	0
Botswana	110	.6	.1	2.4	(4)	0
Pakistan	120	6.0	7.2	183.0	911.3	0
Laos	120	3.0	.4	8.2	[1] 68.0	0
Gambia	120	.4	(3)	.8	23.3	0
Guinea	120	4.0	.5	10.5	[1] 55.0	0
Nigeria	120	55.1	6.7	114.5	[1] 1,053.0	29.1
Sudan	120	15.7	1.9	18.2	323.6	4.0
Cambodia	130	7.5	1.0	72.7	[1] 76.7	0
Sierra Leone	130	2.6	.5	6.5	114.5	0
Uganda	130	9.8	1.3	2.9	[1] 251.1	0
Central Africa Republic	140	1.6	.2	.7	[1] 38.3	4.4
Mauritania	140	1.2	.2	4.5	[1] 68.4	0
Togo	140	2.0	.3	4.4	[1] 76.2	0
Kenya	150	11.3	1.7	25.6	[1] 563.4	6.3
China (PRC)	160	836.0	121.9	60.2	[1] 1,728.0	0
Malagasy Republic	170	7.3	1.0	11.5	[1] 153.6	.7
Bolivia	180	4.9	.9	45.2	[1] 171.2	.1

See footnotes at end of table.

TABLE 1.—SELECTED ECONOMIC DATA FOR THE POOREST DEVELOPING COUNTRIES—Continued

Country	GNP (per capita)	Population (millions)	GNP (billions)	U.S. exports, calendar year 1972 (millions)	Total imports, 1972 (millions)	Exim authorized, fiscal year 1972 (millions)
Cameroon	180	5.8	1.1	37.0	[2] 271.3	21.3
Swaziland	180	.4	.1	1.8	[2] 1.9	0
Thailand	200	36.2	7.1	169.9	[2] 1,274.7	9.9
South Vietnam	200	18.3	3.7	317.6	699.2	0
Egypt	210	33.3	69.0	76.1	876.8	8.3
Philippines	210	38.9	7.7	365.6	1,397.0	17.4
Morocco	230	15.5	3.6	57.8	[2] 751.5	4.7
Senegal	230	3.9	.9	13.9	[2] 238.9	3.2
Liberia	240	1.5	.4	41.2	[2] 133.5	7.4
Mauritius	240	.8	.2	3.9	111.9	0
Jordan	250	2.3	.6	65.2	273.6	.2
South Korea	250	31.8	7.9	735.4	2,522.1	13.1
Tunisia	250	5.1	1.3	54.6	462.9	.6
Paraguay	260	2.4	.6	18.3	82.7	(1)
Rhodesia	280	5.3	1.5	.7	292.0	0
Honduras	280	2.5	.7	79.1	193.3	4.3
Ecuador	290	6.1	1.7	133.6	[2] 303.0	12.4
Syria	290	6.1	1.8	19.7	[2] 439.0	0
Algeria	300	14.3	4.3	97.7	[2] 1,266.3	58.4
Congo (Braz)	300	.9	.3	5.5	[2] 94.2	0
El Salvador	300	3.5	1.1	73.9	273.2	2.0
Turkey	310	35.2	10.9	300.3	1,537.1	71.9
Ghana	310	8.6	2.6	43.6	248.8	.8
Ivory Coast	310	4.9	1.5	22.3	446.8	48.6
Iraq	320	9.7	3.1	23.3	657.2	0
North Korea	330	13.9	4.6	....	[2] 52.8	0
Colombia	340	21.6	7.4	317.3	[2] 882.5	71.5
Dominican Republic	350	4.1	1.4	183.3	369.6	6.0
Guatemala	360	5.2	1.9	101.9	[2] 296.5	2.1
Guyana	370	.7	.3	30.0	[2] 132.6	2.6

[1] Financial guarantees and direct credits only.
[2] 1971 import data.
[3] 1970 import data.
[4] 1968.
[5] Pak.
[6] Not available.

TABLE 2.—U.S. MARKET SHARE AND FINANCIAL COMMITMENTS, BY PER CAPITA INCOME OF IMPORTER

	Per-capita income class		
	$375 to $1,000	Below $375	Below $375 excluding Southeast Asia [1]
Imports from United States, 1972 (billions of dollars)	9.9	4.8	3.5
U.S. share (percent)[2]	(28.6)	(17.3)	(15.0)
U.S. financial commitments, 1972 (billions of dollars)	2.4	3.0	2.1
Percent of imports from United States [3]	(24.4)	(62.4)	(60.0)
Sources of commitments (billions of dollars):			
AID	.26	1.40	.87
Public Law 480	.07	.99	.67
Eximbank	2.13	.60	.57

[1] Laos, Cambodia, Thailand, South Vietnam, South Korea.
[2] Excludes Communist countries and countries not covered by IMF statistics.
[3] This ratio is only a crude indicator of the actual relationship between exports and aid flows. Because aid is not 100 percent tied, commitments are not fully disbursed in the year of commitment, and aid amounts include technical services which are not counted as exports.

