ECONOMIC ISSUES IN MILITARY ASSISTANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

FIRST SESSION

JANUARY 4, 5, 6, 18, AND FEBRUARY 2, 1971

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE

60-050 O WASHINGTON : 1971

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $1.75

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

WILLIAM PROXMIRE, Wisconsin, *Chairman*
WRIGHT PATMAN, Texas, *Vice Chairman*

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
HERMAN E. TALMADGE, Georgia
STUART SYMINGTON, Missouri
ABRAHAM RIBICOFF, Connecticut
JACOB K. JAVITS, New York
JACK MILLER, Iowa
LEN B. JORDAN, Idaho
CHARLES H. PERCY, Illinois

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HALE BOGGS, Louisiana
HENRY S. REUSS, Wisconsin
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
WILLIAM B. WIDNALL, New Jersey
BARBER B. CONABLE, JR., New York
CLARENCE J. BROWN, Ohio

JOHN R. STARK, *Executive Director*
JAMES W. KNOWLES, *Director of Research*

ECONOMISTS

LOUGHLIN F. McHUGH — JOHN R. KARLIK — COURTENAY M. SLATER — RICHARD F. KAUFMAN
Minority: GEORGE D. KRUMBHAAR — WALTER B. LAESSIG — LESLIE J. BARR

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

WILLIAM PROXMIRE, Wisconsin, *Chairman*

SENATE

JOHN SPARKMAN, Alabama
STUART SYMINGTON, Missouri
LEN B. JORDAN, Idaho
CHARLES H. PERCY, Illinois

HOUSE OF REPRESENTATIVES

WRIGHT PATMAN, Texas
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
BARBER B. CONABLE, JR., New York
CLARENCE J. BROWN, Ohio

CONTENTS

WITNESSES AND STATEMENTS

MONDAY, JANUARY 4, 1971

	Page
Proxmire, Hon. William, chairman of the Subcommittee on Economy in Government: Opening statement	1
Fulbright, Hon. J. W., a U.S. Senator from the State of Arkansas	2
Staats, Hon. Elmer B., Comptroller General of the United States, accompanied by James A. Duff, Associate Director, International Division; Charles D. Hylander, Deputy Director, International Division; and Eugene C. Wohlhorn, Assistant Director, International Division, General Accounting Office	49

TUESDAY, JANUARY 5, 1971

Proxmire, Hon. William, chairman of the Subcommittee on Economy in Government: Opening statement	79
Hoopes, Townsend, vice president and director, Cresap, McCormick & Paget, Inc	80
Katzenbach, Nicholas deB., vice president and general counsel, International Business Machine Corp	115

AFTERNOON SESSION

Whitson, William W., the Rand Corp	132
Fried, Edward R., senior fellow, the Brookings Institution	146
Halperin, Morton H., the Brookings Institution	154

WEDNESDAY, JANUARY 6, 1971

Proxmire, Hon. William, chairman of the Subcommittee on Economy in Government: Opening statement	185
Selden, Armistead I., Jr., Deputy Assistant Secretary of Defense for International Security Affairs, accompanied by Lt. Gen. Robert H. Warren, U.S. Air Force, Deputy Assistant Secretary of Defense for Military Assistance and Sales	186

MONDAY, JANUARY 18, 1971

Proxmire, Hon. William, chairman of the Subcommittee on Economy in Government: Opening statement	253
Bowles, Chester, former Under Secretary of State and former Ambassador to India	255

TUESDAY, FEBRUARY 2, 1971

Proxmire, Hon. William, chairman of the Subcommittee on Economy in Government: Opening statement	289
McGovern, Hon. George, a U.S. Senator from the State of South Dakota	290

WITNESSES AND STATEMENTS—Continued

TUESDAY, FEBRUARY 2, 1971—Continued

Irwin, Hon. John N., II, Under Secretary of State, accompanied by Thomas R. Pickering, Deputy Director, Bureau of Politico-Military Affairs; and Christian Chapman, Director, Office of Military Assistance and Sales, Bureau of Politico-Military Affairs, Department of State.... Page 298
Wolf, Charles, Jr., chairman, Department of Economics, Rand Corp..... 344

SUBMISSIONS FOR THE RECORD

MONDAY, JANUARY 4, 1971

Fulbright, Hon. J. W.:
Table: Proposed military assistance and sales in fiscal year 1971..... 4
Foreign Relations Committee staff study entitled "Arms Sales and Foreign Policy," January 25, 1967, 90th Congress, first session.... 7
Statement by Senator J. W. Fulbright on the military sales bill, H.R. 15628..... 24
Editorial entitled "More Tyranny for Greece," from the New York Times, December 30, 1970..... 30
Article entitled "The Nixon Doctrine," by Flora Lewis, from the Atlantic magazine, November 1970..... 31
Staats, Hon. Elmer B., et al.:
Tables:
1. U.S. military assistance grants, fiscal year 1971..... 58
2. Foreign military sales through U.S. Government channels, fiscal year 1971..... 58
3. U.S. commercial sales of military articles, fiscal year 1971.... 58
4. U.S. economic assistance related to internal security and common defense purposes, fiscal year 1971..... 58
Reponse to Representative Moorhead's request to supply for the record the annual operating cost of maintaining U.S. Forces in Europe committed to NATO..... 66
Response to Representative Moorhead's request to submit for the record a statement regarding Defense Department guarantees of Export-Import Bank loans..... 67
Response to Chairman Proxmire's query regarding the statutory authority of the United States to conduct exchange transactions involving U.S. and foreign currency..... 72
Response to Chairman Proxmire's request to supply for the record a list of GAO studies that have been made or will be made pertaining to evaluation of the military assistance programs..... 72

TUESDAY, JANUARY 5, 1971

Hoopes, Townsend:
Prepared statement..... 87
Response to additional written questions posed by Chairman Proxmire. 114
Katzenbach, Nicholas deB.:
Prepared statement..... 116

AFTERNOON SESSION

Fried, Edward R.:
Prepared statement..... 151
Halperin, Morton H.:
Prepared statement..... 158
Whitson, William W.:
Prepared statement..... 137

SUBMISSIONS FOR THE RECORD—Continued

WEDNESDAY, JANUARY 6, 1971

Selden, Armistead I., Jr., et al.: Page

Comprehensive prepared statement 191

Tabular response to Chairman Proxmire's request to supply for the record the fiscal year 1971 figures for military assistance and related programs 203

Response to Chairman Proxmire's query regarding data on transfers of real and personal property to Vietnam and Thailand 212

Response to Chairman Proxmire's query regarding the accountability of material and equipment in an active combat situation 215

Response to Chairman Proxmire's request to supply for the record the unclassified reports regarding arms transfers made and estimates of requirements for the budget year to foreign nations 218

Response to Chairman Proxmire's request to supply detailed information on the use of MAP funds allocated and available to the Department of Defense 219

Summary table of provisions of law requiring periodic or special reports to Congress in the foreign assistance field 223

Clarification of colloquy with Chairman Proxmire regarding the $4.8 billion figure for foreign military assistance 230

Response to Chairman Proxmire's query regarding the total program costs for the F–5–21 fighter aircraft 241

Response to Chairman Proxmire's query regarding the cost of U.S. military construction in Cam Ranh Bay 242

Response to Chairman Proxmire's query regarding the total cost of construction in South Vietnam 242

Response to Chairman Proxmire's request to supply for the record the number of ships in the U.S. ship loan program 248

Response to Chairman Proxmire's query regarding reports that Soviet military aircraft have flown over or landed in Turkey on transit flights 248

Response to Chairman Proxmire's query regarding the legality of Soviet military aircraft refueling in Turkey en route to the United Arab Republic in view of Turkey's NATO alliance obligations 249

MONDAY, JANUARY 18, 1971

Bowles, Chester:

Prepared statement 266

TUESDAY, FEBRUARY 2, 1971

Irwin, Hon. John N., II, et al.:

Response to Chairman Proxmire's request to supply a breakdown of the amounts spent annually by the United States on grant and loan programs and the total amounts of cash and credit sales to foreign countries 305

Prepared annex to oral statement containing answers to specific questions posed in Chairman Proxmire's letter of January 22, 1971 307

Response to Chairman Proxmire's request to supply for the record figures breaking down the contributions to NATO by the various NATO countries 319

Response to Chairman Proxmire's request to supply for the record measures taken to insure that military assistance does not have an adverse effect on the economic development of recipient countries 334

McGovern, Hon. George:

Table: Food for peace funds used for common defense purposes, section 104(c), Public Law 480 293

Wolf, Charles, Jr.:

Prepared statement 349

APPENDIX

	Page
A list of GAO reports made during the period 1967–71 regarding investigation of selected aspects of the military assistance program	365
GAO report to the Congress entitled "Need for Increased Control Over Local Currency Made Available to Republic of Vietnam for Support of Its Military and Civil Budgets," No. B–159451, dated July 24, 1970	366

ECONOMIC ISSUES IN MILITARY ASSISTANCE

MONDAY, JANUARY 4, 1971

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to notice, at 10:05 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire; and Representatives Moorhead and Brown.

Also present: John R. Stark, executive director; Richard F. Kaufman, economist; and George D. Krumbhaar, Walter B. Laessig, and Leslie J. Barr, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

Today, the Subcommittee on Economy in Government of the Joint Economic Committee begins hearings on the economic issues in military assistance.

The subject of military assistance is an important one for many reasons. Previous investigation and studies by Congress and others have tended to emphasize the military and political aspects of military assistance programs. It is our intention to inquire into the economic aspects. There are two broad sets of issues that we hope to explore: First is the question of the costs and economic impact; what are the total budgetary outlays in sales; what are the economic impacts of the program at home and abroad?

The second is the question of measurement, evaluation, and management; how are the costs and benefits of military assistance measured. Are the billions of dollars that the Federal Government is pouring into military assistance to foreign governments worth it even in a strict military sense?

This morning we will look at the budgetary questions. For a number of months the subcommittee has been gathering information in an attempt to calculate both the total costs of military assistance, total government and commercial military sales to foreign countries.

What we have found so far is that military assistance is a far more costly program than is commonly understood. For example, the budget document of the Federal Government for fiscal year 1971 states that military assistance in 1969 cost $685 million and estimated 1970 costs at $545 million. These figures are gross understatements of the true costs of this program. In fact the preliminary figures for all

military assistance programs reveals that approximately $4 billion were spent in fiscal year 1970 and, I think, that figure is less than accurate and on the conservative side. It is more than $4 billion, not including sales programs.

I doubt that more than a handful of Senators or Congressmen have been aware of this fact. Moreover, the commonly held belief has been that military assistance has been declining over the past several years. This, too, is a misconception, the magnitude of which will be brought out in these hearings.

In my judgment, the most shocking concealment of military assistance funds in terms of rhetorical technique concerns the food for peace program. According to the budget document, "This program, closely linked to the AID program, combats hunger and malnutrition, promotes economic growth in developing nations and develops and expands export markets for U.S. commodities." That is a direct quotation from the act. Yet, we find that in the past 6 years nearly $700 million of food for peace funds have been channeled into military assistance programs. In 1970 $108 million worth of food for peace has gone for military aid to foreign governments. To continue using food for peace funds for military purposes is, to say the least, a corruption of the English language.

The first witness is the eminent J. W. Fulbright, chairman of the Foreign Relations Committee. Senator Fulbright is an expert on foreign aid generally and on military assistance in particular, and has probably done more than any other individual to probe the intricacies of these programs and to disclose their strengths and weaknesses to public view.

Among his many distinctions and qualifications is the fact that Senator Fulbright is one of the senior members of the Joint Economic Committee.

Senator Fulbright, you may proceed in any way you wish.

STATEMENT OF HON. J. W. FULBRIGHT, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator FULBRIGHT. Thank you, Mr. Chairman.

With your permission, I would like to read my prepared statement and then if you have any questions about it why, of course, I will do my best to respond.

Mr. Chairman, it is a pleasure to appear before your Subcommittee on Economy in Government to discuss the issue at stake in our military assistance programs. I cannot think of a subject which deserves and demands more careful study of the kind which has typified your work in the Senate. To quote Edward Hamilton, former staff director of the Pearson Commission and now a vice president of the Brookings Institution:

> One of the most undeveloped arts in the whole world is civilian analysis of defense budgets, and it's an important art, especially with relation to the general-purpose-forces budgets involved in most developing countries.

Speaking in that context and as a fellow member of the parent body of this subcommittee, the Joint Economic Committee of the Congress, let me take this opportunity to express my gratitude to you, Mr.

Chairman, for your leadership as the ranking Senate member of that committee. The value of the studious, nonpartisan approach maintained by the Joint Economic Committee—acting without fear of impinging on the legislative responsibilities of other committees—has been amply proved over the last several years in particular. I hope you will not think it amiss if I use this forum to congratulate you personally for your services to the Senate and to the country. Your contribution has been extraordinary and has given hope and confidence to many of us that we can make this system of ours work.

As you know, there has been little time for Members of the Congress to prepare any comprehensive statement or materials for a hearing of this character, both because of the arduous character of the closing days of the 91st Congress, which, as you know, adjourned only last Saturday, and because of the abiding problem of scheduling hearings when the agenda is overcrowded. Accordingly, I have come here today with a relatively brief presentation. Since we shall be opening up a very large area of questioning, however, I do not feel that this is a drawback. Rather, it is an opportunity to share in formulating some of the questions, if not providing the answers, which must seriously concern this subcommittee and the Senate as a whole.

I realize that there will be criticism of this subcommittee's inquiry into the subject of the impact of our military assistance programs abroad. There are those who resist any searching inquiry into overseas military problems on a continuing basis by the Congress. They complain that some fancied automatic disparagement of the military has become the fashion in Washington, and that we who are making inquiries are somehow riding a fashionable trend. On my part, I would suggest that the cries of anguish and alarm should be directed at the political decisions which authorize the programs rather than the military as such.

What we are doing in fact is engaging in a process—overdue for some 25 years—of giving the same kind of careful scrutiny to our military and national security legislation as we normally give to the many other programs undertaken by the Federal Government. Because the process is long overdue, and because the public is so unaccustomed to open discussion of items formerly shrouded in secrecy and taken on blind faith, even some sober critics seem to fear that skepticism about our military undertakings will be carried to extremes. I believe that the data likely to result from the inquiries of this subcommittee will show that we are far from the end of the trail when it comes to uncovering—much less understanding—the various ramifications of our military operations abroad.

Seldom, until now, have we even begun to exercise the independent judgment on military requests that we devote to the budget proposals of such Departments as Agriculture, HEW, Transportation, and State. We cannot blame the Pentagon for this failing, for it has been our own failure to perform the tasks delegated to us by the American people.

It is difficult to reach even the first stage of illumination in this inquiry without examining just what we mean by military assistance programs. Those who believe that military assistance is comprised largely of the military component of our foreign aid program, amount-

ing to something in the neighborhood of $375 to $400 million for the current fiscal year before the supplemental bill just approved is added, are only dimly perceiving the tip of this particular iceberg.

In preparing for this session today, I was reminded again of the true magnitude of the sums involved in what we can properly categorize as military assistance in the larger sense of the phrase—that is, the total outflow of military equipment and support from the United States to other countries of the world. The total of all the sums involved for estimated proposed fiscal year 1971 military assistance and sales comes to just less than $7 billion—although it is arguable whether that full amount will be reached in terms of both authorizations and expenditures.

At this point, Mr. Chairman, with your permission I would like to include in the hearing record a very rough table illustrating the $6.96 billion figure we have arrived at.

Chairman PROXMIRE. Without objection, that will be printed in full in the record.

(The table referred to follows:)

Proposed military assistance and sales in fiscal year 1971

[Approximate sums in millions]

Military portion (MAP) of foreign aid, including supplemental request for Cambodia, etc	$775.0
Supporting assistance	570.0
Foreign military sales	1,824.5
Cash	(1,173.4)
Credit (Department of Defense)	(235.0)
Commercial	(416.1)
Special credit for Israel	500.0
International military headquarters	57.3
MAAG's, missions, etc	167.3
Permanent military construction overseas	190.2
DOD appropriations for military assistance	2,260.3
DOD appropriations for economic assistance	117.0
MAP grant excess defense articles (acquisition value)	502.0
Total	6,963.6

Senator FULBRIGHT. Included in that total are the sums of over two and a quarter billion dollars in military assistance and about $117 million in related economic assistance which are part of the regular Department of Defense budget. Beyond that we would have to add a figure of roughly $1.8 billion in foreign military cash and credit sales, and then include the special authority recently given Israel for $500 million worth of military purchases. In the category of foreign assistance as such, under the basic 1961 legislation, there would appear a figure of about $775 million for the military aid program, including the supplemental aid just approved for Cambodia and other countries, and about $570 million for the supporting assistance category. In addition, it is estimated that approximately $415 million would be spent for international military headquarters, MAAG's and military groups, and permanent military construction overseas. Finally, we would count on an estimated $502 million worth of military assistance program grant excess defense articles valued at original, or "acquisition," cost. Figured on the basis of "utility value," these supplies would be listed at $152 million. And thereby hangs a tale.

We talk blithely about tips of icebergs but I do not know what kind of imagery would best describe the fact that—under existing conditions—the Department of Defense has access to roughly $9 billion worth of surplus arms and military equipment which, up until passage of a bill last week, could be used without any congressional limitations. This total is stated in terms of "utility value," as distinct from "acquisition value"—the original cost of the excess articles was about $17 billion.

If we assume that 1971 is a more or less typical year, then the total military outflow from the United States since 1945 would be in the order of $175 billion. That figure may be higher than what has actually been done. The truth of the matter is that I don't know what the total figure is, and I doubt that anybody else does. There are so many different ways in which this outflow occurs that it is difficult to be sure one has counted all of them. Mr. Chairman, in your opening address you referred to the Public Law 480 which I have not assumed for this purpose but you will develop that no doubt later on.

Let me, for the moment, address myself to military sales. These increased dramatically in the 1960's. In the period 1952-61, sales averaged $300 million a year. But by 1965, they were $2 billion, and in the current year they may be as much as $2.3 billion. Approximately half of these are for cash, and most of the rest are on commercial credit terms.

One of the arguments made by the salesmen of military equipment is that these sales are an important plus factor in our balance of payments. Indeed, it was the balance of payments that provided a major impetus to the sales program beginning in the early 1960's. But this argument does not stand up under analysis.

Germany is the biggest single buyer—as much as $750 million a year. The Germans, and the Pentagon as well, regard this as a favor to us, as one of the ways in which the Germans offset the cost to the United States of maintaining American troops in Germany. And this is precisely the point. The arms sales to Germany are not a net plus in our balance of payments. They are offset, and more, by what we spend on our own Military Establishment in Germany. If we reduced that establishment, we would do as much if not more to help our balance of payments than we do by selling arms to the Germans. By continuing to keep troops in Germany, we are in effect giving the Germans the money to pay for the arms they buy.

This is a pattern which is repeated around the world. A great point is made that Israel pays for its arms—but it gets the money to do so from sources in the United States. Similarly, in most of the less developed countries, U.S. programs of economic assistance supply more money than is spent on arms purchases.

The use of excess equipment in the military sales program—and in the grant aid program as well—also warrants closer analysis. The sale of military surpluses is uncomfortably close to being a Public Law 480 program for the Pentagon, but we don't even get any foreign currency for these arms. As we move to more sophisticated weapons of our own, and as—hopefully—we reduce the size of our own military establishment, our surplus military stocks are bound to grow. The pressure for bigger and better sales programs—more accurately,

surplus disposal programs—is bound to grow proportionately. We have already seen proposals for Government financing of the so-called Freedom Fighter—an aircraft for which the U.S. Air Force admits it has no use and which is intended entirely for export to less developed countries and I presume on a grant basis. It is, in effect, a little SST—a plane produced to serve no practical purpose of the American people, but only to garner dollars for the U.S. aircraft industry. If our economy continues in its present unsatisfactory state, we are likely to be told that we have to do more things like this to provide employment. It is hard to imagine a greater waste of resources and one which is, at the same time, detrimental to our foreign policy.

Mr. Chairman, it should be common knowledge that our country is the largest supplier of arms and munitions in the world. Yet, I doubt the average American is fully cognizant of that fact and its consequences, or would take very much pride in the knowledge if he had it. We on the Foreign Relations Committee have been keenly aware of this situation at least since the publication early in 1967 of our staff study entitled "Arms Sales and Foreign Policy." We have done a great deal of work since that time in trying to bring the military sales program under better definition and control. The first evidence of this was the Foreign Military Sales Act of 1968 itself. It was particularly gratifying that we took the Export-Import Bank out of the embarrassing and dangerous position of allowing itself to be used as an unwitting vehicle for financing the spread of armaments to the less developed countries.

This past year the Committee on Foreign Relations labored long and hard on the bill (H.R. 15628) to authorize continuation of the military credit sales program for fiscal years 1970 and 1971. The Cooper-Church Amendment relating to Cambodia—which has now been accepted by the Congress and the administration attached to another bill—was the best known accomplishment under that heading. But in the process of amendment, the committee and then the Senate approved a number of very modest restrictions on the Pentagon's ability to use the surplus program to circumvent the wishes of the Congress.

It is a matter of great regret to me that sensible measures to place more control in the hands of elected representatives of the American people fell by the wayside in a New Year's Eve conference with the House.

On this occasion we have neither the time nor the inclination to repeat much of what I and other Foreign Relations Committee members have said about our arms sales over the past year or 2. With your permission I would like to place in the record a copy of the 1967 committee staff study on the subject along with my statement on the most recent military sales bill, H.R. 15628.

Chairman PROXMIRE. Without objection, that will be printed in full in the record.

(The information referred to follows:)

90th Congress
1st Session

COMMITTEE PRINT

ARMS SALES AND FOREIGN POLICY

STAFF STUDY

PREPARED FOR THE USE OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE



JANUARY 25, 1967

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1967

COMMITTEE ON FOREIGN RELATIONS

J. W. FULBRIGHT, Arkansas, *Chairman*

JOHN SPARKMAN, Alabama
MIKE MANSFIELD, Montana
WAYNE MORSE, Oregon
ALBERT GORE, Tennessee
FRANK J. LAUSCHE, Ohio
FRANK CHURCH, Idaho
STUART SYMINGTON, Missouri
THOMAS J. DODD, Connecticut
JOSEPH S. CLARK, Pennsylvania
CLAIBORNE PELL, Rhode Island
EUGENE J. McCARTHY, Minnesota

BOURKE B. HICKENLOOPER, Iowa
GEORGE D. AIKEN, Vermont
FRANK CARLSON, Kansas
JOHN J. WILLIAMS, Delaware
KARL E. MUNDT, South Dakota
CLIFFORD P. CASE, New Jersey
JOHN SHERMAN COOPER, Kentucky

CARL MARCY, *Chief of Staff*
ARTHUR M. KUHL, *Chief Clerk*

PREFACE

This study is the result of the belief of the Committee on Foreign Relations that the problems and responsibilities the United States has acquired with its ever increasing arms exports are of prime concern to the Congress. The complex nature of these arms sales, as well as their implications for national and foreign policy encourages the belief that this study can serve a useful purpose.

It should be emphasized that this study does not necessarily reflect the views of the committee or any of its members.

J. W. FULBRIGHT, *Chairman.*

CONTENTS

	Page
Preface	III
Arms sales and foreign policy:	
I. The changing pattern of American military assistance	1
II. The dimensions of the arms sales program	3
III. The military export markets	4
IV. Financing military exports	5
Export-Import Bank	5
Private banking facilities	6
The military assistance credit account	6
V. Policy control of arms sales	7
VI. Policy implications of arms sales	8
VII. Concluding comment and recommendations	12

Arms Sales and Foreign Policy

I. THE CHANGING PATTERN OF AMERICAN MILITARY ASSISTANCE

Since the Second World War the United States has recognized that it is in the national interest to give military support to friendly countries to enable them to defend themselves against the threat of aggression. The military assistance programs beginning in 1949 with congressional approval of the Mutual Defense Assistance Act have provided various kinds of grant military aid to countries unable to pay for their own defense needs. Over the years the Congress has paid particularly close attention to the military assistance programs with an eye to withdrawing such aid from countries having sufficient resources to maintain their own forces and preventing U.S. military aid from either being misused or overburdening struggling economies.

In recent years both the President and the Congress have become increasingly aware of another responsibility directly related to the use of military assistance. This is the question of conventional arms control in the developing regions of the world. In his message of last January to the Eighteen Nation Disarmament Conference, President Johnson reminded the delegates:

> As we focus on nuclear arms, let us not forget that resources are being devoted to nonnuclear arms races all around the world. These resources might be better spent on feeding the hungry, healing the sick and teaching the uneducated. The cost of acquiring and maintaining one squadron of supersonic aircraft diverts resources that would build and maintain a university. We suggest therefore that countries, on a regional basis, explore ways to limit competition among themselves for costly weapons often sought for reasons of illusory prestige.

Despite President Johnson's concern, the pursuit of "illusory prestige" has recently quickened throughout the developing regions of the world. For example, the United States has agreed to sell to Iran a squadron of F–4 Phantoms, its most sophisticated operational supersonic aircraft. Morocco has purchased 12 F–5's, among the United States most modern fighter-interceptors. The international record of such sales is long: American F–104's interceptors to Jordan, British Hawker Hunter jet fighters to Chile, American A–4B tactical attack aircraft to Argentina, Soviet Mig 21's to Iraq, Czechoslovakian armored cars and bazookas to Cyprus—to cite some recent examples.

What is clearly in process is a competition among the industrial nations to sell arms to the developing nations of the world. In the Indian subcontinent and the Middle East these sales have contributed to an intense arms race; while in North Africa, sub-Saharan Africa and most of Latin America the situation is still, in Lincoln Bloomfield's words, that of an "arms walk." But the arms pace, even where it still remains a "walk," shows every sign of accelerating, unless the major powers take a stronger interest in slowing the pace.

This growing problem of arms competition in the underdeveloped world and the diversion of scarce resources is directly related to a dramatic shift in the composition of U.S. military assistance and sales programs. It seems that at a moment of increasing congres-

60-050 O - 71 - 2

sional oversight of the military grant assistance, emphasis has shifted from these programs to a concentration on military sales. In the fiscal years 1952 to 1961 the U.S. military grant aid programs and military sales amounted to a total value of $22 billion—$17 billion in grant aid and $5 billion in sales. According to the Defense Department, the comparative amounts will be radically altered in the 1962–71 period—that is $15 billion in military sales, and $7 billion in grant aid. (In fiscal year 1961, for example, sales were 43.4 percent of grant aid; in fiscal year 1966, sales stood at 235.1 percent of aid.) Since 1962 the Defense Department has already obtained $11.1 billion in foreign military orders and commitments. The average of all military export sales in the 1952–61 period was around $300 million annually. In fiscal year 1961 military export sales rose to $600 million; they were $1.3 billion in fiscal year 1963; $1.26 billion in fiscal year 1964; $1.97 billion in fiscal year 1965; and were around $1.93 billion in fiscal year 1966. That is a total of some $6 to $7 billion in the past 4 years.

Of the $9 billion in orders and commitments the United States received between 1962 and 1965 almost $5 billion has been received in cash receipts, an amount offsetting almost 40 percent of the dollar costs of maintaining U.S. forces abroad during that period. Furthermore, these sales offsets have risen from 10 percent of oversea expenditures in 1961 to 44 percent in 1965.

Secretary of Defense McNamara made it very clear in 1965 that he considered military grants and the increasing military sales as an important instrument of American foreign policy:

> I think it is extremely important to understand that in our military assistance program and in our military sales program we face two extremes.
>
> In the one case we face nations, our allies, who for a variety of reasons may not have developed their defense program to a level commensurate with their economic strength, their obligations to their own people, and their obligations to the alliance of which we are a part. Nations that fall in that category are the developed countries, the countries which have had a remarkable economic growth, in the last decade or two, economic growth in many cases stimulated by Marshall plan aid.
>
> In these instances it is very much in our interest to work with those nations to expand their defense program, to increase their military personnel strength, to add to their equipment, and where it can be done to our mutual advantage to insure that they buy their equipment from U.S. producers. This we do.
>
> The result has been very substantial increases in the defense budgets of many of the Western nations, Australia, the Federal Republic, to name two. This is ultimately in their interest. It is very much in our interest. In no way does it conflict with economic development and economic strength which I want to emphasize as Secretary of Defense I consider to be the foundation ultimately of national security. In any case, that is one extreme.
>
> The other extreme is represented by those underdeveloped nations which have not yet met the minimum needs of their people for social and economic progress but who nonetheless are inclined to divert an unreasonable share of their scarce human and materiel resources to defense.
>
> In those cases our first objective is to use the influence that we gain through the military assistance programs and occasionally through the military export sales programs to work with them to reduce the share of their resources devoted to defense and to increase the portion of their human and material capital that is allocated to economic and social programs.*

It is difficult to fault the objectives and the logic of such an approach to the military assistance and sales programs. But the developing nature of the arms competition seems to defy the best intentions of Mr. McNamara's reasonable explanation of how the United States

* News conference, Sept. 16, 1965.

conducts its arms sales. The question that must be addressed is whether the governmental machinery designed for the management of our military sales program is adequate to the task of bringing the U.S. actions in line with Secretary McNamara's intentions.

There is evidence to suggest that it is not.

II. THE DIMENSIONS OF THE ARMS SALES PROGRAM

Since its establishment in October of 1961 a Defense Department office called International Logistic Negotiations (ILN) has been the center of U.S. military sales. In 1964 the Director of ILN, Henry J. Kuss, was promoted to the rank of Deputy Assistant Secretary of Defense as the result of his success in boosting military sales. ILN's sales force of some 21 professional officers is organized into four teams—red, grey, blue, and white—each charged with particular functional and regional responsibilities. The white team, for example, devotes almost its entire efforts to selling military equipment to West Germany in an effort to offset by military sales the approximately $775 million it costs the United States in dollars to keep our troops in the Federal Republic (West Germany has bought some $3 billion worth of military equipment in the last 4 years). The measure of ILN's success is the 600-percent increase in annual military sales over the levels of the 1950's.

The Defense Department's approach to the arms sales field has been dynamic and aggressive. The Department through the Military Export Committee of the Defense Industry Advisory Council has sought the cooperation of industry and the financial community in an effort to further overseas military sales. Defense is also supporting plans to organize symposia throughout the United States aimed at convincing the smaller arms manufacturers, the "non-bigs" as they are called, of the advantages of entering the military export market.

In fostering these commercial ties, the Department of Defense is appreciative of the fact that there are a number of ways by which arms can be sold abroad: private firms selling to a foreign government, private firms selling through an agency of the U.S. Government, and government to government sales. There are other possibilities as well, such as a U.S. manufacturer licensing a foreign firm to produce his products. Because of the variety of ways that arms are sold and distributed it is difficult to know the extent of just how much equipment is being purchased. For example, the F–86's Venezuela recently bought from West Germany were manufactured in Italy under a U.S. licensing arrangement. The F–86's West Germany "sold" to Iran but which mysteriously seem to actually belong to Pakistan (despite U.S. efforts to halt the flow of arms into Pakistan) were manufactured in Canada.

In other words, neither the sales figures given by International Logistics Negotiations—which do not include commercial military sales with the exception of those to West Germany—nor even customs statistics would be able to give the full story of the extent of arms traffic for which the United States is responsible.

The Defense Department's interest in the potential of the export market has prompted a number of appeals to the American armament industry to go "international." In a speech before the American

4

Ordinance Association in October of 1966, Mr. Kuss had this comment about the companies who were reluctant to go "international."

> This tendency of American companies to refrain from entering into the international arms market is a serious one and affects our entire international posture in a military, economic, and political way.
>
> From the military point of view we stand to lose all of the major international relationships paid for with grant aid money unless we can establish professional military relationships through the sales media. * * *
>
> From the economic point of view the stability of the dollar in the world market is dependent on our ability to resolve balance of payments problems. Failure to resolve these balance of payments problems creates economic pressures in the international and in the domestic spheres. The solution to balance of payments is principally in more trade. All other solutions merely temporize the problem.
>
> From the political point of view international trade is the "staff of life" of a peaceful world. With it comes understanding; the lack of it eliminates communications and creates misunderstandings.[1]

Of particular interest to the Defense Department as a means of furthering its international sales is the eventual creation of a NATO Defense Common Market. Secretary McNamara first proposed the Defense Common Market in May of 1965. Such a common market for defense materials in NATO is also appealing because of the stimulus it would give to the standardization of military weapons and the development of common production facilities. The Department seems most impressed, however with arms sales potential in such a common market area. Mr. Kuss has said that "the highly competitive approach that has been taken here in the United States, particularly as a result of Secretary McNamara's cost reduction programs, places U.S. industries in fit condition for competition throughout the world." ILN estimates that over the next 10 years U.S. allies "may purchase a minimum of $10 to $15 billion of their requirements from the United States by sheer virtue of the fact that most of these items will be a minimum of 30% to 40% cheaper and will be highly competitive from a technical point of view * * *".[2] An important objective of American military export policies is to break down what ILN has termed "protectionists interests in Europe." For as Mr. Kuss has put it:

> We must establish by our actions in Government and industry that there is merit in an orientation toward the United States. We must sell the benefits of collaboration in defense matters with competition. We must demonstrate that the free world has more to gain from the U.S. model of defense competition than it has from the temptation to allocate the market and build little, safe, high-cost arrangements across national borders.

As an example of this temptation, Mr. Kuss cites the recommendations of the Plowden report on the British aircraft industry as "* * * indicative of the frustrations and consequent protectionism that is arising in Europe." [3]

III. THE MILITARY EXPORT MARKETS

For all the excitement generated in the American press over arms sales to Latin America and other developing regions of the world, the fact is that only a small percentage of total U.S. arms sales is involved. During the period fiscal years 1962–66, $9.85 billion of $11.1 billion in orders and commitments, went to developed countries

[1] Speech before the American Ordinance Association on Oct. 20, 1966.
[2] Remarks of Henry J. Kuss before the National Security Industrial Association on Oct. 8, 1965.
[3] Speech before the Los Angeles World Affairs Council on Mar. 24, 1966.

in Europe and Asia. This is 88 percent of the total, with $8.7 of the $9.85 billion going to Europe alone. (How much of this equipment is eventually transshipped as surplus to the underdeveloped world is another matter.) By way of contrast, during the same period the United States sold some $45 million to Africa and $162.7 million to Latin America (mainly to Argentina, Brazil, and Venezuela). In the Middle East and south Asia the 1962–66 total was some $972 million or 8 percent of the grand total (half of this amount went to Iran alone.)

Again, these figures do not include grant aid shipments or sales to which the U.S. Government was not a party.

In the case of Latin America, for example, total sales of U.S. military equipment, including commercial sales, may be 10 or 15 percent higher than the $162 million. The problem of compilation of total sales is complicated, if not made impossible, by the absence of any public or even Government sources that give totals of all U.S. military exports to countries or regions.

The fact that sales to underdeveloped countries amount to only 12 percent of the total military sales handled by the Department of Defense is important for a number of reasons. These figures on sales to underveloped countries lead to the conclusion that the U.S. motives in arranging such sales simply cannot be rooted in balance of payments considerations. If the United States were to lose its entire arms market to the underdeveloped world the impact on our overall balance-of-payments accounts would be small. Therefore, our justification for such sales must be based on the other considerations, such as influencing the development of the local military elites or helping a country resist the threat of external aggressions. Preventing the influx of military equipment of other nations, a sort of preemptive selling, has also been a strong U.S. motive in the underdeveloped areas of the world.

IV. FINANCING MILITARY EXPORTS

Almost two-thirds of all military sales abroad over the past few years have been for cash. The largest cash customer is West Germany, although other industrial nations such as Australia, Canada, and United Kingdom (with the major exception of the billion dollar F–111 deal) have also normally paid cash. Conversely, sales to the underdeveloped regions of the world have been mainly credit financed. For example, of the roughly $56 million in arms sold to Latin America through the Department of Defense in fiscal year 1966 only $8 million was for cash. This 7-to-1 ratio of credit to cash probably is common throughout the underdeveloped world.

The International Logistics Negotiations Office, not AID or the Export-Import Bank, has acquired the responsibility of negotiating the terms of the credit extended for military purchases. The sources of this credit are the Eximbank, private banking facilities, and a military assistance account available for the use of the Defense Department under the authority of section 508 of the Foreign Assistance Act.

Export-Import Bank

The Eximbank has taken an active interest in the financing of military export sales only since 1963 when the Defense Department was given authority to insure credits.

6

The Eximbank role is one of providing a service function for the Department of Defense and bringing to military sales on credit the advantages of the Bank's experience in the international credit field. These loans are usually on a medium-term basis, or 5 to 7 years, at an interest rate that now stands around 5½ percent. Eximbank makes direct loans for military equipment only to industrial nations such as Great Britain, Australia, etc.

In addition, Eximbank makes so-called "country-x loans." Such loans are the result of Eximbank establishing what amounts to an accounts receivable fund for the use of the Department of Defense in arranging loans to underdeveloped countries. The Eximbank does not know or want to know where this money goes. The Department of Defense guarantees these funds through the military assistance account described below. The bank therefore avoids the problem of directly financing military sales to underdeveloped countries.

Private Banking Facilities

It is not clear how large a role private banking facilities play in the financing of U.S. military exports. According to the Military Export Reporter, a trade journal for U.S. contractors in the arms business, during the period of fiscal year 1962–65 approximately $2 billion or 40 percent of total arms sales, were financed by private banks or the Export-Import Bank. Since the Eximbank only entered the field in 1963 and carried only a very small amount of direct credit until fiscal year 1966, it can be roughly estimated that private banks extended some 90 percent or $1.8 billion of the funds during that period. But these figures are most tentative. It is safe to say, however, that private banks do not participate in such loans, particularly to underdeveloped countries, without a full guarantee of repayment. In the case of underdeveloped countries, the military assistance credit account serves as the primary source of credit guarantees.

The Military Assistance Credit Account

The military assistance credit account is the most useful instrument at the disposal of the International Logistics Negotiations (ILN) office for use in providing credit for arms sales to areas where commercial and direct Eximport credits are unavailable.

The idea that the Department of Defense should have funds available to arrange credit terms for arms sales was initiated with the Mutual Security Act of 1957 when a fund of $15 million was authorized for this purpose. This account officially became a "revolving account" to finance additional sales when the Foreign Assistance Act of 1961 (sec. 508) authorized that repayments from such sales to "be available until expended solely for the purpose of furnishing military assistance on cash or credit terms." Consequently, this fund, through yearly appropriations ranging from $21 to $83 million, has grown to over $300 million. An important amendment to the Foreign Assistance Act came in 1964 when the Defense Department asked for, and received from the Congress, the authority to allow the Department of Defense to guarantee 100 percent of the credit extended by U.S. banks for arms sales while only obligating 25 percent of the amount from the military assistance credit account as a reserve to back up the guarantees in the event of a default. In other words, the $300 million in the ever-increasing "revolving account" now allows the

Department of Defense to put the full guarantee of the U.S. Government behind over a billion dollars in military credits.

This provision permits ILN to guarantee loans the Export-Import Bank might make available through the "country-x" accounts or to back a loan made by a private bank.

Another option provided for ILN by the Foreign Assistance Act is the use of the military assistance credit account to extend direct credit for foreign purchases. The terms of such credit are at the discretion of the Defense Department and range from commercial rates to as low as a zero interest charge. A low interest charge from the military assistance credit account would normally be used in a package loan, which might include credit funds from a commercial bank and the Export-Import Bank, in order to bring down the overall interest charge to the customer. If the extension of credit were to underdeveloped countries, ILN would probably guarantee the other pieces of the loan package as well.