TABLE 3.—COMPOSITION OF U.S. EXPORTS TO MAJOR POOREST LDC IMPORTERS OF U.S. GOODS (MAJOR COMMODITIES) 1972

[In millions of dollars]

Schedule B and description	Colombia	Dominican Republic	Ecuador	Guatemala	India	Indonesia	South Korea	Nigeria	Pakistan	Philippines	Thailand	South Vietnam	Total
Total United States:													
Dollars	314.8	181.3	130.3	101.3	348.9	306.7	734.9	114.3	182.7	363.7	169.4	317.3	3,265.6
Percent	80.3	71.2	85.6	70.4	88.2	92.8	75.9	88.8	92.8	77.4	81.1	89.7	82.3
A. 02 Dairy products	3.1	3.2	1.1	2.3	4.8	2.5	4.8	—	.6	2.5	.6	9.7	—
04 Cereals, flour	32.0	14.3	10.8	6.7	51.5	91.1	246.9	19.6	93.7	56.2	2.4	89.7	—
12 Tobacco, etc	1.6	4.7	9.6	—	—	.5	—	.4	.7	8.4	35.7	20.3	—
26 Raw textiles	2.0	.5	1.3	.7	4.0	41.2	80.9	.8	2.2	17.8	19.1	19.1	—
28 Metal ores	—	.4	—	—	.5	—	24.0	—	1.5	.4	3.6	—	—
33 Petroleum products	1.1	1.1	1.1	1.9	6.3	2.6	1.2	1.0	.4	4.7	4.9	3.5	—
B. 41 Animal oils	5.6	1.3	1.3	1.7	7.8	—	14.2	.9	7.4	.7	—	.1	—
42 Vegetable oils	2.8	9.8	4.3	.3	17.9	—	1.0	—	14.9	.1	—	7.1	—
51 Chemical elements	24.7	2.0	2.7	6.4	16.5	2.0	8.3	.6	2.0	10.1	6.6	10.3	—
56 Fertilizers, manufactured	5.8	4.5	1.4	.6	27.7	6.5	1.0	—	7.7	.8	.4	21.6	—
58 Synthetic resins	6.9	2.8	1.8	1.1	2.3	2.0	5.3	.2	.4	5.6	3.5	11.6	—
64 Paper products	4.3	5.5	15.4	5.0	.9	2.5	1.9	1.4	.4	14.4	1.7	.7	—
65 Yarn, fabrics	1.6	9.4	3.7	2.2	.8	6.7	1.4	2.9	.6	10.4	2.3	13.1	—
67 Iron and steel	6.0	4.4	3.9	2.0	9.0	7.1	1.5	9.2	14.5	5.9	2.7	26.2	—
71 Machinery nonelectrical	78.1	30.8	30.2	20.0	49.9	67.7	57.7	46.3	9.2	79.4	27.3	24.0	—
C. 72 Electrical machinery	21.5	12.6	6.7	4.8	20.2	15.1	63.0	8.4	4.2	25.0	12.5	14.9	—
73 Transportation equipment	49.3	19.6	13.9	13.0	79.2	34.5	36.8	7.1	7.9	33.2	10.3	11.2	—
86 Professional instruments	6.4	2.2	2.3	1.8	8.6	2.5	7.6	2.8	1.2	5.8	3.8	1.7	—
Total	252.9	129.1	111.5	70.5	307.9	284.5	557.5	101.5	169.5	281.4	137.4	284.7	2,685.4
A. Agriculture products:													
U.S. dollars	36.7	22.2	21.5	9.0	56.3	94.1	251.7	20.0	95.0	67.1	38.7	119.7	832.0
Percent	14.5	17.2	19.3	12.8	18.3	33.1	45.1	19.7	56.0	23.8	28.2	42.0	31.0
B. Raw materials:													
U.S. dollars	60.9	41.7	36.9	21.9	93.7	70.6	140.7	16.9	52.0	70.9	44.8	113.3	764.3
Percent	24.1	32.3	33.1	31.1	30.4	24.8	25.2	16.7	30.7	25.2	32.6	39.3	28.4
C. Manufactured products:													
U.S. dollars	155.3	65.2	53.1	39.6	157.9	119.8	165.1	64.6	22.5	143.4	53.9	51.7	1,092.1
Percent	61.4	50.5	47.6	56.1	51.3	42.1	29.7	63.6	13.3	51.0	39.2	18.2	40.6

Source: Department of Commerce, FT-455-72.