V. POLICY CONTROL OF ARMS SALES

The magnitude and complexity of the arms sales program would seem to demand a well-developed system of interagency supervision and complete statistics on what is being sold to whom under what terms. In large measure because of the phenomenal growth of the arms sale programs, neither the administrative resources of the executive nor the legislative attention of the Congress have kept pace with the problems these military exports have brought in their wake.

Under the provisions of the post-World War II legislation concerned with the regulation of arms sales (the Export Control Act of 1949, as amended, and the Mutual Security Act of 1954, as amended) the Department of State and the Treasury Department share the responsibility for establishing policy and for enforcing regulations with regard to the sale of arms. As for the obvious connection between arms sales and arms control, the Director of the Arms Control and Disarmament Agency was given the responsibility of Public Law 87–297 in 1961 to:

> * * * serve as the principal adviser to the Secretary of State and the President on arms control and disarmament matters. In carrying out his duties under this act the Director shall, under the direction of the Secretary of State, have primary responsibility within the Government for arms control and disarmament matters. * * *

In order to insure that arms exports procedures are consistent with the security of the United States and U.S. foreign policy, the Secretary of State, under the statutory authority of the 1954 Mutual Security Act, established an Office of Munitions Control to control the export licenses of items on the U.S. munitions list. That is, items the United States considers "arms, ammunition, and implements of war." As a further safeguard the Secretary of State in 1966 established a special interdepartmental committee to make certain that any disclosure of classified military information brought about by military exports would be consistent with national security requirements. This Committee, the successor to the Military Information Committee, is called the National Military Information Disclosure Policy Committee.

8

n theory, then, the interdepartmental machinery seems adequate to the task of coordinating a national policy of arms sales which would take into full account the military, political, economic, and arms control implications of our expanding sales programs. In practice, the mechanism appears unequal to the task. First of all, the Office of Munitions Control, which should serve as a general clearinghouse for all arms sales, does not have responsibility for handling, or even cataloging, government-to-government military sales—thus it has no influence over the greatest exporter of all, the Department of Defense. Moreover, since 1962 the Office of Munitions Control has not issued a report on just what commercial military items were exported. The problem seems to be a budgetary one of inadequate funding for the necessary staff to compile such a report. As a result, however, there is no way, short of a special request, for Congress or the Secretary of State to know just what is being exported to where by commercial firms. Since the Defense Department submits no composite reports to the Congress on what it sells abroad or even how the military assistance credit account is used, legislative oversight in the arms sales field is haphazard and generally ineffectual.

How and by whom the major decisions on arms sales are made is something of a mystery. There is reported to be a State-Defense Coordinating Committee for arms sales policy consisting of members of Treasury, the State Department, the Defense Department, and presumably the Arms Control Agency and AID. Whether the full Committee actually meets is uncertain. One thing is clear, however, from testimony the Foreign Relations Committee has already heard: the Arms Control and Disarmament Agency, despite its charter, does not sit at the high table when decisions on the sale of arms are made. Another open question is whether the Agency for International Development or the Bureau of the Budget actually participate in the process of making a decision to sell, for example, A–4B's to Argentina or have only the option of attempting to overturn a promise of arms sales already made to another country.

VI. POLICY IMPLICATIONS OF ARMS SALES

The burgeoning arms sales program raises a number of major and intertwined policy concerns: First, what is the effect of U.S. current military export policy on our European alliance relationships; second, what is the effect of these arms exports on the external indebtedness and general financial circumstances of the underdeveloped countries; and third, what are the prospects for arms control in the developing regions of the world given the present pace and pattern of the international traffic in arms?

On the question of the arms sales and U.S. relations with its European allies, the central fact is that while the financial success of the U.S. military sales is beyond dispute, there is ample reason for concern as to the side effects of the vigorous sales campaigns. American sales efforts have become a source of great irritation in Europe, particularly in West Germany and Great Britain, and may also be a major cause of the increasing interest of Europeans in competing for arms markets in developing regions of the world.

Some of the European resentment over U.S. arms sales efforts has found its way into the European press. In 1965 Britain's Daily Telegraph began a bitter article on American sales by charging:

> Growing resentment is being expressed by British defense experts at the effects of ruthless American high pressure salesmanship of arms and aircraft. This has already cost Britain a £40 million tank order from Italy.
>
> American efforts to become the monopoly producer of major arms are seen to be producing not only a form of "cold war" within NATO, but an actual weakening of its frontline strength by foisting inferior weapons on it.[4]

Such charges, which have been mirrored less bluntly in the French and Swedish press, are almost certainly overblown; and this particular charge came chiefly as the result of British unhappiness over Italy's decision to buy American M60 tanks instead of the British Chieftain battle tank. Nevertheless, Prime Minister Wilson himself complained to a NATO meeting of the high-pressure salesmanship of the United States in the arms field. In July of 1965 Prime Minister Wilson announced to Parliament that his Government had decided to follow the American lead in arm sales, and would therefore establish its own office of International Logistics Negotiations. Mr. Kuss' counterpart, Mr. Raymond Brown, is called the Head of Defense Sales. In reporting this action, Mr. Wilson explained:

> There is a strong desire that we should make more effective arrangements in placing British arms, particularly with our allies, because, as I said in my speech to the NATO conference, one of the things that have unbalanced the situation in the alliance was the high-pressure salesmanship of the Americans—as we found when trying to sell arms to France and Italy.[5]

As for the implications of Britain's new emphasis on arms sales for the worldwide arms control problem, Mr. Denis Healey, the Secretary of State for Defense, told Parliament in January of 1966:

> While the Government attach the highest importance to making progress in the field of arms control and disarmament, we must also take what practical steps we can to ensure that this country does not fail to secure its rightful share of this valuable commercial market.[6]

If Mr. Wilson's program of increasing British sales actually resulted in an upturn in sales to the industrial nations, the effect on the arms control problem would be marginal. But the fact is that under present conditions neither Britain, France, nor any other of the industrial nations can compete with the United States in the "Common Defense Market."

Without preferential treatment, Britain cannot even sell enough military equipment to West Germany to offset the small cost of maintaining some 55,000 British troops in the Federal Republic. A combination of technological skills, a high rate of government investment in defense industries, flexible credit arrangements, and the vigorous salesmanship of ILN have virtually put the rest of the Western World out of the sophisticated arms export market. The defense common market is little more than an arena for arms competition between resentful pygmies and an affable giant.

If the increasing arms competition between the United States and the Europeans in the "third" world is an indication of a trend, however, Europeans must feel that in Latin America, the Middle East, and in time, Africa, they can compete on equal terms. At a moment when

[4] Daily Telegraph, Apr. 5, 1965.
[5] The Times, July 14, 1965, p. 8.
[6] Parliamentary Debates (Hansard), Jan. 25, 1966.

10

the United States is attempting to slow the pace of military aircraft sales to Latin America, France has been actively pushing in the area its Dassault Mirage 3, Sweden the Saab J35 Draken, and Britain the Hawker Hunter and the Lightning Mark 3.

Deprived of markets in the industrial countries, the Europeans are anxious to win the next round of jet aircraft competition in Latin America. Most Latin American countries have until recently been content with American surplus F–51 Mustangs and F–80's, the earliest operational U.S. jet, or the equivalent British Meteor or Vampire. Now they want the subsonic jets such as the A–4. Britain has threatened to increase the pace by offering the supersonic Lightning.

In West Germany the situation is somewhat different. The United States has insisted that the West Germans buy approximately $775 million in arms per year in order to offset the cost of maintaining U.S. troops there in the Federal Republic. The problem is that the West Germans, primarily for financial reasons, have become increasingly unhappy and difficult about these purchases; U.S. pressure on the West German Government to meet this commitment has been intense and reportedly injurious to German-American relations.

Chancellor Erhard's failure to gain some relief from the commitment during his last trip to the United States may have contributed to his political downfall.

Over the long run, it is almost certain that this use of arms sales will have to be modified. The cost of maintaining U.S. troops in Germany is rising—it may be as high as $900 million per year by 1970—while West Germany's willingness to purchase the equipment and, equally important, her ability to absorb such equipment is rapidly declining. There are already signs that West Germany is sending surplus military equipment of American origin to areas where the United States would like to prevent the spread of such arms. There are "end use" agreements between the United States and West Germany governing the disposition of surplus equipment. But how long these agreements can be enforced given the present levels of sales is a difficult question.

This problem of the spread of surplus weapons throughout the world is not limited to West Germany and will require increasingly careful consideration by the U.S. Government. Total U.S. arms sales have now reached something over the $2 billion per year level—not including grant aid. The problem of the disposal of surplus military equipment is certain to grow with this increase in sales. The surplus arms of the industrial nations may provide the ingredients of an arms race in the underdeveloped regions of the world. It should also be noted that some of the arms used by Latin American guerrillas today were exported by the U.S.—for quite different reasons—yesterday.

The question of what effect American arms sales have on the debt servicing difficulties of underdeveloped nations cannot be answered here. According to the Development Assistance Committee (the DAC) of the OECD, external debts of the most underdeveloped nations "has increased at a considerably higher percentage rate than exports of goods and services, gross national product, or savings."

In Latin America, for example, the Inter-American Committee on the Alliance for Progress (CIAP) estimates suggest that two-thirds of Latin America's foreign exchange deficit is caused by external debt service payments.

Credits for military purchases are usually hard loans with high interest rates and a short repayment period. Development loans are normally just the opposite. Unless all credits to a particular country—both development and military sales—are subject to a comprehensive review how can we know enough about the total economic circumstances of a country to make the right decisions? At the moment there seems to be very little coordination between the right hand of military export credit policy and the left hand of development loans.

Finally, there is the question of the compatibility of our present arms sales policies with the United States' expressed desire to control arms races in the developing regions of the world. The Congress has fully supported the efforts of the executive agencies to administer military assistance and sales with the goal of arms control in mind at all times. The Foreign Assistance Act of 1966, for example, states:

> Programs for the sale or exchange of defense articles shall be administered so as to encourage regional arms control and disarmament agreements and so as to discourage arms races.

In addition, there has been growing concern by individual Senators over the role U.S. arms are playing in a series of international crises—Kashmir, the Middle East, and in time, perhaps in Latin America. Senator Bourke Hickenlooper expressed such a concern before the American Management Association when he remarked:

> The United States did not cause the Indian-Pakistan war but we did supply most of the rocks and brickbats. I hope we have learned from this experience that foreign military aid must be appraised in the wisest possible context with particular emphasis on what effect this aid will have on regional problems.

What seems to be lacking in the U.S. approach to the arms sales issue is a boldness of policy often demanded of a great power. It is a commonplace to hear discussions on whether the United States should or should not sell military equipment to this or that country end with "* * * but if we don't sell it to them the Russians (or the British, or the French, etc.) will." Fully aware of this flaw in the U.S. armor, many countries have exploited it in order to acquire equipment we don't really want to sell them. Consequently, the United States often ends up selling, say, the Iranians supersonic F–4 aircraft for defense primarily because the Shah says he will go to the Russians if we don't give him the equipment he wants. When this sort of compelling argument is added to the glint of a balance-of-payments success, a momentum is created which tends to divorce the process from its appropriate overall foreign policy context.

It seems imperative that at some point the United States take the risk that great powers must take and simply say "No—go to the Russians or the British if you must." Furthermore, the risks of such a policy of denial may not be high as advertised. In considering whether to sell or not we should not ignore the problems of our "competitors." As Prof. John Kenneth Galbraith told the Foreign Relations Committee last year[7]:

> Let me take note in passing of the recurring argument that if we do not provide arms to a country it will get them from the Soviets or possibly China. This is another example of that curious obtuseness which excessive preoccupation with cold war strategy produces in otherwise excellent minds. It was Soviet tanks that surrounded Ben Bella's palace in Algiers when that Soviet-supported leader

[7] Testimony before the Senate Foreign Relations Committee on the 1966 Foreign Assistance Act, Apr. 25, 1966.

was thrown out. It was a Soviet and Chinese equipped army which deposed the Indonesian Communists, destroyed the Communist Party in that ruthlessness on which one hesitates to dwell and which left Sukarno's vision of an Asian socialism in shambles. It was Soviet-trained praetorian guard which was expected to supply the ultimate protection to the government of President Nkrumah and which did not. One can only conclude that those who worry about Soviet arms wish to keep the Russians out of trouble. This could be carrying friendship too far.

Surely such a policy of denial will have its dangers; but an effort must be made to slow the seemingly relentless pace of arms competition throughout the underdeveloped world. If Professor Galbraith is correct in suggesting that our competitors may have their own problems with arms assistance and sales, then it may be possible for all the major arms suppliers—including the Soviet Union—to begin to work together to restrict the flow of arms into the underdeveloped regions of the world.

VII. CONCLUDING COMMENT AND RECOMMENDATIONS

Over the past 4 years there has been a basic change in the composition of American military assistance. The sale of arms has now replaced the giving of arms as the predominant form of U.S. military assistance. While dramatic in character and of major importance in its implications for alliance relationships and for the problem of arms control in the developing regions of the world, the significance of this change has not been fully appreciated by the hiearchy of the American executive branch or the Congress. In Europe, American arms salesmanship has often been zealous to the point of irritation, and overpowering to the point of encouraging Europeans to compete more aggressively for the arms markets in the underdeveloped regions of the world. In some underdeveloped regions of the world—notably Latin America and the Middle East—where there are no significant balance of payment incentives, the United States, when faced with tough decisions as in Iran and Argentina, seems to be drifting into a policy of preemptive selling rather than the more difficult alternative of arms denial.

It is the general conclusion of this study that it is incumbent on the United States to reappraise the adequacy of the present machinery of policy control and legislative oversight governing the sale of arms. On the basis of the available evidence, there is sufficient justification for tentatively concluding that the adjustments in policy and administrative procedure necessitated by the change in the composition of military aid have been marred by a lack of information, by weaknesses in interdepartmental coordination at the highest levels, and, finally, by a lack of serious attention to the problem of reconciling an active arms control policy with an arms sales program.

The specific recommendations of this study are as follows:

(1) In order to provide an adequate informational base upon which to judge the scope of U.S. arms exports, the Munitions Control Office should be directed to compile on a quarterly basis a complete list of all arms exports both commercial and governmental. This report—with a classified annex if required—should be submitted at least to the Secretary of State and the Congress.

(2) The Department of Defense should be required to give a full account of the annual use of public funds in the military assistance credit account.

(3) The role of the Export-Import Bank in the financing of military exports should be carefully examined by the Congress.

(4) Congress should consider making all military export credits and guarantees the subject of a simultaneous review with development loans. Both involve a charge on the resources of the recipient country and both involve the use of U.S. public funds.

(5) Congress should examine the decision-making process of the military sales program to determine whether the Arms Control Agency and Agency for International Development are meeting their responsibilities as defined by law.

(6) The United States should take the initiative in organizing regional conventional weapons "free zones"; zones that would be free of sophisticated offensive and defensive weapons—missiles, jet aircraft other than subsonic fighters, tanks, etc. Latin America, and perhaps north and sub-Saharan Africa, offer possibilities for such zones. For example, the heads of governments of the Americas meeting now scheduled for the early spring of 1967 could provide the occasion for the United States to take the lead in calling for agreements among the Latin American countries for a Latin American conventional weapons "free zone." Conceivably, the OAS could contribute to the maintenance of such a zone by the creation of an arms inspectorate comparable to the Western European Union's Agency for the Control of Armaments.

STATEMENT BY SENATOR J. W. FULBRIGHT ON THE MILITARY SALES BILL, H.R. 15628

Mr. President. It is with both a sense of great reluctance and a feeling of guarded accomplishment that I present this bill to extend the foreign military sales program to the Senate.

My reluctance derives from the fact that I take no pride in asking my colleagues to approve the portion of this bill which contributes to the spread of conventional military hardware. On the other hand, there is a feeling of accomplishment because of the Committee's adoption of a number of significant amendments, including the prohibition on further involvement in Cambodia and a number of restrictions on the military aid and sales programs.

The basic purpose of this bill is to authorize continuation of the military credit sales program for fiscal years 1970 and 1971.

It would authorize credit sales of $300 million in military arms and equipment for each of those years and would authorize the appropriation of 250 million each year to finance the sales. The sales financed under this program are made primarily to less developed countries. Credit sales to rich countries are generally financed either through commercial channels or the Export-Import Bank.

But the credit sales program must be viewed in the context of the total picture of U.S. arms exports. The Department of Defense estimates that in the current fiscal year the United States will sell abroad a total of about $1.9 billion in arms and military equipment. Of that, $350 million will be financed under authority of the Foreign Military Sales Act. In addition to the sales volume, the United States will supply $392 million in arms through the military grant aid program and will have an additional $166 million in surplus arms and equipment—valued at one-fourth of acquisition cost—to give away. Thus, the United States will sell or give away nearly $2.5 billion in military materials this fiscal year.

I point out also that there are some $9 billion worth of surplus arms and military equipment now available for the Department of Defense to give away —even to Cambodia—without any congressional limits. And the total is mounting rapidly as U.S. forces are withdrawn from Vietnam. In addition to the excess arms, the funds available under the regular grant aid and sales program, the President may, under Section 506 of the Foreign Assistance Act, give other nations up to $300 million of arms and equipment out of the Department of Defense's stock if he considers it vital to our national security. The sources of United States arms are many and the volume is vast. The credit sales program authorized by this bill is only the tip of the iceberg.

All of these programs add up to the fact that the United States is the world's largest producer and exporter of military equipment. And in this global context, I call attention to the grim reminder that for the period from 1964 to 1969 total military outlays around the world amounted to over $1 trillion. According to the Arms Control and Disarmament Agency, this sum when measured against available economic resources "exceeds the value of all goods and services produced in the United States in the past year; it is more than two years' income for the world's developing countries in which two and one-half billion people live; and it is equal to as much money as was spent by all governments on all forms of public education and health care in the six-year period."

Few would disagree that this is a pretty sad commentary on the priorities set by governments around the world. But the future is even more bleak. Drawing on a recent United Nations study, the *Christian Science Monitor* graphically reported recently that "If one silver dollar coin was dropped every second, it will take 126,000 years to exhaust the amount of money that will be spent on world armaments in the next 10 years." As a practical matter there is little that the Committee can do to change the outlook for that forecast. But it did act to try to control the contribution the Pentagon planned to make toward making the prediction a reality. It made a number of substantive changes that may help to stem the flow of American weapons abroad. I would like to describe briefly the most significant actions taken.

Nothing was more indicative of the Pentagon's blatant disregard for the intent of Congress than its giving away of some $140 million in surplus military equipment to Taiwan following Congress' refusal to appropriate $54.5 million in additional military aid above the amount authorzied. As a result of this attempt to increase appropriations over the authorization level, and the Pentagon's attempt to make an end run around the Congress by using the surplus program, two amendments have been added to this bill to prevent such developments in the future.

The first, dealing with the excess property issue, restricts the Department of Defense's authority by imposing a $35 million ceiling on the amount of surplus military arms or equipment that may be given away in any fiscal year. A portion of the original cost of any surplus material given away above that amount would be deducted from the funds available for grant military aid.

The second, relating to appropriations, simply states that any appropriation above the amount authorized cannot be used and that any appropriation for which there is not an authorization cannot be expended. This amendment writes into law the principle, supported by the Senate in two votes last year, that the appropriation of funds which are not authorized is bad practice and, if carried to extremes, could seriously undermine the authority of all legislative committees.

In addition to these two amendments, the bill contains provisions which require: (1) that recipients of military grant aid, including surplus equipment, pay in their local currency 50 percent of the value of the grants, the funds to be used to meet U.S. obligations in the country and to finance educational and cultural exchange programs; (2) that the United States not approve requests by foreign countries to transfer military equipment, supplied under the grant or sales program, to any country to which the United States would not supply the arms directly; (3) that the President be given explicit control over successive transfers of military equipment supplied under Government-financed programs; and (4) that sales or grants of the International Fighter aircraft, except for those given to Vietnam or sold through commercial channels, be authorized under the regular military grant aid or sales programs.

Mr. President, the fact that the Committee felt compelled to adopt these restrictions serves only to emphasize the failure of policies which have resulted in making the United States the world's leading arms merchant. This policy, which places such great reliance on arms as a means of solving problems of human and national relationships evidences a type of national illness.

It is the kind of illness that has spread deceptively and insidiously for many years and now permeates our entire body politic.

It is an illness that blinds both policy makers and public to our nation's basic traditions and values to produce a kind of "Doublespeak" where lives are saved by sending more men into combat; villages are destroyed in order to save them; and risks for peace are taken by buying more weapons of destruction.

It is the kind of illness that has drawn us into Vietnam; that has nurtured our adventure in Laos; and that has brought us to the brink of a far wider war throughout Indo-China.

In short, it is the kind of illness that prostitutes and distorts. It is the kind of illness that must be cured if we are to ever achieve peace abroad or at home.

The Church-Cooper-Aiken-Mansfield amendment, to prevent any further United States involvement in Cambodia, is a small, but important step in the recovery process.

Last year, by a vote of 70 to 16, the Senate adopted the national commitments resolution expressing the sense of the Senate that "a national commitment by the United States results only from affirmative action taken by the executive and legislative branches of the United States Government by means of a treaty, statute, or concurrent resolution of both Houses of Congress specifically providing for such commitment." By its action of April 1970 in initiating hostilities within the territory of Cambodia without the consent or even the prior knowledge of Congress or any of its committees, the Executive Branch has shown disregard not only for the national commitments resolution but for the constitutional principles in which that resolution is rooted. In the wake of recent events, there is reason to reassert, with renewed conviction, a statement made in the Foreign Relations Committee's report of April 16, 1969, on the national commitments resolution:

"Our country has come far toward the concentration in its national executive of unchecked power over foreign relations, particularly over the disposition and use of the Armed Forces. So far has this process advanced that, in the committee's view, it is no longer accurate to characterize our Government, in matters of foreign relations, as one of separated powers checked and balanced against each other."

The notion that the authority to commit the United States to war is an Executive prerogative, or even a divided or uncertain one, is one which has grown up only in recent decades. It is the result primarily of a series of emergencies or alleged emergencies which have enhanced Executive power, fostered

attitudes of urgency and anxiety, and given rise to a general disregard for constitutional procedure.

In fact, there was neither uncertainty nor ambiguity on the part of the framers of the Constitution as to their determination to vest the war power exclusively in the Congress. As Thomas Jefferson wrote in a letter to Madison in 1789:

"We have already given in example one effectual check to the Dog of war by transferring the power of letting him loose from the Executive to the Legislative body, from those who are to spend to those who are to pay."

As to the powers of the President as Commander-in-Chief, Alexander Hamilton, an advocate of strong executive power, wrote in Federalist No. 69:

"The President is to be commander in chief of the army and navy of the United States. In this respect his authority would be nominally the same with that of the King of Great Britain, but in substance much inferior to it. It would amount to nothing more than the supreme command and direction of the military and naval forces, as first General and admiral of the Confederacy, while that of the British king extends to the declaring of war and to the raising and regulating of fleets and armies—all which, by the Constitution under consideration, would appertain to the legislature."

The present Administration's view of the President's power as Commander-in-Chief is almost the polar opposite of Hamilton's. In its comments of March 10, 1969, on the then pending National Commitments Resolution, the Department of State made the following assertion:

"As Commander in Chief, the President has the sole authority to command our Armed Forces, whether they are within or outside the United States. And, although reasonable men may differ as to the circumstances in which he should do so, the President has the constitutional power to send U.S. military forces abroad without specific congressional approval."

Like a number of its predecessors, the present Administration is basing its claim to war powers on either a greatly inflated concept of the President's authority as Commander in Chief, or on some vague doctrine of inherent powers of the Presidency, or both. Another possibility is that the matter simply has not been given much thought.

Whatever the explanation may be, the fact remains that the Executive is conducting a constitutionally unauthorized, Presidential war in Indochina. The commitment without the consent or knowledge of Congress of thousands of American soldiers to fight in Cambodia—a country which has formally renounced the offer of protection extended to it as a protocol state under the SEATO Treaty, and to which, therefore, we are under no binding obligation whatever—evidences a conviction by the Executive that it is at liberty to ignore the national commitments resolution and to take over both the war and treaty powers of the Congress when Congressional authority in these areas becomes inconvenient.

It is noteworthy that, in his address to the Nation of April 30 explaining his decision to send American troops to Cambodia, the President did not think it necessary to explain what he believed to be the legal ground on which he was acting, other than to refer to his powers as Commander in Chief of the Armed Forces. Equally noteworthy was the President's repeated assertion in his press conference of May 8 that he—and he alone—as Commander in Chief was responsible for the conduct of the war and the safety of our troops. This sweeping assertion of the President's authority as Commander in Chief amounts to the repudiation of those provisions of Article I, Section 8 of the Constitution, which empower the Congress not only to "declare war" but to "raise and support armies," "provide and maintain a Navy," and "make rules for the government and regulation of the land and naval forces." It is true, of course, that the present Administration's attitude in this area hardly differs from that of its predecessors—except that preceding Administrations took no special pride, as the present Administration does, in adherence to a "strict construction" of the Constitution.

The Senate's adoption of the Church-Cooper-Aiken-Mansfield amendment will be a significant step toward restoring the health of our Constitutional system of checks and balances. Both its purpose and language are simple and straightforward. Its purpose is simply to prevent involvement by the United States in a wider war in Asia by insuring that our forces are withdrawn from Cambodia

and that the United States does not end up fighting a war in behalf of Cambodia. I will not go into the several points of the amendment since the sponsors of it will discuss its details in their presentations.

Mr. President, I believe that, with the amendments adopted by the Committee, this is a good bill and I hope that the Senate will approve the Committee's recommendations.

Senator FULBRIGHT. Let me also quote the following passage from the committee report on H.R. 15628:

Although the credit authority approved by the Congress in the Foreign Military Sales Act in the following year is an improvement over the open-ended revolving fund previously used, it is still questionable if a government-sponsored sales program, to poor countries, of this magnitude serves the national interest. The committee will give more detailed study to this subject in connection with the review next year of our foreign aid policy.

It is no secret that the Foreign Relations Committee over the last few years has found increasingly that the ponderous existing legislation relating to foreign military assistance contains all sorts of blanket authorizations which can be used by the President with little or no congressional supervision or control. More and more it becomes apparent that the basic Foreign Assistance Act of 1961, even as frequently amended, is an outmoded, cumbersome vehicle which reflects the views of the Pentagon far more than those of the Congress. The administration should soon be sending up to the Hill its recommendations for an entirely new foreign assistance program and we shall have a chance to put to work the lessons we have learned since 1961 when we deal with that legislative request.

What are those lessons? Time does not permit more than a few examples to indicate the kinds of problems which have been illuminated for us in our inquiries over the past 2 years. In any case, there is more than adequate information contained in the already mentioned hearings and report of the Subcommittee on Security Agreements and Commitments Abroad.

I have a particular interest in citing the situation with respect to U.S. military assistance to Spain—some $625 million through fiscal year 1969. As the Economist of London for December 19 puts it boldly: "Spain is again a police state."

The main reason why we have had such a close relationship with that country and have spent so much money there for close to two decades has been the military requirement for base facilities, beginning with the 1953 agreement. In turn, one reason given for overcoming the American public's reluctance to deal with a Fascist regime was that the United States could not plan on continuing its base operations in Morocco. Now, we have found that certain communications facilities at Rota, in Spain, which were expanded in 1963 to take up the slack from Morocco, were continued in operation even after the United States was permitted to keep operating from its Moroccan facilities. At this point let me quote directly from the final report of the Subcommittee on Security Agreements and Commitments Abroad of the Foreign Relations Committee:

In March 1969 when the Subcommittee staff visited Rota, questions were asked about duplication with communication facilities in Morocco. The staff was reassured that both facilities were needed, with the growth of the Soviet Mediterranean fleet cited as a key reason. One year later, however, in March 1970, when the staff visited communications facilities in Morocco, they were told that the comparable facilities in Spain had been taken off the air.

Another example of lessons we have learned about the consequences of our foreign military aid program is offered by the situation in Greece. Because Greece is a member of NATO, successive U.S. administrations have subordinated virtually all our usual foreign policy interests concerning that country to the overriding question of "security." Most of the European NATO members have held Greece at arms length ever since the military coup which resulted in the abolition of the Greek Parliament. Yet the United States, far from following the example of its European allies, seems to feel that it must go on providing substantial military assistance to Greece under the heading of NATO security.

When all the arguments are stripped of verbiage it will be found that there are only two reasons for the United States to offer a military quid pro quo to the Greek regime: One is the argument that Greece could help in-transit Americans who might have to leave Middle Eastern areas on an emergency basis; the other is that our naval and air forces could use some facilities in Greece which are at best auxiliary to the major bases which we maintain in Italy. To me, it is a terrible indictment of our foreign policy process that these two slender "security" arguments should be allowed to dictate American relations with a government which has misled our executive branch about its character and its intentions. Rather than persist in examining this unpleasant subject, I would ask permission to attach to my statement an excellent editorial from the New York Times of December 30, 1970, entitled "More Tyranny for Greece."

Chairman PROXMIRE. Without objection, that editorial will be printed at the end of your statement, Senator.

Senator FULBRIGHT. With your further indulgence, I would like to quote just the first paragraph of the editorial as follows:

> By its last actions of 1970, Greece's military dictatorship has rendered even more ludicrous the claims of its apologists in Washington that it has established a 'trend toward a constitutional order.' These typical moves by Colonel Papadopoulos and his colleagues merely expose the bankruptcy of United States policy toward Greece.

One could go on enumerating the untoward results of our military assistance program overseas, highlighting such strange situations as that whereby we armed both India and Pakistan, unwittingly helped them confront each other militarily, and jeopardized our relationships with both countries—only to see the Soviet Union currently supporting one and Communist China supporting the other. Such instances, however, are well known to the members of this subcommittee and I will not try their patience by emphasizing the obvious. The only reason I persisted in citing some special examples was to underline the fact that we are making very little progress in reducing the number of places where we have military, and thus political and economic, involvements. Let me stress in this last connection the point that even a military sales program alone causes us to spend money to help the country in question use the arms and equipment.

In fiscal year 1969 the number of foreign countries which the Defense Department lists as "MAP countries" amounted to 47; in fiscal year 1971 the total of countries in that category still numbers 47. If one added to the MAP countries those where we have foreign military sales programs, but not MAP, one would have a fiscal year 1971

total of 64 nations involved with the United States in one military capacity or another. It does not look as though we are getting very far away from the habits of the past.

Over and over again we have told ourselves in the last few years that we have emerged from the cold war period and need new ways of thinking about our position in the world, and therefore about our foreign and defense policies. I see little evidence, however, that we have shaken off the patterns of thought and reaction which we maintained during the so-called cold war.

During the period we in effect "militarized" our foreign policy because we adopted military methods of thinking about problems which essentially were not military in character. This is no new thought, but it does give some indication of the reason why the Pentagon has come to play the largest single role in influencing the character of our foreign relations. I believe it is largely from the military services that we have derived our great reluctance ever to give up a program or policy which we have once adopted. Just as the services keep finding new justifications for unnecessary facilities, the executive branch seems always to be seeking new justifications for our anachronistic and crippled military and economic foreign assistance programs.

In response to the general outcry in this country for a new foreign policy—and at least by implication a new long-range defense policy—we have been given some very broad and vague guidelines which have come to be known as the Nixon doctrine. We all were genuinely glad to have the President's foreign policy message of February 1970, presented under the subtitle "A New Strategy for Peace." In the period of close to a year since that message was received, it has become increasingly clear that the new foreign policy essentially just repeated all the preexisting 40-odd commitments to the security of other nations—even though this discussion was couched in terms of a slow reduction of the U.S. presence abroad. In fact, we are still waiting for an authoritative full-scale interpretation of just what the doctrine is supposed to mean.

One thing is becoming increasingly clear; namely, the Nixon doctrine will not save us any money. In one area of the world, Southeast Asia, the administration requests increased sums of military and economic assistance in order to substitute for American Forces which are slowly, too slowly, in my opinion, being withdrawn. Much of this money in effect will go to mercenaries. In another area of the world, Western Europe, the President strongly rejects any concept that Americans would pay mercenaries to do their fighting for them, and is insisting on maintaining at least the current dimensions of the American physical presence in Europe. Leaving the contradiction to one side, there can be no prospect of any great savings to be employed for domestic purposes under the heading of implementing the Nixon doctrine. Indeed, all the talk about how much better, if not cheaper, it is to employ Asian soldiers rather than American ones reminds us forcibly of the period of the early 1950's, when that was one of the main themes used in support of our "military security" programs.

Let us hope that in the coming months we will be able to see and to support a better interpretation of the Nixon doctrine. The noted

columnist, Flora Lewis, in the Atlantic magazine for November 1970, has written as follows:

The real problems of Asia are not military but political, social, economic. Arms and alliances, as Vietnam has shown, cannot solve these problems. It is still possible for the Nixon Doctrine to be transformed into a policy of support for Asian countries which are trying to come to terms with China. These countries need an American policy which will safeguard their own efforts to develop, rather than a policy of countercoalition designed principally to reduce the cost of conflict for America.

Mr. Chairman, I ask that the entire article by Miss Lewis, entitled "The Nixon Doctrine," be appended to my statement.

Chairman PROXMIRE. Without objection, that article will be printed at the end of your statement, Senator.

Senator FULBRIGHT. In conclusion, I would like to suggest to this subcommittee the likelihood that the largest single barrier we confront in exploring ways to streamline and to improve our posture and our programs overseas is an attitude of mind. I remember well that former Secretary of State Dean Rusk, in summing up his time in office, kept citing one main accomplishment: that is, the fact that nuclear war did not destroy the world during his tenure of the post. That strikes me as a highly revealing insight into his general attitude toward the foreign relations of this country. If we are going to conduct ourselves every day and on every occasion as if some kind of nuclear sword of Damocles imminently threatens us, then I believe we will always elect to place a narrow definition of military security above any other consideration. I would submit that the term, "security," while comprehending military activities, embraces a far larger complex of factors and a much larger vision of the future. That vision would encompass some hope for cooperation within the framework of the United Nations, for example, rather than such great reliance upon military equipment spread around the world.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you, Senator Fulbright, for a brilliant statement and an excellent contribution to our hearings this morning.

(The editorial and article referred to for the record by Senator Fulbright in his statement follow:)

[From the New York Times, Dec. 30, 1970]

MORE TYRANNY FOR GREECE

By its last actions of 1970, Greece's military dictatorship has rendered even more ludicrous the claims of its apologists in Washington that it has established a "trend toward a constitutional order." These typical moves by Colonel Papadopoulos and his colleagues merely expose the bankruptcy of United States policy toward Greece.

"As far as the question ofthe regime and the Constitution are concerned, there will be no change in the coming year," said Premier Papadopoulos in a year-end policy statement. He left no doubt that this meant perpetuation of martial law with special military tribunals and the suspension of basic freedoms.

This declaration was received in pained silence by the State Department, whose spokesman had detected the "trend" toward constitutional order as a justification for resumption of major military aid to the junta in September. It made a poor prophet of Deputy Assistant Secretary of State Rodger Davies, who predicted to a Senate committee in June that the junta would implement its Constitution "by the end of this calendar year."

With fanfare, the junta announced on Christmas Eve that it had released 305 political prisoners. It neglected to mention that right through the Christmas

period it persisted with a new series of arrests, including a former judge, three former members of Parliament, prominent lawyers and several women. These arrests brought the number of persons detained for political reasons in December alone to about ninety.

The junta also ignored until it was too late an extraordinary request by three United States Senators that it grant a temporary safe passage to enable a respected, self-exiled Greek journalist, Elias Demetracopoulos, to go to his dying father. The request was forwarded through Ambassador Henry J. Tasca in Athens, who proved as ineffectual in this compassionate matter as in other dealings with the colonels.

The Athens regime finishes 1970 in greater international disrepute and isolation than ever before in its 44 months of power. It has renounced the agreement which gave the International Red Cross access to its political prisoners. It is out of the Council of Europe; its agreement with a critical European Common Market has been shelved indefinitely and it was blasted by an International Labor Organization commission for suppressing 250 trade unions without cause.

All this adds up to tragedy for the Greek people but it also reflects discredit on an American Government that still pretends to take junta promises seriously and evidently sees no peril in its lonely support for oppression and tyranny.

[From the Atlantic Magazine, November 1970]

THE NIXON DOCTRINE

(By Flora Lewis)

From Singapore to Tokyo, America's shifting Asian policy is the key to every stateman's plans. No one doubts that change has begun. In that sense, the Nixon Doctrine is no longer just words; it is the emerging shape of reality. But on a long tour of Asia, I found no responsible figure, official or unofficial, who claimed with any confidence that he divined the essential meaning of America's new policy. In that sense, the Nixon Doctrine is a hazy shadow, unsettling, uncertain; it is welcome to some, unnerving to others, unclear to all. So long as that is so, it is a shaky base for efforts to build a new stability in a region of tremorous conflict.

GET US OUT

Some outlines, or rather directions of momentum, have been recognized by everyone involved. First, there is the undoubted American desire to get American men out of direct combat and exposure to enemy fire, not only in Vietnam. Even at MACV, U.S. military headquarters in Vietnam, the chief briefing officer now says heartily, "The name of the game is to get us out of here." It is noticeable, though, that instead of dwelling on advances and the imminence of great success, as they used to, briefing officers now tend to emphasize military difficulties and dangers. They are real, of course. But observers who know MACV well can't help suspecting that at least part of this new ploy is to discourage the kind of optimism which might lead credulous congressmen to say, "That's great, but if we're doing so well, why can't we get out faster?" Generals are careful these days not to show too much light filtering into the tunnel.

Second, the understanding has spread that Americans want not only to get out of the front line of Asian wars; we want to be altogether more reticent. Unlike well-bred children, we would like to be heard but not seen.

Third, it is taken at last as self-evident that there are limits on the men, money, and attention which the United States is willing to provide Asia, and that those limits lie somewhere below the current levels.

And finally, the thought is percolating into the consciousness of all who make decisions that the United States no longer automatically considers every Asian dispute a matter of its vital national interest. But of course, each capital considers its own troubles to be of the special sort which Washington cannot afford to watch indifferently. Vietnamese who oppose the Thieu government whisper bitterly that it is America's fault that Saigon does not govern better. They cannot yet come to grips with the idea that the United States may soon consider the governance of South Vietnam, for better or for worse, to be of no direct concern.

These are the vague, but accepted, main points of the Nixon Doctrine. But what are the new limits of American involvement to be, and how fast must they be reached? What is the new American understanding of how much is committed by a commitment? How far out of Asia does the United States mean to pull? How much does the United States care what happens in Asia in the 70s, and what will it leave as tangible proof, as it has maintained NATO in Europe?

Does the phrase "Asians helping Asians," or, as critics put it, "Asians fighting Asians," mean that the United States will provide everything but the front-line manpower, or that it will step back and help hold the ring, or that it will become a mere spectator?

These are the Asian questions. Nobody pretends to be sure of answers, and it isn't only because there is much static in the voice of America. Certainly, President Nixon adds to the confusion when, after announcing his new doctrine in Guam, he flies to Bangkok and immediately proclaims no change of any kind in our commitment to Thailand; when Nixon orders troops into Cambodia, orders them out again as the war gets going in earnest, announces that survival of Lon Nol's regime is not Washington's affair, and urgently hustles every friendly Asian government to rush to Lon Nol's aid; when Secretary of State Rogers says on tour that the United States is going to keep its troops in Asia, while Secretary of Defense Laird is saying that withdrawal will start this year in Korea whether Seoul likes it or not.