Table 4.—ECONOMIC ASSISTANCE AND EXPORT CREDIT TERMS BY OECD COUNTRIES

Country and agency	Economic assistance: Interest rates (percent)	Economic assistance: Maturity (years)	Export credit terms: Interest rates (percent)	Export credit terms: Maturity (years)
Canada:				
Canadian International Development Agency	0-3.0	30 to 50		
Export Development Corpr ation			6.0	Up to 20.
France:				
Ministry of Economics and Finance	3-4.0	15 to 20		
Ministry of Foreign Affairs	0	Grant		
Caisse Centrale de Cooperation Economique	3-5.0	5 to 20		
Banque Francaise de Commerce Exterieur			5.8- 6.5	Up to 12.
Germany:				
Kredit anstalt fur Wiederaufbau	2-3.0	22 to 30	7.8- 8.5	8 to 15.
Ausfuhr Kredit Gesselischaft			8.5-10.5	Up to 15.
Italy:				
Medio Credito	3.0	13 (average)	6.5	Up to 10.
Japan:				
Overseas Economic Cooperation Fund	3-5.0	20 to 25		
Eximbank of Japan			4.5- 7.5	Up to 20.
United Kingdom:				
Overseas Development Administration	0	25		
Exports Credits Guarantee Department	3.5	Up to 15	6.0	Up to 15.
United States:				
Aid for International Development	2-3.0	Up to 40		
Eximbank			6.0	Up to 15.

Note: Interest rates do not include private financing costs, insurance, or other fees, some of which might add 2 to 3 percent to the cost of borrowing from the U.S. Eximbank and some other export credit agencies.

Executive Branch Positions—Export Development Credit Fund

(Page 19, line 9—Page 25, line 9 of S. 2335)

Sections 801 through 809 of Subsection 16(a) of S. 2335 would create an Export Development Credit Fund to finance expanded United States exports to the less-developed countries while assisting those countries in their economic development.

The Executive Branch believes that by providing concessional financing to less-developed countries, significant export promotion can occur while, at the same time, those countries are assisted in their own development. By providing foreign exchange on terms which less-developed countries can afford, the Fund can assist U.S. exporters in entering markets not otherwise available to them and to establish relationships which will result in important commercial-terms business in the future. This is to the mutual economic benefit of the United States and the assisted countries. Accordingly, the Executive Branch supports the enactment of these proposed amendments to the Foreign Assistance Act.

However, the Executive Branch requests the following perfecting amendments:

Subsection 801(a). The Executive Branch strongly endorses the provisions of this subsection which recognize the developmental objectives of the Fund. The Executive Branch opposes the authority to "refinance United States export credits" (page 29, line 8) if such authority is intended to permit extensions of credit to finance transactions undertaken before commencement of operations of the Fund or transactions which would have occurred in any event absent the availability of the Fund. Nor does the Executive Branch propose using the Fund to compete with refinancing facilities already made available by the Ex-Im Bank. The Executive Branch would prefer deletion of the refinancing authority in order to dispel any doubt on this score.

Subsection 801(d). The Executive Branch does not concur with subsection 801(d) insofar as it would treat the outlays and receipts of the Fund outside the Federal budget. Appropriate budget management requires that the operations of the Fund, just as the operations of Food for Peace programs under P.L. 480, be encompassed in the overall Federal budget planning process. Any analogy to the treatment of the Ex-Im Bank is not appropriate; the Bank is a self-sustaining operation; the Fund would not be.

Subsection 802(b). By authorizing the use of repayments of principal and interest on existing foreign assistance loans to subsidize the interest rate on loans made by the Fund, the proposed legislation would result in a diversion of receipts currently made available for development loans for use by the Fund. The Executive Branch agrees with the proposed use of these receipts since the Fund is designed to serve development assistance activities and since these receipts will ultimately accrue to the benefit of the less-developed nations. However, in this regard the Senate Bill does not make available certain additional principal and interest reflows which are currently returning to the Treasury. These reflows—approximately $66 million in 1974—are generated from activities of lending agencies operating prior to 1954. They are similar in all major respects to the reflows currently returning to A.I.D. and available for reprogramming after 1954. These additional reflows were made available to the Fund under a similar version of the Bill that was originally contained in the House authorization. To the extent that these pre-1954 reflows are made available, diversion from the regular loan program would be reduced.