Vice President Agnew's whirlwind trip momentarily soothed some ruffled feathers, a new role for Spiro the Blunt, but he left a trail of contradictions. He told Koreans the withdrawal of 20,000 Americans was only "the first step" to removal of them all, which the White House promptly disclaimed. Then he went on to promise extensive financial help to upgrade Korean forces, when both the Defense Department and the Congress were talking only of sharp cuts in the military budget. It must have been strange for the Koreans, who aren't ignorant of the U.S. system, to hear the presiding officer of the Senate tell them not to pay attention to the amendment forbidding the United States to pay bigger allowances to Koreans and Thias in Vietnam than to American troops because the Senate's vote "doesn't count."

Cambodia heard him say the United States "will do everything we can to help the Lon Nol government," and then overheard him explain to Americans that he meant only that a Communist victory there might slow troop withdrawals from Vietnam. He told Thailand to forget the arguments among Americans because the United States is going to keep up its big military subsidies. Seldom has the oriental conviction that nothing a public figure says should be taken at face value been so strikingly confirmed.

Still, every government indulges in inconsistency, and one so huge as the United States dealing with such a tangle as Asia can be expected to zig and zag on its course. The deeper difficulty is that the premises, or, to sustain the metaphor, the compass readings on which the course is based, do not reconcile with the landmarks on the horizon.

LULL AND RUN?

Assuming that the aim of the Nixon Doctrine is to promote stability in non-Communist Asia by getting Asians to do more for themselves mutually and lean on America less, it parallels American policy in Europe from the Marshall Plan onward. In his sweeping article on "Asia After Vietnam" in *Foreign Affairs* of October, 1967, Nixon called for "a concert of Asian strengths as a counterforce to China" similar to the "Atlantic community within which a ravaged Europe was rebuilt and the westward advance of the Soviets contained." There were inconsistencies in Europe, too, but the thread of policy was clear—to encourage Western Europeans to develop their own strength so as to form with the United States a joint barrier to Communist expansion, and eventually a sufficiently solid base from which to negotiate peaceful terms with Moscow. (West Germany's new treaty with the Soviet Union is the logical fruit of Dean Acheson's reliance on "containment" and "negotiation from strength" a generation ago.)

Some people doubt that a parallel to America's long-range commitment to Europe is the correct assumption about evolving U.S. policy in Asia. In several Asian capitals, top officials wondered aloud whether Nixon were not secretly

copying De Gaulle's strategy on Algeria, lulling the hawks with promises of honor only to cut and run when the moment appeared ripe. It isn't inconceivable, and Nixon does fancy De Gaulle's style, but it seems quite out of character, politically as well as personally, since it would force the President to rely on the support of the left against the predictable outrage of the right.

If the policy is what the Administration says it is, then its chance of working depends on the ability of Asian states to achieve that mutual reinforcement within the time period set by dwindling U.S. patience. The deadline can't be fixed; it depends in turn on whether Asian countries are seen to be making enough progress to renew U.S. patience, as well as on the trials of America's domestic life. Yet there can't be much doubt that a historic deadline does exist not many years away. A vice-minister in one worried government figured there were three to four years to go. Others hope for a little more or fear a little less, according to whether "we show we're able to use the time," as a leader in Singapore put it.

But every Asian I talked to, from consistent critics of the United States to consistent apple-polishers (but excluding avowed Communist supporters), was convinced that disaster is bound to follow if a deadline is fixed and the United States suddenly decamps from the Far East.

"We don't want you to be so frustrated that you want to withdraw abruptly and forget about Asia," said a Japanese of high rank. "There should be a return to normal, and normal means a substantial U.S. presence in Asia. In our opinion, your presence is beneficent to almost everyone in the area. It is in our interest to encourage it." A former Southeast Asian leader, one who never approved America's plunge into Asia's politics and battles, said tartly, "You are too unpredictable. First you try to line everybody up behind you, and then you want to pull out and leave us to face the consequences on our own. Everyone will be angry at you now. What do you expect?"

These attitudes by no means denote affection for the United States, nor even a sense of common destiny with America such as permeated European thought in the 50s (to the discomfort of a number of Europeans). They come from a sense of weakness, of fragility of institutions and even nations in a region facing vast transition. The lines of conflict criss-cross the area. Instability is inherent at this stage, not only within societies but among countries.

The policy of collective security and mutual aid worked in Europe because the Europeans were ready to work together. It was a thousand years—from Charlemagne to Jean Monnet—before people in Western Europe came to the conclusion that their common interests were greater than their hostilities. Even after World War II, it took fear of the Soviet Union to consolidate the European coalition and push it on until it gained its own momentum.

Nothing like that has happened in Asia. Before World War II, there were but three independent countries—China, Japan, and Thailand. Decolonization was completed scarcely a decade ago. Nothing in the colonial period prepared countries to cooperate with their neighobrs. The ties were all to the imperial metropolis. As they emerge now as nation-states, and impoverished, struggling ones at that, there is little to give Asians a feeling of regional community as a buttress against their separate fears.

TROUBLES TO SHARE

"Asking Asians to help Asians is like asking a bunch of paupers to form a corporation," sniffed one. "We have nothing to share but our troubles." (With few exceptions, no leading officials wanted to be named as critics or doubters of the Nixon Doctrine. Presumably they don't yet know enough of Nixon's intentions to risk saying publicly where they stand.)

"Nothing to share" is an exaggeration. There are a number of regional groups, and they are performing some useful functions in financing development, promoting trade, even a cautious amount of political coordinating. SEATO, the only military alliance, is a facade, however, a diaphanous cover for direct links to the United States. Even Australia makes no pretense that its involvement in SEATO, and especially its participation in the Vietnam War, was done for any reason but to assure America's continued commitment to Australia.

It isn't an exaggeration, though, to see in the remark a measure of the

confidence Asian states have in each other. Quite apart from ideology, almost all of them have old, unresolved quarrels with their neighbors. They don't trust and don't much like each other. If they must ask somebody to come and help, they would far prefer us round-eyes to their neighbors however much they may dislike Westerners. Cambodia, judging from the past, expected large-scale U.S. military help when it went to war. Now, in their desperation, Cambodians are welcoming military help from South Vietnam and seeking it from Thailand, but their distaste is staggering.

Economic backwardness is another crucial difference impeding Asian cooperation. The mercantilists, and in their turn the Marxists, were wrong about the real magnetic lines of trade. They are strongest among industrialized countries, not between the haves and the have-nots, and certainly not among the have-nots who have little use for each other's raw materials.

The most important economic advance in Asia, outside of Japan, is turning out to depress rather than encourage regional trade. That is the "green revolution," the spectacular increase in agricultural yields due to new techniques. As a result, even food is losing its assured market. Traditional rice exporters such as Thailand are having a hard time selling because the usual buyers are growing more at home. Faced with a bad trade deficit, the Thais have imposed stiff new taxes to discourage imports. There is already resentment among suppliers to Thailand, and retaliation is certain to follow.

Thus, while "Asians helping Asians" sets off pleasing political vibrations, especially to U.S. taxpayers, there is really no political or economic base for it on a significant scale. It may well come some day, but probably decades, maybe generations, will pass before there can be any realistic expectation of an Asian bloc with sufficient cohesion and collective strength to deal on anything like even terms with the Chinese giant. For a long time ahead, the countries will remain a collection of midgets unable, and basically unwilling, to pool what strength they have.

China—vast, overwhelming, hugely present throughout the region even at the peak of its self-imposed quarantine—is the one factor pressing other Asian to awareness that they have some common interests. But it has operated in a quite different way from Soviet pressure on Europe.

DO-IT-YOURSELF

Partly, that must be credited to Mao's shrewdness. He has understood the force of nationalism as Stalin and his successors never did. Instead of trying to suppress nationalism in Asia to make room for Peking's hegemony, Moscow-style, Peking is prepared to encourage it as an ally of revolution. Partly, also, the Mao doctrine of do-it-yourself revolution with maximum encouragement but minimum material succor from Peking is a reflection of China's weakness. As the Japanese point out mainland China, with eight times as many people, has less than half ($69 billion) the gross national product of Japan ($160 billion). Japanese projections, based on careful study and the best information about China available anywhere, are that this ratio will fall to less than a third by 1975 (China—$100 billion; Japan—$350 to $400 billion) vastly increasing the disproportion in growth as well as total capacity.

There is a wide range of assessments of the "China threat" among the various countries of the region. Only the Chinese Nationalist government on Taiwan expresses its fears in terms of massive invasion. The others view the danger on a scale which reaches from Japan's comfortable assumption that physical security is the least of the problems China poses, though Thailand's fear of insurgency nourished by Peking, to South Korea's fear of direct attack by North Korea with China backing up Pyongyang.

American military men throughout Asia persist in concentrating on China as a military threat. Almost nobody else, including the more astute American diplomats, perceive the situation in those terms. China does have the ability to exert great pressure. But it exerts primarily political and social pressure on the shaky underpinnings of flimsy regimes groping slowly and, for the most part, with woeful ineffectiveness and error, to modernize their societies. China certainly affects every country in its neighborhood, but it simply is not the catalyst for a coalition of resistance that the Soviet Union became in Europe.

Not surprisingly, the only capital where one hears even mildy serious talk of organizing collective defense against China is Taipei. The Chinese Nationalists are, after all, Chinese and continue to think in grand, continental terms. They complain that until the Nixon Doctrine, Washington actively discouraged real efforts at Asian military cooperation in favor of bilateral ties which it could more easily control, Now, though admittedly wistfully, the Chinese Nationalists talk about a South Korea-Taiwan-South Vietnam-Thailand grouping which they point out would add up to an impressive armed force of two million men. It isn't even likely enough to be worth listing the obstacles and difficulties to overcome before such a coalition, if not a formal alliance, could get started.

JAPAN'S SOFT STEP

Outside of Japan, then, there is neither the way nor the will for Asians to take over execution of Ameircan policy in Asia by helping each other and relieving the United States. Basically, the Administration knows this, and it counts heavily on prodding Japan to take up the task of acting as coalition nucleus. There is something in it, but less than enthusiasts in Washington have advertised.

First, Japan is far from convinced that American policy is based on a sound judgment of what really threatens stability in Asia. Secondly, Japan *is* rearming and emerging from its post-war period of looking totally inward, though not so fast as the United States seeks. It is moving with great caution toward decisions on just what the responsibilities of an Asian power should be and how Japan should exercise them. It is prepared to expand its foreign aid and development effort. It is beginning to accept some political tasks, but its statesmen think in terms of mediation, not regional leadership. Significantly, even Japan's willingness to mediate is directed to quarrels such as that between the Philippines and Malaysia over Sabah, or perhaps between India and Pakistan over Kashmir, or the possibility of a dispute between Singapore and Indonesia, providing the parties ask Japan to get involved. Note that these are classic territorial disputes, in no case involving ideology and big power conflict.

Japan is not prepared to offer military support abroad, even through the sale of weapons, let alone dispatch of men, forbidden by its constitution. Top U.S. officials dream of inveigling the Japanese into an important role in any international peace-keeping force sent to Indochina to guarantee a future settlement. Maybe, maybe not. There are too many unanswerable questions of circumstance. At any rate, with the Nixon Doctrine the United States is trying to push Japan into exercising big power influence faster and further than Japan wants to go, or than the other Asian countries can comfortably countenance. This isn't likely to work, and if it does, it is almost certainly unwise.

Japan, of course, must now be included in the list of Asian powers. There are four—the United States, the Soviet Union, China, and Japan. Their roles and relations are shifting, but any consideration of power balance in the area now requires that one take account of all four. The Soviet Union particularly has been expanding its presence, and its claim to vested interest, with relentless energy. Looking westward from the Far East, it is easy to understand how urgently Moscow wants the Suez Canal reopened and to find reasons for Soviet Middle East policy which are far less apparent when one looks eastward from Washington.

It is not so easy to calculate the major Soviet goal in the Far East. Is it essentially a defensive effort to cordon China, or a drive for hegemony? Japanese Foreign Minister Aichi, a canny man, told me candidly that he simply had no answer to the question of probable Soviet intentions because they aren't yet at all clear.

Each of these four powers, in any case, has its own national interest in Asia. Some conflict directly, some are parallel, none fully coincide. Together, the four constitute the framework within which Asia will develop during the next generation, and it is that framework which will determine whether there is a chance for orderly and peaceful transition ora near certainty of violent upheaval. That is what Japanese officials mean when they speak of the need for "normal American presence" in the area. Sudden removal of the United States from the equation would destroy all hope of balance.

CONTRADICTION

If this analysis is correct, the outcome is contradiction. The Nixon Doctrine requires a very substantial dispatch of American men and money to Asia for a long period ahead, because the Asians simply can't make it work in a short time. The Nixon Doctrine also requires very substantial reduction of U.S. men and money being sent to Asia in a short time, because Americans will not (and should not) keep up such a heavy flow much longer.

The contradiction threatens failure of the policy, a very grave danger for both Asia and the United States. Not the least of the risks of failure is a revulsion in America so intense that it will produce the kind of isolationism which excluded the United States from Europe between 1918 and 1939. Only after a second world war began did this country recognize how much it was menaced by the disorders of Europe.

My conclusion is that our policy will have to change, or evolve quite differently from what seems the present direction. Instead of trying to get non-Communist Asians together to replace American counterpressure to China, which we can't do, U.S. policy should be to encourage each country to seek its own gradual accommodation with Peking.

That is not possible so long as the Indochina war continues. Nor is there the slightest prospect that the war can be ended so long as the United States is involved for the indefinite future. It is one more argument, added to the many others, for fixing a date for the complete withdrawal of U.S. troops from Vietnam.

The other key obstacle is U.S. recognition of the Nationalists on Taiwan as the government of China. There is fortunately a solution for this problem which, rare in international politics, combines practicality, morality, and self-interest all at once. That is to help arrange, perhaps through international auspices, a referendum on Taiwan. The result can be predicted with full confidence. The Taiwanese would vote overwhelmingly for independence from any government of China, real or pretending. Then the United States could recognize the sovereign state of Taiwan and work, as circumstance allows, to negotiate relations with China itself. This solution would not please Peking. But if Taiwan were also neutralized on lines of what the Japanese call "the Austrian solution," it would, together with withdrawal from Vietnam, demonstrate conclusively that the remaining U.S. presence in Asia is a balancing factor and in no way a threat to China. No one can foresee Peking's evolution. But it can be influenced as all countries, including the mightiest, are influenced by possibilities offered, ambitions accommodated or balked, and roads opened for maneuver, or shut off.

If the United States shifted from its policy of "counterforce to China" and removed what Peking can legitimately regard as an American threat along its borders, it could then give economic and political support to countries resisting Peking's efforts to foment upheaval without making their relations with China impossible. This policy also offers the eventual hope of inducing China to see its own best interests in accommodation with, instead of hegemony over, Asian countries following a different ideological path to modernity. An Asian Great Wall against China offers nothing but strife, and anyway it can't be built by shipping U.S. bricks to Asian contractors and telling them to get on with the job.

The real problems of Asia are not military but political, social, economic. Arms and alliances, as Vietnam has shown, cannot solve these problems. It is still possible for the Nixon Doctrine to be transformed into a policy of support for Asian countries which are trying to come to terms with China. These countries need an American policy which will safeguard their own efforts to develop, rather than a policy of countercoalition designed principally to reduce the cost of conflict for America.

It is possible, but it hasn't begun, and there isn't much time. That American deadline is not yet marked on the calendar, but it exists.

Chairman PROXMIRE. In addition to your analysis of the effect of our military assistance program, that is that it seems to be, it could be, militarizing our foreign policy, and the very serious questions you raise about the wisdom of this kind of military assistance to

countries like Spain and Greece and the way we have been providing it, and the other implications with respect to foreign policy, it seems to me two striking facts emerge from your testimony. The first is the incredible sums going into military assistance, amounts that neither the Congress nor the general public have been aware of. And, second, is the fact that under the present arrangements much of the money involved appears to require no authorization and much that does go before Authorization Committees has been diverted away from the Foreign Relations Committee.

In your opinion, has the Government intentionally concealed the true size of the military assistance program, and, if so, for what purpose?

Senator FULBRIGHT. Well, Mr. Chairman, it is always a very delicate matter to bring up the subject of motives.

Many of these programs have grown up like Topsy. Take the excess military equipment program. It is a little like Public Law 480 except that we do not get anything from the foreign country in return. They develop these excesses when they want a way to get rid of them—it is a way to get new equipment and to replenish their funds. I am not sure I would say their intention was to deceive the Congress. Because this didn't require the usual examination and the limitations, the effect was there regardless of what their motive was. I suppose the principal motive was a way to get rid of older material which was still plenty good for small, poor developing countries and to replenish their funds.

Chairman PROXMIRE. I am not asking whether they were doing this for some purpose which we wouldn't approve. I am asking whether they have concealed the size of the military assistance program, in effect.

Senator FULBRIGHT. Well, if you leave out the word "intention," I think there has been concealment, and it has been extremely difficult in many cases to uncover the full implications of some of the agreements.

I mentioned the Spanish-base agreement. This was an executive agreement first in 1953, renewed in 1963, and recently renewed again.

The Subcommittee of the Foreign Relations Committee under the chairmanship of Senator Symington went into this at considerable depth with two very able staff members. We had great difficulty, I may say, in obtaining the information as to what was involved in this secret executive agreement and the directions given by General Wheeler to his negotiator, General Burchinal. These were secret matters, and they objected strenuously in the beginning to our obtaining the information. It took a good deal of persuasion and argument to obtain this material. In this sense they did not wish it to be publicized and, as you know, even though we were as strong as we could be in insisting it be brought forward as a treaty, they refused to do it. It is still an executive agreement. However, the terms of it were not before known and have now been revealed. But there is a tendency to classify everything that might be embarrasing, that raises these difficult questions when brought to light. We have had considerable difficulty with this entire issue of security classification by the executive branch.

If you will look at some of the published hearings of that subcommittee there are an enormous amount of deletions. Most of those dele-

tions, in my opinion, are of material that the public ought to know but the Defense Department insists that this affects security. Very often it affects security only in the sense that the foreign government doesn't want it publicized because it might embarrass them with their own people.

Chairman PROXMIRE. At any rate, whether intentionally or unintentionally the true size of the military assistance program has not been disclosed as clearly or as conspicuously as it should be——

Senator FULBRIGHT. It has not.

Chairman PROXMIRE (continuing). In view of the enormous sums involved. Do you agree with that?

Senator FULBRIGHT. It has not and it is spread around in so many different places it is difficult to put the pieces of the puzzle together. There are large amounts in the DOD budget, for example. There are enormous amounts that are given to Vietnam and Thailand which we don't usually think of as military assistance. This is in addition to the direct support of our own troops in that area.

Chairman PROXMIRE. Let me ask you this way: I have examined the budget document to see whether military assistance programs are properly identified and accounted for. In my opinion they are not, and I consider this a grievous and most serious failure of accountability to the American taxpayer. Do you agree with that?

Senator FULBRIGHT. Yes; I agree with that. I don't think there has ever been a realization of the enormous costs of these activities that have grown larger and larger year by year.

Chairman PROXMIRE. Formerly, as I understand it, your committee had full jurisdiction over military assistance programs. How do you account for the situation today?

Senator FULBRIGHT. Well, the war primarily. This has been the effect of the war, the transfer of the very large amounts to the DOD budget. My committee was inclined to be more critical and to request more information, and it was easier to get military aid through the defense budget. You know from your experience, anything in the DOD budget is very difficult to change. For years these huge budgets involving $60 billion, $70 billion at a time were almost immune from any discussion. I have seen them pass in the Senate with just a few hours of discussion, discussion that usually involved only encomiums about how wonderful the committees were in approving everything the Pentagon asked for.

Chairman PROXMIRE. Now, you have a helpful table in your statement which indicates some $6.9 billion of military assistance. You analyze this to indicate that part of this military sales and the Israel credit would have at best a neutral effect on our balance of payments and I presume that the rest of it, I calculate about $4.6 billion, would have a direct explicit negative effect on our balance of payments, is that correct?

Senator FULBRIGHT. I think so.

Those offsets, I mean the two examples I gave, and many of the other countries we say we are selling them the arms and then we turn around, on the other hand, and we give them assistance in the form of supporting assistance or economic assistance which gives them the funds in order to pay for the weapons. I mean it is a kind of a ring-

around-the-rosie, but it is not real bona fide sales which have a positive benefit on our balance of payments.

Chairman PROXMIRE. From the economic standpoint, the fact is that we are pouring some $7 billion of our resources into foreign military operations. Doesn't it strike you, as a member of this committee, that, number one, that this is inflationary, particularly in view of the fact that here is Government spending which results in more money being expended by Americans who receive pay in salaries and wages, and so forth, in this activity but they are not producing anything that is available for consumption. So demand for our goods and services is increased by $7 billion but the supply of goods and services isn't increased at all. With this big impact of $7 billion involved, the inflationary effect could be substantial.

Senator FULBRIGHT. Mr. Chairman, I think you are quite right.

Of course, this $7 billion, this doesn't include our direct costs of waging a war with our own troops.

Chairman PROXMIRE. No. I am talking strictly about this foreign military assistance program itself.

Senator FULBRIGHT. It is enormous. I think this kind of expenditure is the largest single reason for the inflation we have today. Shells or weapons rapidly become obsolescent and make no real contribution to the economy or society as is the case with putting our tax money into public works like roads, schools, water facilities, and pollution control. All of these contribute to the reproductive capacity of our society in contrast to the military. Putting resources into arms gives a shot in the arm immediately but there is no followon, and it has a very temporary effect on the economy, gives them jobs for the moment, but there is nothing that then is infused into the economy to increase its productivity for the future. This kind of program cannot be justified on economic grounds. If it is genuinely necessary for our survival—that is security in what I would call the real sense—if we are really threatened as a nation with invasion then there is no alternative to a large military budget. But I don't think that has been the case in many of these instances. I have never believed, for example, that what happened in South Vietnam threatened our security. This was a distortion of the very idea of security. So for military programs to be sold on an economic basis—that they contribute to our balance of payments or are good for our economy—is, I think, a complete distortion of the very term itself and has contributed more than anythink I can think of to inflation and the distortions in our own society.

Chairman PROXMIRE. My time is up.

Mr. Brown.

Representative BROWN. Mr. Chairman, as the distinguished chairman of the Foreign Relations Committee of the Senate, how do you feel we should obtain military security in this country?

Senator FULBRIGHT. The number one consideration, in my view, of any country is that the country should be strong internally and united and not distracted by external turmoil. This undermines the basic strength of a country, military security, or any other kind of security.

Representative BROWN. That is social. I am talking about the military security basis of our society.

Senator FULBRIGHT. Our true security can be measured only

by taking the basic strength of the country into account as the foundation for the military security of the country. Then to proceed upon that basis I think security depends on what you are faced with. I have never questioned the correctness of the policy underlying NATO. When NATO was created, the conditions at that time justified the combination of those countries in that alliance because of the threat of Russia under the guidance of Mr. Stalin. I supported it and the Marshall plan, which, in a sense, was a concomitant of that same situation. In other words, upon reflection, I don't consider that that policy was a mistake. But I think——

Representative BROWN. The Marshall plan, however, was the first step in leading us toward this policy which we are pursuing now.

Senator FULBRIGHT. I was just going to add I think because of that experience it misled us into generalizing from a particular situation, which was not justified. There were conditions in Europe which do not occur in these other underdeveloped areas. What we could do in Europe, which was largely confined to the infusion of capital—they themselves having all the talents, the experience, and sophistication to use it effectively to rebuild their society—simply didn't exist in many of these other countries. We did not have sufficient discrimination to recognize the difference, and we have gone down a road, which, I think, has been very harmful to our own society and has been of minimal assistance to many of these other countries.

Representative BROWN. Mr. Chairman, if I could speak just for a minute, do you see the domestic governments of Greece and Turkey of the Marshall plan era as being vastly different from the domestic Government of Greece today?

Senator FULBRIGHT. The Government in Greece at that time was quite different from the present one.

Representative BROWN. This is true in a social sense, in the sense of an authoritarian goverment as opposed to a more democratic government. The same is true with Turkey. which was assisted by Marshall plan funds, as I understand.

Senator FULBRIGHT. Well, of course, these countries did not have the fully developed open democratic system that some of the Western European countries have but Greece has aspired to a democracy and had enjoyed it for quite a period. I don't quite know what your point is. As of a given date you mean in 1949 what kind of Government did Greece have?

Representative BROWN. Your remarks were critical of our assistance to the Government of Greece today. My question was, were the Governments of Greece and Turkey, which were assisted by Marshall plan funds—which you sav was desirable—vastly different from the Government of Greece today?

Senator FULBRIGHT. I think so. The Government in Greece today is one of the most offensive dictatorships anywhere. Their arbitrary arrests—and there was a recent outbreak of them—of people who are, I think, simply great patriots of Greece who are trying to reestablish a democratic system is inexcusable.

Representative BROWN. And the Greek and Turkey Governments of 1946 were a great deal more democratic?

Senator FULBRIGHT. They were much less repressive than they are today, I would say. I don't quite understand the point you make. I

know the Turks, for example, had never had a highly developed democratic system but it was about that period that they first began to have elections which were accepted by the losing party, which is one of the basic criteria for judging whether or not an election system works.

Representative BROWN. Let me get back to my original question, if I may, Mr. Chairman. I gather that you would approve some kind of multilateral arms situation, depending upon the circumstances, in regard to our effort to obtain military security rather than a unilateral system. In other words, it seems to me we have several opportunities here. One is arming the United Nations. Another one would be arming NATO, as you have suggested was desirable at one time. Or arming another nation or assisting with the arming of another nation as was the case with the Marshall plan aid.

Now, are those the alternatives or do we have others in terms of achieving military security?

Senator FULBRIGHT. Well, it is very difficult to generalize too far on this, and our own actions, of course, as all great nations' actions, have a way of inspiring counteraction from the rival powers. It is difficult to say who is at fault in the first instance, but what both the great nations and others have failed to do is seriously pursue the opportunities available in the mechanism of the United Nations or even the opportunities presented by bilateral negotiations such as the SALT talks.

I think both we and the Russians have placed entirely too great an emphasis upon military matters for security purposes. I think it is a futile and a negative policy that is not in the interests of either country. I have never been quite able to understand why these countries don't recognize that the policies we are both pursuing are undermining the strength of both our countries.

But coming back more specifically I think you have to judge each of these major areas according to the circumstances at the time. I have already said what I thought about NATO. I have thought exactly the opposite of our entry into Asia. I have never believed that there was the threat there. There was no justification for intervention. From my own point of view Europe and Southeast Asia are quite different situations, and our experience in Europe has misled us.

Our actions in this area and the overmilitarization of our policies has raised questions in the minds of many people normally very friendly to us, questions about our judgment, not about our intentions or our good heart and all that. This is why we have lost so much influence in the United Nations and other places because people who are normally our friends doubt our judgment.

Representative BROWN. Do I understand, sir, that you are saying our military security can be obtained in some areas by disarmament and in other areas by armament, depending on the circumstances? I am having difficulty in following you.

Senator FULBRIGHT. These terms get to be very tricky. Take Latin America. I don't think we ought to be in a position of encouraging and urging all these countries to rely upon our arms for our influence and for their own protection. I think that this has resulted in the militarization of their own policies. That is one problem we have contributed to, in my opinion, by our insistence upon military assistance and the training of their people. We have contributed to the develop-

ment of practically all of the military dictatorships which control most of Latin America.

Representative BROWN. So you would not see us offer any military assistance in Latin America?

Senator FULBRIGHT. We ought to leave them alone to work out their own problems within their own capacities. Mexico is the shining example of what I mean. We got mad at Mexico when they expropriated our oil. We left them alone for a long period and in that period they made a great deal of progress and it is now probably the most stable and effective government in Latin America. We did not encourage the growth of their military and the military in Mexico has little influence.

Representative BROWN. And I gather you feel we should not have taken any military interest in Southeast Asia in terms of either individual participation or sale of arms.

What about the Middle East?

Senator FULBRIGHT. Well, what about it?

Representative BROWN. Well, should we be participating in the Middle East in an arms sense either by providing arms or by selling arms? Or what should we be doing?

Senator FULBRIGHT. Here again I think we have greatly exaggerated the significance of the arms element in it. Secretary of State Rogers, about a year ago, made a statement on their policy with regard to the Middle East. I made two speeches endorsing what I believed to be their attitude of what they called an even-handed approach and not heating up the arms race. They were going to be very restrained, as I recall the policy. I know I made two speeches upon my understanding of what their attitude was. I thought then that it was correct and I still think it was.

In this instance, the Congress intervened and authorized unlimited military aid to the Israeli Government which removed any incentive on their part to negotiate. It looks to me as if there is almost no probability that there will be a negotiation. They don't feel any necessity to because we have given them, you might say, access to the arsenal of the United States. Why should they negotiate.

Representative BROWN. My time is up. I will return to these questions, I hope later.

Chairman PROXMIRE. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

First, let me say it is a pleasure to hear the distinguished chairman of the Foreign Relations Committee. This is a brilliant statement by a student of foreign affairs and it is a great pleasure to listen to it.

I, first of all, want to thank you for this statement.

Senator FULBRIGHT. Well, I have a good staff.

Representative MOORHEAD. Well, I commend your staff and you for your judgment in selecting them.

Senator FULBRIGHT. Thank you.

Representative MOORHEAD. The essence of your statement seems to me, and the problem that you present to us, is a statement where you say the Pentagon has come to play a large role in influencing the character of our foreign relations. It seems to me that under the Constitution and the structure of the executive branch and the Congress that we think of the State Department and Congress and the Foreign

Relations and Foreign Affairs Committees as being the guiding lights for the foreign relations in policy decisions and then the Defense Department as the arm of Government which, to the degree that the military are involved in this, carries out this intention. Is that your understanding, Senator?

Senator FULBRIGHT. You mean theoretically that is what was intended?

Representative MOORHEAD. Yes.

Senator FULBRIGHT. Yes; that is what was intended but I don't think it is a fact.

Representative MOORHEAD. I guess my next question is how can we get back to the organizational intention. For example, you have stated, as I recall it, that at one time the military assistance program was exclusively in the foreign aid, and, hence, under the Senate Foreign Relations and House Foreign Affairs Committees, is that correct?

Senator FULBRIGHT. That is generally true.

Representative MOORHEAD. Should we try to work back towards that situation?

Senator FULBRIGHT. I think so. I think that the efforts in recent weeks in the Senate have been somewhat encouraging. There are growing signs that the Senate is beginning to reassert its proper role in foreign policy, which it had largely given up under the impact of the cold war and the enormous proliferation of the power of the Military Establishment. The Defense Department has in the past overshadowed the State Department and, I think, they still do. This is, again is, an outgrowth of the almost continuous war or crises that we have engaged in in the last 25 years. But I think that for the survival of a democratic system that we ought to try to restrain the militarization of our foreign policy.

These MAAG missions all over the world, for example. Most of these are unnecessary. These small, poor countries cannot afford the arms we are pushing on them. Our arms sales program in which we give concessional terms to these little poor governments that can't afford it is an outrageous program. They all have, of course, military men and if you offer them something for nothing they usually take it and they take on an obligation which they can't afford to support; then we are stuck to keep them up. It gives, I think, a false feeling of security to arm them all, and to create expenditures that they really can't afford. I don't think it has any or direct relation to our own security.

In fact, I really feel that we and the Russians feel less secure today than we did 25 years ago. There is greater apprehension now, despite all of these expenditures.

Do you really sense there is a feeling of security and relaxation in our own country? If anybody ought to feel secure we ought to with our size and capacity for production. But I detect there is not much of that feeling around. Everytime defense appropriation bills appear there is a scare story about a base in Cuba or ships in the Mediterranean; someone asks for another billion or so, and they get it. This is playing upon apprehensions and fear. Yet there is a minimum of effort at developing negotiated understandings and settlements.

It has been a great disappointment to hear that nothing has come out of the SALT meetings in Vienna. A year ago there was great

hope about these negotiations and I remember that the Senate took a great interest in them. We passed, I thought, a very sensible resolution asking that there be a standstill agreement to deployment of MIRV pending the developments there. Nothing it seemed to me then nor now could have been more rational and conducive to some success than that. But, no, we went right ahead with deployment of MIRV and all the other things and ABM. So each side is just going full force ahead. I see not the slightest indication of any significant progress.

Representative MOORHEAD. I agree with you, Senator. I supported and cosponsored the bill, the resolution to halt deployment of MIRV and the others, and I think this would have been a great plus in helping the SALT talks along.

Senator FULBRIGHT. It seems to me so many of them do not have the slightest bit of faith that anything can be done in this field. It is the same way, sadly enough, about the U.N. So many people have come to disregard it as a serious operation, even to the extent of appointing people who have no previous experience in foreign affairs. It is just a place now where visitors go to look at an interesting building but too many don't take it seriously as an influence in maintaining better international relations or peace.

We haven't completely abandoned it but we certainly don't take it very seriously.

Representative MOORHEAD. Senator, on the economic side, although, of course, it also has foreign policy issues, it seems to me that the military sales program is where the Congress can really improve its input into foreign policy and into the economy. Let me ask you, sir——

Senator FULBRIGHT. Could I say there, the Senate made a pretty good effort but we were sandbagged at the last moment on that program, and the House conferees were just as adamant as they could be on the efforts of the Senate to limit use of excess arms and to require partial payment in foreign currency for grant aid. You know about that. I regret it very much.

Representative MOORHEAD. Yes. I think, however, this is a place where we can——

Senator FULBRIGHT. I do, too.

Representative MOORHEAD (continuing). Put some effort.

In your statement you talk about the $9 billion worth of surplus goods which have an acquisition value of $17 billion.

Senator FULBRIGHT. It is what they cost us originally.

Representative MOORHEAD. Presumably there is a true value somewhere in between the two, is that correct, sir?

Senator FULBRIGHT. Their general rule has been to evaluate what is obsolescent for their purposes—which still may be far better than anything these recipient underdeveloped countries have, a plane that is not quite as good as the latest model—at an average of about one-third of the acquisition cost. There may be variations, of course, among those weapons, but it is very difficult to evaluate an obsolescent military item and compare it to something of an economic nature which has a market value.

Representative MOORHEAD. But this is equipment which was purchased for use by the U.S. Armed Forces.

Senator FULBRIGHT. That is right. Except for that International or Freedom Fighter.

Representative MOORHEAD. I was going to bring that out because I think that most of it is bought for U.S. Armed Forces purposes.

Senator FULBRIGHT. Correct.

Representative MOORHEAD. Used by us and is turned over as second-hand or used equipment.

Senator FULBRIGHT. Correct. Much of it, of course, is very good, though simply not as good as the latest model.

Representative MOORHEAD. But the Freedom Fighter, I think we ought to stress that, this is a brand new, never been used, never purchased for use by the Armed Forces of the United States, never used by us, but manufactured, bought and paid for and then turned over.

Senator FULBRIGHT. As I understand it, that is the intention. Up to now the money that has been spent on it has been for development purposes. We have not yet authorized its actual procurement and disposition other than, I believe, to Vietnam. It is intended by its sponsors to make this especially suitable for foreign countries. It is not designed for our own use. It is a first case of this particular thing.

Representative MOORHEAD. If it goes through it will be a new plane?

Senator FULBRIGHT. That is correct.

Representative MOORHEAD. Brand new, right off the production line.

Senator FULBRIGHT. It is especially designed for foreign use, not for our own purposes.

Representative MOORHEAD. Thank you very much, Senator. My time is up.

Senator FULBRIGHT. Thank you.

Chairman PROXMIRE. Thank you, Senator Fulbright. You are such a good witness we would be inclined to take all day if we could do so. Mr. Brown wants to ask some more questions, I certainly do, but I think in fairness to Mr. Staats and in order to get along, if it is all right, I would like to limit the questioning to five minutes so we can both get in some brief questions and then proceed to Mr. Staats, if that is permissible.

Senator FULBRIGHT. I will do whatever you say. Do you want me to respond to some more questions?

Chairman PROXMIRE. Yes; I would like to ask you some more questions.

I think the questioning we have had from the panel here has been helpful. But what we want to get at now is how much is involved here, what it does, whether it has been evaluated properly, whether it is measured properly, whether this enormous amount of billions and billions of dollars being expended is really effective in providing military protection and providing national security.

We have coming up some, what I think are some, very shocking statements by Mr. Staats, shocking to me, in that he indicates that the military forces don't seem to know where this money is being spent, don't have any records in many cases, and I think that this is a great reflection on our authority as a Congress which has the responsibility for auditing public money.

I notice in your statement a discussion of excess and surplus arms, where you state that the original cost of this military hardware, much

of which will either be given away to foreign governments as military assistance or sold as scrap, is $17 billion.

Senator FULBRIGHT. Let me emphasize that the staff did not have much time to pull information together. You only asked me to come here last week, you know.

Chairman PROXMIRE. I know that.

Senator FULBRIGHT. Unfortunately we had those bills on the floor.

Chairman PROXMIRE. Right.

Senator FULBRIGHT. One staff member who works in this area was very much preoccupied until Saturday on some of those bills. They said "We can't be too exact, under the circumstances." I said, "Well, make the best estimate you can from the available material." I just want to emphasize that this is the best guess of the two most informed members of the Foreign Relations Committee staff who have been dealing with this matter for some years, in the case of Mr. Holt for a great many years.

Chairman PROXMIRE. These are two of the best informed men in Washington.

Senator FULBRIGHT. They had only a limited time to do this.

Chairman PROXMIRE. If you don't know and members of——

Senator FULBRIGHT. What about the 5,000 tanks they discovered in Europe that they didn't even know about? Mr. Staats, I hope will tell us about that.

Chairman PROXMIRE. Can you tell us how this enormous sum of military hardware was accumulated and who decided whether and how much to give as military assistance and what control has been exercised over it in the past?

Senator FULBRIGHT. There is a tendency, and I suppose I am guilty of it, to leave the impression that the military alone are responsible for these programs and subject to criticism. That really isn't the case. In many of these cases, these basic decisions are political, made by our political leaders. I wanted to say that in the beginning.

Chairman PROXMIRE. Yes; we have to make these decisions but we ought to make them on the basis of information and we don't have information.

Senator FULBRIGHT. I don't think the military has it either just as they lost track of all those tanks. The military has become so large that they inevitably lose track of things. But I want to make it very clear again that the basic troubles in these programs have been political decisions, for example, the political attitude toward Southeast Asia. It wasn't a military decision to intervene; the military is simply carrying out what they were ordered to do. But in carrying out orders they often are very embarrassed by some of these details and like anybody else they don't like to expose shortcomings to the public gaze if they can help it.

Chairman PROXMIRE. Let me ask with respect to this particular surplus military equipment of $17 billion or so, does anyone render an accounting of the amounts and types of equipment given away as military aid?

Senator FULBRIGHT. I think there is an accounting of sorts but the information is very scanty and most of it classified. They give us presentation books but the basic information is always classified and, even such as it is, cannot be discussed publicly. But this program is carried on under an unlimited authorization. Whenever they want to declare something excess to their purposes they can do it. You will

remember what happened when the Senate refused to agree to give $54 million for jets to Taiwan.

Chairman PROXMIRE. I think we are going to see in a few minutes that some of this information the military themselves don't seem to know how much they have given away.

Senator FULBRIGHT. Sure, that is true.