As indicated elsewhere in this paper, the Executive Branch proposed to commence Fund operations in Fiscal Year 1974. Accordingly, the Administration proposed that the Senate Bill include authority to use pre-1954 reflows to finance Fund operations. This is particularly important for this fiscal year since the Administration's budget request for development loans did not assume any diversion of loan receipts for Fund operations. In order to make receipts from loans made prior to 1954 available until expended for use by the Fund, the Administration proposes that the following language be added at the end of proposed Section 802(b):

> In addition, dollar receipts from loans made under foreign assistance legislation enacted before the Mutual Security Act of 1954 are authorized to be made available for use for purposes of this section. Such receipts shall remain available until expended.

Such receipts include receipts from loans made under the authority of the following legislation:

The Latin America Development Act, as amended.
The Mutual Security Act of 1951.
The Security Act of 1953.
The Indian Emergency Food Act.
The Mutual Defense Act of 1949.
The Economic Cooperation Act of 1948.

Section 805.

The Executive Branch supports this section. However, in order to make available for the administration of the Fund all those administrative authorities contained in part III of the FAA which are now available to administer to part I, a subsection (b) should be added to section 805 which provides:

> The authorities available to administer part I of this Act or any portion thereof, shall be available to administer this part.

The Executive Branch proposes that the Advisory Committee established pursuant to Section 805 be chaired by the Secretary of Commerce. The role of the Advisory Committee will be to determine operating policies for the Fund under the foreign policy guidance of the Secretary of State. Particularly in the initial phase of Fund operations, the policy-making function of the Committee will involve considerable attention to detailed aspects of Fund operations.

The Executive Branch intends to rest operating responsibility for the Fund in the Agency for International Development. This decision is in recognition of the fact that A.I.D. has broad experience and expertise in the implementation and administration of financing activities similar to those contemplated by the provisions creating the Fund.

Section 806.

This section authorizes the use of borrowing proceeds to cover losses incurred on loans by the Fund. The Executive Branch would prefer flexibility in determining the extent to which borrowing authority should be held available to meet the cash requirements resulting from any potential losses. However, it does not propose to amend this section at this time.

A typographical error exists in lines 5 and 6 of page 24. All of line 5 and the words "States Export Development Credit Fund for" in line 6 should be stricken.

Subsections 16(b) and (c) of S. 2335 make the Fund provisions effective July 1, 1974 and require a detailed plan describing the proposed organizational and operational methods for implementation of the Fund to be submitted to the Senate Foreign Relations Committee and House Foreign Affairs Committee no later than April 15, 1974. The Executive Branch concurs in the desirability of submitting to the Congress a detailed plan of implementation for the Fund before beginning operations. However, it would prefer to commence operations in this fiscal year. Unless the Fund is authorized to commence operations in this fiscal year, funds would not actually become available for operations until completion of action on FY 1975 budget requests. It is not likely, under that time schedule, that sufficient experience will be gained before submission of FY 1976 authorizing legislation, to submit desirable changes, if any, in the authorizing legislation based upon accumulated experience.

The Executive Branch would prefer to begin Fund operations on or about January 1, 1974. Experience gained in the course of a year or so could then form the basis for changes, if any are needed, in connection with the next authorization bill. At the same time, implementation of this important new initiative would not be unduly delayed.

For these reasons the Executive Branch proposes that it be called upon to submit a plan of implementation to the Congress on or about November 1, 1973, and that the authorization to begin Fund operations commence on January 1, 1974 or 60 days after submission of such a plan, whichever last occurs. Necessary action by appropriations committees would be sought at an appropriate time in this fiscal year.

In order to implement this proposal, the Executive Branch proposes that subsections (b) and (c) of Section 16 be deleted and that the following be inserted in lieu thereof:

> (b) The amendment made by subsection (a) of this section shall take effect on Janaury 1, 1974, or 60 days after submission of a plan of implementation in accordance with subsection (c) hereof, whichever last occurs.
>
> (c) The President shall, on or about November 1, 1973, submit to the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House of Representatives a detailed plan describing the proposed organizational and operational methods for implementation of the United States Export Development Credit Fund established by the amendment made by subsection (a) of this section.

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