Chairman PROXMIRE. They can't tell us not even to the nearest billion dollars.

Senator FULBRIGHT. In that case the Defense Department went around that explicit rejection and declared some other planes excess and gave them to Taiwan anyway. This is a device by which they can circumvent the explicit policy of the Congress. I think that action was unjustified. Now they had very strong support for that move in some committees in the House. I am not sure at all, and I wouldn't want to say, that the military itself initiated that particular move, but it was against the explicit rejection of that program in the Congress.

Chairman PROXMIRE. My 5 minutes are up. Thank you very much.

Mr. Brown.

Representative BROWN. Senator Fulbright, I accept your comment about your not being an expert in the defense area or the military area and I would like to limit my questions to the area of your expertise; that is, foreign affairs.

You suggested in an earlier colloquy that you would not provide arms to Latin America or to Southeast Asia and you would like to see no open ended assistance for the Middle East. What are the areas of the world we should assist with either a gift of arms or the sale of arms?

Senator FULBRIGHT. Well, of course, the obvious one, as I have already stated, is Western Europe. I think at the time of the NATO alliance conditions warranted it. If we had been at all alert to opportunities to make progress in political negotiations, we could have minimized that type of aid. Because of the growth of Western Europe's own economy, I am very much in accord with Senator Mansfield's proposal to reduce our own pressure there, not only for monetary reasons, which are certainly important due to our economic condition, but I think the present situation is very bad for continued good relations between us and Germany.

Keeping occupying forces of a great power in any foreign country over the long term is a very dangerous thing to do.

Representative BROWN. As we withdraw these forces, upon your suggestion, would you make gift or sale arms available to Germany or any other nation in Western Europe?

Senator FULBRIGHT. I would be extremely reluctant to do that except on a strict commercial basis. They are all in better condition than we are. This assumption that this great country is richer than everybody, has many qualifications in my opinion. I don't know why we should do it. We have been carrying the big end of the load. There are 250 million people in Western Europe, the most highly cultivated, civilized, experienced, ingenious people in the world. They have had a much longer history than we.

Representative BROWN. I gather that Western Europe should be added to Latin America or Southeast Asia as areas where we should not give arms. I would like to ask about the gift of materials or machinery——

Senator FULBRIGHT. Such as what?

Representative BROWN. Non-strategic material which makes it possible for those countries to develop arms capabilities.

Senator FULBRIGHT. I think a normal sale on commercial terms; certainly I have no objection to such transaction. Again I don't want to be dogmatic about it. If the Russians were as pushy, and had been as pushy, about putting arms everywhere as we have been, I might have a very different view. But it strikes me that we initiated many of these programs, we built up these arms sales programs before they did and in many countries where they did not do it. Now they often respond by doing similar things to counteract what we do. This is natural. This is what the psychologists, I think, often call this a self-fulfilling prophecy. We say something is going to take place and then we do all the things that are designed to bring it about.

Representative BROWN. I gather then from your response that strategic materials do not bear the same opprobrium as arms?

Senator FULBRIGHT. It depends upon the circumstances in a country. Take Japan, which is another example. This is very important to Japan if she needed it. I don't think she needs it because she is as ingenuous, if not more so, than we are. If she needed it and needs it to provide for her defense, I wouldn't be against it. I am very interested in Japan's maintaining her own independence. She is capable of doing it financially.

Representative BROWN. What about nonstrategic material like food for nations such as Latin America. This might free the economy of that nation to develop arms?

Senator FULBRIGHT. I think the giving of food should be based upon humanitarian reasons and economic reasons. I don't think it should be simply an adjunct to further militarization of these little countries which, in my view, if we and the Russians did not interfere, would need a minimum of it. Difficulties and internal revolutions they will have, and I am not certainly suggesting they shouldn't have them. Many of these countries need to make changes, and if the only way they can be brought about is by internal revolution, that is their business. I don't think we ought to be the advocate always of maintaining the status quo in all of these underdeveloped countries where change is needed.

Representative BROWN. Would you provide food then?

Senator FULBRIGHT. On a humanitarian basis where they needed it.

Representative BROWN. Would you provide food to both sides in a developing country where there is something going on militarily in the way of social revolution?

Senator FULBRIGHT. I think you are going to have to judge each case on its own merits. It is hard to generalize this kind of a problem. If a country's people are really starving and need food in order to keep them alive, I certainly believe that we, as a civilized country, should respond. We have our own hunger program as you well know, and I think the same humanitarian principles should apply. Where it is used simply as an adjunct to a military program; where there is a big military program and sales program and we use food or other aid to enable them to pay for our arms, it is another matter.

Representative BROWN. My time is up, Mr. Chairman.

Chairman PROXMIRE. Thank you very, very much, Senator Fulbright, you have done a superb job, and we are very grateful to you.

Senator FULBRIGHT. I am pleased that this committee is looking into the problem.

Chairman PROXMIRE. You have given us an excellent start.

Senator FULBRIGHT. When I recall what you did with the C–5A and a number of other well-known activities, I think it is a hopeful sign your committee going into this.

Chairman PROXMIRE. Thank you very much.

Our next witness is the Comptroller General of the United States, Mr. Elmer B. Staats.

Mr. Staats, we are honored to have you. You have a very interesting and revealing statement, and you go right ahead in your own way.

STATEMENT OF HON. ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY JAMES A. DUFF, ASSOCIATE DIRECTOR, INTERNATIONAL DIVISION; CHARLES D. HYLANDER, DEPUTY DIRECTOR, INTERNATIONAL DIVISION; AND EUGENE C. WOHLHORN, ASSISTANT DIRECTOR, INTERNATIONAL DIVISION, GENERAL ACCOUNTING OFFICE

Mr. STAATS. Thank you very much, Mr. Chairman. I will not take the time to introduce my colleagues but I will introduce them if we need to call on them for questions at the end of my statement.

We are here today in response to your request to assemble a statement showing various types and categories of U.S. assistance which contributes to military capabilities of foreign countries. We have done this to the best of our ability, but, as you have already indicated, much of this information is incomplete or has not been made available in the form in which we have asked for it.

In your letter of November 25 you indicated that you were asking that the cost and outlay figures be provided by the GAO, and you were not asking at this time that our office evaluate the effectiveness or the efficiency of these programs. However, at the end of my statement, if you wish, I will be glad to list some six studies or areas in which we are currently concerned which bear upon the evaluation effectiveness question.

In order to prepare this statement, we found it necessary to gather data from quite a number of sources within the executive branch which we have for purposes of this presentation categorized under the following five headings: (1) Military assistance grants, (2) foreign military sales through U.S. Government channels, (3) U.S. commercial sales of military articles, (4) turnover of real and personal property to other nations, and (5) U.S. economic assistance related to internal security and common defense purposes.

I believe it would be most helpful, perhaps, if I explained each of these items and what they represent, but, first let me just indicate briefly by way of emphasizing the variety of sources of information the assignment of responsibilities under the Foreign Assistance Act of 1961.

It provides that the Secretary of State under the direction of the President will be responsible for the continuous supervision and general direction of economic and military assistance programs. Section 623 of the act defines the responsibilities of the Secretary of Defense which include (1) determining military end item requirements and

procurement and delivery of the items to the foreign country, (2) supervision of training of foreign military personnel, and (3) establishment of priorities in the procurement, delivery, and allocation of military equipment.

So the bulk of this responsibility is in the Defense Department.

A Department of Defense (DOD) directive (No. 5132.3 dated July 8, 1963, currently under revision), defines Department of Defense policy and responsibilities relating to military assistance. Within the Department of Defense the Assistant Secretary of Defense (International Security Affairs) is designated as the principal staff assistant to the Secretary of Defense in the functional field of international security. As such he is responsible for developing and directing all aspects of military assistance as it relates to the Department of Defense, including grant aid; service funded support of military assistance: funding support of international military headquarters, agencies and military assistance groups; military sales to other nations; providing of military personal property excess to Department of Defense requirements to foreign countries; and ship loans and leases. Ship loans of major combatant vessels also require, as you know, specific congressional approval.

The Assistant Secretary of Defense (Installations and Logistics) has the primary responsibility for developing the logistic plans required to implement the military assistance programs. He also has authority to act for the Secretary of Defense in respect to turnover of real property—military installations—no longer required for use by the Department of Defense, located in foreign countries. The military departments are responsible for preparing data necessary to develop Department of Defense programs and to implement military assistance and sales programs in accordance with instructions from the Assistant Secretary of Defense, International Security Affairs.

Now, in the Department of State, the Under Secretary has been delegated the authority by the Secretary of State to coordinate the economic and military assistance and sales programs. The continuous supervision of the military assistance program has been delegated to the Director of the Bureau of Politico-Military Affairs, Department of State, while supervision of economic assistance programs is the primary responsibility of the Agency for International Development (AID), Department of State.

Now, turning to table 1, Mr. Chairman, which is U.S. military assistance grants, the amounts presented in our tabulation as military assistance program—grant aid, are funds obligated for fiscal years 1965 through 1969 and funds programmed for fiscal year 1970.

(The table referred to follows:)

TABLE 1.—U.S. MILITARY ASSISTANCE GRANTS, FISCAL YEARS 1965–70

[In millions]

	1965	1966	1967	1968	1969	1970
Military assistance program—Grant aid	$1,005.0	$1,098.7	$905.2	$615.8	$460.0	$409.0
Military assistance service funded support of other nations	34.1	838.5	1,496.0	1,591.7	1,965.6	2,174.4
Support of international military headquarters, agencies, and assistance groups with DOD funds:						
(a) International military headquarters and agencies	18.9	20.1	21.1	22.8	22.0	55.6
(b) NATO infrastructure	23.0	43.6	81.8	37.5	47.0	50.0
(c) Military missions	72.5	91.2	110.6	141.8	147.2	163.5
Total	1,153.5	2,092.1	2,614.7	2,409.6	2,641.8	2,852.5

Mr. STAATS. I might say here we have attempted to show actual figures to the extent that we possibly could through the period 1965 through 1970 although in some cases it is necessary to show only program information for 1970 because the actual information for that year is not yet complete.

The authority to provide military grant assistance is contained in the Foreign Assistance Act of 1961, as amended. An annual appropriation for the military assistance program is provided by the Congress. This assistance includes training and training support, equipment, construction, technical assistance, repair and rehabilitation, supply operations support, and administrative support.

The military assistance service funded support, which is the second line of table 1, of other nations includes equipment, maintenance and construction and other costs for the support of Vietnamese and other forces in Southeast Asia. These funds are made available from appropriations to the Department of Defense. Their use has increased in recent years as more countries, such as Thailand and Laos, are assisted with Defense funds. The initial authority for the use of such funds was reflected in the supplemental Defense Appropriation Act of 1966. That is the first year in which this was done.

The Defense Appropriation Acts for each year since 1966 have contained similar authority. Also included is a total of about $350 million from fiscal years 1967 through 1970 for a number of projects previously funded by the Agency for International Development (AID) in Southeast Asia, mainly in Vietnam. Under this AID–DOD realignment program, these projects were considered to be of a military nature, such as repairing or rebuilding highways and railroads, establishing communication systems, and other support for outlying hamlets.

The support of international military headquarters and agencies includes administrative, operational and capital expense program costs for the U.S. share of support for the headquarters and agencies of NATO, CENTO, and SEATO. The costs of U.S. general purpose forces committed to NATO and stationed in the European Command, but not directly associated with support of NATO headquarters and agencies, are not included.

The support of NATO infrastructure includes program costs for airfield construction, radar systems, air defense facilities, and other military facilities. The program amounts were transferred from military assistance funding to military construction appropriations as of June 30, 1967, pursuant to Public Law 90–180.

The support of military missions includes manpower authorizations, equipment, facilities, and the associated costs chargeable to military function appropriations, and specifically identified with U.S. military assistance advisory groups, military missions or military groups.

That is the explanation of table 1.

Turning to table 2, which is on foreign military sales programs through U.S. Government channels, the basic authority for the Department of Defense to sell defense articles and services to other countries is contained in the Foreign Assistance Act of 1961, as amended, and the Foreign Military Sales Act of 1968.

(The table referred to follows:)

TABLE 2.—FOREIGN MILITARY SALES THROUGH U.S. GOVERNMENT CHANNELS, FISCAL YEARS 1965–70

[In millions]

	1965	1966	1967	1968	1969	1970
Cash sales and Export-Import Bank loans	$1,080.0	$1,467.4	$805.2	$848.3	$1,317.1	$772.6
Credit authorized by DOD for military sales:						
(a) Credit authorized from appropriations or authorizations	43.0	65.0	71.5	87.4	225.5	70.0
(b) Credit from Export-Import Bank guaranteed by DOD	18.0	252.7	250.1	133.3	.....	.....
(c) Credit from private banks guaranteed by DOD	49.6	.....	1.5	43.0	55.3	.....
Total	1,190.6	1,785.1	1,128.3	1,112.0	1,597.9	842.6

Mr. STAATS. Cash sales and Export-Import Bank loans are shown by the year in which the sales were approved and the terms of sale were accepted by the purchaser. These are sales in which the ordering nation or international organization agreed to reimburse the U.S. Government directly with U.S. dollars or from loans authorized by the Export-Import Bank of the United States.

The Export-Import Bank assists in financing exports from the United States to foreign countries, including military articles and services. The Bank's authority is limited, however, by the Foreign Military Sales Act of 1968 which prohibits the Bank from extending credit in connection with sales of defense articles and services to any economically less developed country.

Export-Import Bank reports show their loans by the year of authorization, which does not necessarily coincide with the year or years in which the borrowing country placed specific orders with the Department of Defense. For this reason it has not been possible to show a precise breakdown between cash sales and Export-Import Bank loans. Total Export-Import Bank net loan authorizations for military sales for this 6-year period amounted to $1,559 million.

Other credit sales are those sales where credits or guarantees are made available by the Department of Defense. Credits may be granted directly by the Department, or it may guarantee credits extended by the Export-Import Bank or by private banks. Direct DOD credit sales increased in 1969 after guaranteed credits extended by the Export-Import Bank ceased.

Let's move on then into table 3, which is on the subject of military sales to other nations by U.S. corporations.

(The table referred to follows:)

TABLE 3.—U.S. COMMERCIAL SALES OF MILITARY ARTICLES, FISCAL YEARS 1965–70

[In millions]

	1965	1966	1967	1968	1969	1970
Military sales to other nations by U.S. corporations	$274.4	$312.3	$344.5	$334.8	$328.9	$567.2

Mr. STAATS. The data presented in our tabulation——

Chairman PROXMIRE. May I say, without objection, all of the tables in your statement will be printed in the appropriate places.

Mr. STAATS. Thank you, I have not taken the time to read these tables.

Chairman PROXMIRE. No; that is fine.

Mr. STAATS. The data presented in our tabulation is based on quarterly reports prepared by the Bureau of the Census and on Department of Defense sources. It includes defense articles and services which were shipped to foreign military organizations or other foreign military establishments, other than those shipments which would be considered as military sales through U.S. Government channels. The Department of State requires an export license for certain defense articles shipped toforeign nations, including commercial sales. At the request of the committee we attempted to find out from the Department whether information was available as to the volume of these sales by individual U.S. firms. We were informed that this information was not available, since the Department deals with export licenses, not sales, and does not prepare reports of licenses by individual firms.

This, of course, would be available in the records but it has not been made available in this particular form. We are advised it would probably take 6 months or so to provide that.

Table 4 has to do with the turnover of real and personal property.

(The table referred to follows:)

TABLE 4.—TURNOVER OF REAL AND PERSONAL PROPERTY TO OTHER NATIONS (ACQUISITION VALUE) FISCAL YEARS 1965–70

[In millions]

	1965	1966	1967	1968	1969	1970
DOD excesses provided under the military assistance program, except Vietnam	$230.3	$142.2	$79.1	$192.5	$320.4	$224.2
U.S. Navy vessels on loan to other nations:						
(a) Vessels requiring specific congressional approval	3.8	9.9	23.2	56.8	10.6	.....
(b) Vessels not requiring specific congressional approval	2.2	5.7	3.5	1.0	.....	23.8
Total	236.3	157.8	105.8	250.3	331.0	248.0

NOTES

Personal property transferred to Vietnamese forces, $252,000,000—fiscal years 1966 through 1970 for Air Force and Navy—Army figures not available.

Real property, except Thailand and Vietnam, $900,000,000—fiscal year 1965 to November 1970.

Mr. STAATS. These turnovers have been presented at acquisition costs, which generally are the only cost figures available for these transactions. Market value at the time the property is turned over would normally be much less than the original acquisition costs.

Excesses provided under the military assistance program are made available under section 503 of the Foreign Assistance Act of 1961, as amended. This section authorizes the furnishing of military assistance to any friendly country or international organization and providing any defense article or service. It is expressed DOD policy, as stated by the Deputy Secretary of Defense in 1968, to maximize the use of excess defense articles, pursuant to the authority contained in the Foreign Assistance Act. Since August 1968, the DOD has developed a program to facilitate the expanded use of excess defense articles for MAP requirements. The acquisition value of excess defense articles to be made available under this program is estimated by DOD to exceed $10 billion.

Excesses provided Vietnam are not included in the tabular figures for excesses since we have not been able to locate such figures within the Department of Defense. Incomplete figurs for personal property, both excess and nonexcess, transferred to Vietnamese Forces are shown as a separate category. Air Force transfers from April 1, 1966, through June 30, 1970, amounted to $66 million. Navy transfers for fiscal years 1966 through 1970 were $185 million. We were unable to obtain any comparable Army data, although we were informed that the Army is beginning to develop a system to record nonreimbursable transfers to Vietnamese Forces after July 1, 1970.

During fiscal years 1965 to 1970, 33 ships were delivered to recipient foreign governments, 14 on loans and 19 on leases. The acquisition costs of those ships represent the original construction costs, exclusive of any subsequent modernization programs. Loaned ships are major combatant types, such as battleships, aircraft carriers, destroyer escorts, cruisers, and submarines. Specific congressional approval is required before any of these types of ships can be loaned to foreign governments. The ships were loaned under the following authority: Public Law 387, 87th Congress; Public Law 324, 89th Congress; Public Law 398, 89th Congress; and Public Law 224, 90th Congress.

Other types of ships such as cargo ships, tugs, troop landing ships, and auxiliaries, may be leased to foreign governments, under the authority of title 10, United States Code, section 2667, with the approval of the Secretary of the Navy.

All of the ships which were loaned or leased during fiscal years 1965 through 1970 were built 24 or more years ago, and according to Navy officials their life expectancy has now been exceeded.

We have been advised by Defense officials that data regarding the transfer of real property in Thailand and Vietnam is not available in Washington, and that a breakdown of data for other countries is not maintained by fiscal year. We were informed that the total of $900 million reflected their best judgments as to the value of real properties released or in the process of being released from the period of about fiscal year 1965 to November 1970. This total represented the original U.S. investment and does not necessarily indicate U.S. investment left in place at the time of release. Defense personnel further stated that their real property accounting system does not make it possible to determine anything but the original U.S. investment. Value of installed real property (heating plants, generators, etc.) which may be removed prior to release is not recorded on their records.

The United States Code, title 40, section 511, contains a provision for the disposal of foreign excess property (real and personal) by the heads of executive agencies. The code, however, does not contain any specific provision for disposing of real property such as buildings on land that is not owned by the United States. We were informed in most instances that the land for U.S. bases and installations overseas is not owned by the United States, but rather by the foreign governments concerned.

There are various executive agreements between the United States and foreign governments that contain provisions regarding the United States use and disposal of facilities overseas, but they differ in each instance. We have been advised that the general trend

is to state in these agreements that all buildings and improvements financed by the United States revert to the foreign government, and that the foreign government will not require the United States to put the land and facilities back in its original condition prior to the time the U.S. started using the land and facilities. The agreements also provide that the United States may take with it all removable property.

Now, turning to table 5 and the last table, we have listed there and designated the U.S. economic assistance related to internal security and common defense purposes.

(The table referred to follows:)

TABLE 5.—U.S. ECONOMIC ASSISTANCE RELATED TO INTERNAL SECURITY AND COMMON DEFENSE PURPOSES, FISCAL YEARS 1965–70

[In millions]

	1965	1966	1967	1968	1969	1970
Economic security assistance:						
(a) Supporting assistance including public safety programs	$438.7	$702.7	$718.4	$594.5	$464.4	$518.1
(b) Additional public safety programs	10.0	15.3	7.8	7.1	6.7	7.8
Food for peace funds used for common defense purposes	101.2	135.8	105.0	150.3	92.8	108.0
Total	549.9	853.8	831.2	751.9	563.9	633.9

Mr. STAATS. Economic aid in this category includes commitments for economic security assistance administered by the Agency for International Development (AID) and agricultural commodity shipments under the Public Law 480 program (food for peace).

Economic security assistance has been furnished from AID's appropriation for supporting assistance, as authorized under the Foreign Assistance Act of 1961. This assistance has been characterized as economic aid directed primarily toward immediate political and security objectives; for example, economic assistance to a country engaged in a major defense effort. The object of this economic assistance is to enable larger defense efforts to be undertaken in less-developed nations threatened by Communist expansion and to avert situations of dangerous instability in sensitive areas.

Supporting assistance may include funds for public safety programs, that is, for training, equipping, and advising civil police, regulatory and administrative authorities, and paramilitary police groups in recipient programs. AID has provided additional funds for public safety programs from its appropriations for technical cooperation, development grants, and development loans.

Food-for-peace funds used for common defense represent that portion of the local currency funds generated by agricultural commodity sales agreements allocated for common defense purposes in the year the sales agreement was signed. A few agreements are for more than a year's requirements. These have been prorated in our allocation. Adjustments have been made for actual shortfall of deliveries from annual agreements.

The purpose of the food-for-peace program as set forth in the Agricultural Trade Development and Assistance Act of 1954, as amended—Public Law 480—is to increase the consumption of U.S. agricultural commodities in foreign countries, to improve the foreign

relations of the United States, and to promote in other ways the foreign policy of the United States.

In order to carry out these objectives title I, section 101, of the act authorizes the sale of agricultural commodities for dollars on credit terms or for foreign currency. Section 104 lists a variety of purposes for which the foreign currency generated through these sales can be used. One of these purposes is the procurement of equipment, materials, facilities, and services for the common defense including internal security.

The State Department negotiates the terms of the sales agreements on a country-by-country basis at prices acceptable to the United States and the individual country. The U.S. Government maintains fiscal control over all local currency generated under Public Law 480 until such time as funds are released for approved purposes within the foreign country.

Now, this concludes the description of the five tables, Mr. Chairman, but in addition to the military and economic assistance provided other countries by the United States, these countries may derive economic advantage from having sizable U.S. military forces stationed there. Examples of such economic benefits would be roads or other facilities constructed by U.S. troops, and dollar purchases, for troop support, of foreign currencies at official exchange rates that may not reflect true market values.

Benefits of this sort cannot be easily quantified, nor can any possible offsetting disadvantages, such as the inflationary pressures generated by large numbers of U.S. troops in relatively underdeveloped economies.

Following are some illustrations of economic benefits of this nature to another country.

U.S. military purchases of Vietnamese piasters for fiscal years 1965 through 1970 have amounted to nearly $1.5 billion. By comparing official exchange rates with estimated black-market rates the overvaluation in military purchases of piasters for these years can be computed as a subsidy to the Vietnam economy in the equivalent of about $680 million. That is, the U.S. military did not receive goods and services in that amount, due to the amount of real purchasing power lost through the unrealistic official rate of exchange. The fiscal year breakdown of this estimate is as follows: 1965, $5 million; 1966, $67 million; 1967, $186 million; 1968, $116 million; 1969, $126 million; and 1970, $180 million.

According to the Department of Defense, approximately 5,000 U.S. military troops have been used to build, rebuild, and maintain roads, bridges, and railroad facilities in Vietnam. About 910 miles of roads and bridges have been completed. While the primary purpose of this work has been to meet military objectives, the construction and maintenance of these transportation facilities also has some benefits to the Vietnam economy.

At the request of the committee we have made inquiries regarding the preparation, by the Department of Defense, of the annual 100 companies report. This report of companies receiving the largest dollar volume of prime contract awards includes purchases by the Department of Defense for the various military assistance grant

and sales programs. The report is prepared from a compilation of procurement actions of $10,000 or more involving appropriated funds, contract authorizations, replenishment of stock or revolving funds, and appropriated funds, such as military assistance program funds, transferred to the Department of Defense.

Defense officials informed us that within this framework the report includes all articles purchased by the Department through its procurement offices or through interagency transactions including articles furnished or repaired or refurbished and provided through grant assistance programs or through sale to foreign countries.

We are submitting, at the committee's request, a list of the major U.S. suppliers of weapons and equipment for military assistance grant and sales programs.

(The information referred to follows:)

MAJOR U.S. SUPPLIERS OF WEAPONS AND EQUIPMENT FOR MILITARY ASSISTANCE GRANT AID AND SALES PROGRAMS

A.A.I. Corp.
Aerospace America, Inc.
A.J. Industries, Inc.
American Optical Co.
Applied Devices Corp.
Argus Optics
Arvin Industries, Inc.
AVCO Corp.
Bendix Corp.
Bowen McLaughlin York
Bulova Watch Co., Inc.
Bourns CAI, Inc.
Casemaster Body, Inc.
Cessna Aircraft Co.
Chrysler Corp.
Collins Radio Co.
Colt Industries, Inc.
Connetta Manufacturing Co.
Consolidated Diesel Electric Co.
Continental Motors
Electro Optical Systems, Inc.
Electro Space Corp.
Fairchild Hiller
F.M.C. Corp.
Ford Motor Co.
Fruehauf Trailer Corp.
Futuronics Corp.
Garrett Corp.
General Dynamics Corp.
General Electric Corp.
General Motors Corp.
Goodyear Aerospace Corp.
Grumman Corp.
Honeywell, Inc.
Hughes Aircraft Co.
Hughes Tool Co.
Imperial Knife Co.
Infra Red Industries
International Harvester Co.
International Telephone and Telegraph
ITEK Corp.
Johnson Co.
Kaiser Jeep Corp.
Kaman Corp.
Kanarr Corp.
Walter Kidde Co., Inc.
Lear Siegler, Inc.
Litton Systems, Inc.
Lockheed Aircraft Corp.
Magnavox Co.
Moremont Corp.
Martin Marietta Corp.
McDonnell Douglas Corp.
North American Rockwell Corp.
Northup Corp.
Olin Mathieson Chemical Corp.
Optic Electronics
Pacific Car & Foundry
Philco Ford Corp.
Radalab, Inc.
Raytheon Co.
RCA Corp.
Ryan Aeronautical Co.
Sikorsky
Singer General Precision
Sylvania Electronics Systems
J. H. Smith Mfg. Co.
Sparton Corp.
Sperry Rand Corp.
Standard Winding Co.
Stevens Mfg. Co.
Stewart Warner Corp.
Superior Coach Corp.
Tarheel Engineering Corp.
Teledyne, Inc.
Texas Instrument, Inc.
Textron, Inc.
Theurer, Inc.
Thiokol Chemical Corp.
Trilon Research Corp.
Tumpane Co.
United Aircraft Corp.
VARO, Inc.
Vetrol
Western Electric Co., Inc.
Westinghouse Electric Corp.
White Motor Co.
Yardney Electric Co.

Mr. STAATS. Again I would like to remind you we have tried to carry this on an actual basis through 1970 wherever possible. We do have estimates of the program for 1971 which we could supply you but these have been made available to us only in the last few days.

Chairman PROXMIRE. We would like to have those very much, Mr. Staats.

(The following information was subsequently supplied for the record:)

TABLE 1.—*U.S. military assistance grants, fiscal year 1971*

[Programed amounts in millions]

Military assistance program, Grant aid	$775.0
Military assistance service funded support of other nations	2,210.3
Support of international military headquarters, agencies, and assistance groups with DOD funds:	
(*a*) International military headquarters and agencies	57.2
(*b*) NATO infrastructure	50.0
(*c*) Military missions	167.3
Total	3,259.8

TABLE 2.—*Foreign military sales through U.S. Government channels, fiscal year 1971*

[Estimated amounts in millions]

Cash sales and Export-Import Bank loans	$1,173.4
Credit authorized by DOD for military sales:	
(*a*) Credit authorized from appropriations	235.0
(*b*) Special credit for Israel	500.0
Total	1,908.4

TABLE 3.—*U.S. commercial sales of military articles, fiscal year 1971*

[Estimated amounts in millions]

Military Sales to other nations by U.S. corporations	$416.1

TABLE 4.—*U.S. economic assistance related to internal security and common defense purposes, fiscal year 1971*

[Programed amounts in millions]

Economic security assistance:	
(*a*) Supporting assistance including public safety programs	$570.0
(*b*) Additional public safety programs	5.7
Food for peace funds used for common defense purposes	89.8
Total	665.5

Mr. STAATS. Mr. Chairman, this completes my statement. We will be glad to try to answer any questions you may have.

Chairman PROXMIRE. Mr. Staats, I want to thank you for your usual very competent job. It is most useful to have this information all put together here. To my knowledge this is the first time we have had this kind of full disclosure, but what shocks me is that with the great competence of your office and your determination to get all the facts you can, there is a great deal that is missing as you told us in your document here.

In your statement, you say, "the acquisition value of excess defense articles to be made available under this program is estimated by DOD to exceed $10 billion."

Senator Fulbright said that $17 billion which, I understand is the official estimate by the Department of Defense of the acquisition value of surplus material, $10 billion to be made available to give away to foreign countries.

Then you say in your next sentence, "Excesses provided Vietnam are not included in the tabular figures for excesses since we have not been able to locate such figures within the Department of Defense." You don't say anything about classification. You say you can't locate them. Don't they know how much of the taxpayers' money they are giving away, the taxpayers' property amounting to apparently hundreds of billions of dollars?

Mr. STAATS. If I may, Mr. Chairman, I think it might be most helpful if I ask members of our staff to describe just what the situation is. Mr. Hylander here to my right, Mr. Wohlhorn, and Mr. Duff to my left here.

Mr. HYLANDER. Would you like to tell exactly what you were told by the Defense people?

Mr. WOHLHORN. The Defense people told us, "We just don't have the figures for the excesses."

Chairman PROXMIRE. They don't know what they were?

Mr. WOHLHORN. They don't know what they were.

Chairman PROXMIRE. They have given away hundreds of millions of dollars but they don't know what it is.

Mr. WOHLHORN. They didn't know what they were in Washington, sir.

Chairman PROXMIRE. Why didn't they know?

Mr. WOHLHORN. Because their system hadn't been set up to accumulate such data.

Chairman PROXMIRE. They have been giving this away for years, haven't they?

Mr. WOHLHORN. Yes, sir.

Chairman PROXMIRE. And they still haven't set up a system to let them know how much they are giving away?

Mr. WOHLHORN. This is right. We went to the Department of Defense. We attempted to get this information, and we were informed that it would take from 3 to 6 months to obtain this type of information on the excesses or the items which were turned over in Vietnam.

Chairman PROXMIRE. Could they give any kind of a rough estimate?

Mr. WOHLHORN. No, sir.

Representative BROWN. Would you yield? Are these the same individuals who were involved in the distribution of this equipment from 1965 to 1970 or are these new people in the current administration who don't have access to records or records didn't exist during the 1965 to 1969 period.

Mr. WOHLHORN. Well, some of them are the same people and some are new people. There are some people who have been there all through this period.

Chairman PROXMIRE. Let me ask, "We have been advised," you say in your statement, Mr. Staats, and I quote: "We have been advised

by Defense officials that data regarding the transfer of real property from Thailand and Vietnam is not available in Washington, and that a breakdown of data for other countries is not maintained by fiscal year." Why couldn't you get that kind of information, the transfer of real property owned by the Federal Government to foreign countries?

Mr. WOHLHORN. Yes, sir. On the first part of the question on the transfer of real property in Thailand and Vietnam we were informed that they were not set up to obtain this information in a wartime situation. They said they did not have it available.

As far as the other information, a breakdown by fiscal years, the reason for that would be, according to the Department of Defense, the fact that a transfer of real property of a particular base is not made complete as of one particular day. It is done over a period of time so they said it would be impossible to say exactly when, to break it down by a fiscal year. But this would be their best estimate as to what had been transferred.

Chairman PROXMIRE. Can I ask you, Mr. Staats, without this kind of information how is it possible for the Congress to have any control over these hundreds of millions of dollars. We don't even know how much it is.

Mr. STAATS. Well, I would hesitate to speak for their position on this, but I believe it would be a fair conclusion on our part, Mr. Chairman, that there hasn't been anyone looking at the total program of military assistance abroad. It has been considered mostly in terms of what is included in the first table, which is the grant program. It has been looked at in terms of pieces and that is why we outlined the allocation of responsibilities under the program. No one has really been pulling this together in a way in which this committee today is trying to look at it.

Chairman PROXMIRE. Could this amount that we are talking about now, this amount on which they don't have a record, could this be as much as a billion dollars a year?

Mr. STAATS. I would have to defer to colleagues on that. I don't have knowledge personally except an estimate.

Mr. WOHLHORN. I don't have any estimates, sir.

Chairman PROXMIRE. All right. Let me ask, then we have the same kind of a lack of information and disclosure on the military sales to other nations by U.S. corporations. You say in your statement, Mr. Staats, "We were informed that this information," that is the information as to the individual sales made by corporations, "was not available, since the Department deals with export licenses, not sales."

Now, we have full information on the sales by corporations to our government of military hardware and other kinds of military sales. That is disclosed constantly, the hundred biggest corporations and so forth, we can determine it. Why in the world shouldn't we have this kind of information made available to us on sales made to foreign countries. It seems to me this is more critical.

Mr. STAATS. I would like for Mr. Wohlhorn to explain that, if agreeable. It was my understanding that this information could be made available but it was not pulled out in this particular form and therefore the time required to make it available would be very considerable, but Mr. Wohlhorn will explain that.

Mr. WOHLHORN. This is correct, Mr. Chairman. The information that we have is based upon a quarterly report prepared by the Bureau of the Census and on Department of Defense sources which added sales to the items which is where we got the sales by the corporations. But the figure that was not easy to come by was the figure by individual corporations. The State Department just doesn't maintain their records to show this information.

Chairman PROXMIRE. I don't see much of a purpose in their licensing if they don't pay any attention to what they do with the license, how much is sold. Since it is a simple fact that I would think the corporation would know and which the State Department could determine.

Mr. STAATS. There does not seem to be a systematic way of following up on the licenses that are granted as against what are actually sold under those licenses.

Chairman PROXMIRE. Let me ask you about what is most disturbing to me, and you do quote a section of this law which provides an authorization of it, but the chairman of the Foreign Relations Committee this morning indicated that he wasn't aware of it, and that is the use of food for peace funds, that is those funds which are developed out of the food for peace program for military materiel, for ammunition, for guns, for that kind of purpose. This seems to me to be kind of an Orwellian perversion of the language, food for peace could be called food for war. This is a program which so many people in the country and in the Congress have supported because we feel it serves a wonderful purpose of promoting peace throughout the world, and now we find that much of the money, hundreds of millions of dollars over the past few years, about a hundred million dollars of this money each year is going into providing military hardware and ammunition and instruments of death. So to call it a food for peace program under this program seems to me stretching it a great deal.

How do you feel about this? Do you think this is justified?

Mr. STAATS. The problem, Mr. Chairman, is one, I suppose, of divorcing support which goes to a country's economy from the way in which that support is used by the country. Anything which is done by way of assistance to the economy of the country you might argue increases the capability of that country to spend for military purposes.

Chairman PROXMIRE. Of course, that is true, I don't mean to be unrealistic about that, it is true. Congressman Brown brought out if you provide food for peace it provides funds for military hardware.

Mr. STATTS. That is right, and by agreement with their country.

Chairman PROXMIRE. This is a separate thing.

Mr. STATTS. I would be inclined to agree with you.

Chairman PROXMIRE. These funds are earmarked by this country for that purpose.

Mr. STAATS. That is correct.

Chairman PROXMIRE. We earmarked funds for the food for peace program for military purposes. It is quite different from simply generating funds to the country which permits them to be stronger militarily. You say these funds are going to be used for ammunition, for guns, for tanks and planes and so on.

Mr. STAATS. It becomes another form of budgetary support to underpin their military forces.

Chairman PROXMIRE. Which may be perfectly proper. I don't object to that in many cases at all. I think we should do that in some cases but we ought to know it. But it ought to be clear for us when we are providing appropriations for food for peace we are actually providing money that our Government mandates to go into more armaments.

Mr. STAATS. The more important point I would make, Mr. Chairman, at least it seems to me more important, is whether the authorizing comittees and the appropriations committees when being called upon to pass on money for budgetary support for defense purposes and other forms of grant aid have this information available to them. I don't believe they have it.

Chairman PROXMIRE. I think that is exactly right. The issue isn't whether we should do these things. We must do many of these things. We live in a tough cruel world. The question is whether we should have the knowledge and whether we do have the knowledge, and your testimony this morning is we don't have it; the appropriations committees don't have it, and the authorization committees don't have it, and we are proceeding without knowing about the enormous amount that is going into military assistance.

Mr. STAATS. I would be inclined to think, Mr. Chairman, that the executive branch primarily should take the responsibility of pulling this information together as a part of its justification for the individual programs.

Chairman PROXMIRE. I think what we are going to find as these next couple of days develop that the top people in the executive branch had no idea of what was going on in terms of military assistance, I am talking about the State Department and the Defense Department itself, so I think that the information you are giving us this morning is going to be most useful in developing a knowledge and understanding and control by the Congress and by the executive branch, too.

Mr. STAATS. I am sure that some of the information we have here, with a great deal more effort on our part and the agencies' part, could be refined and made more precise. But the point is still there that that information has not been made available currently at any central point either in the Executive Branch or in the Congress.

Chairman PROXMIRE. My time is up.

Mr. Brown.

Representative BROWN. Well, Mr. Staats, to continue the line of questioning that the chairman has begun, you have listed in your testimony the authority of congressional legislative acts for the various programs which we have under consideration here. And I assume that most of us who were in the Congress at the time these acts were passed voted on them. Is there any area in particular where administrations, past or present, have exceeded the authority granted by the Congress in advance for the disposal or the sale of military equipment, or for that matter, for the food for peace material?

Mr. STAATS. Not that we are aware of. We have raised the same question. We do not have any information which would cause us to conclude that there has been anything contrary to law or contrary to the intent of the law.

Chairman PROXMIRE. Would the Congresman yield just briefly? I

would agree wholeheartedly; I am not charging anything illegal. It seems it is a matter, unfortunately, of what's been permitted under the law.

Representative BROWN. In other words, what we have under consideration is not a question of whether the administrations, past and present, have acted within the authority granted to them by Congress, but whether or not the Congress should have granted that authority in the past or should change that authority in the present.

Mr. STAATS. I think the thrust that comes through from this compilation is that the programs have been so proliferated among different agencies and under so many different authorities involving so many different committees of Congress, the question really is whether or not all this information was available to the committees that were called upon at any one time so that they had the full story.

Representative BROWN. Well, now, let me ask you, Mr. Staats, available to the committees, any appropriating committee, I assume I am not serving on such a body, although serving on an authorizing committee, and for that matter any authorizing committee, has within its jurisdiction the responsibility of calling in the people who are responisble for these programs, and asking how the previous authorization and appropriation was expended, isn't that correct?

Mr. STAATS. Our point relates to the total picture with respect to all types of military assistance, not just the program that that individual committee had responsibility for. For example, the Agricultural Committees have responsibility for Public Law 480. We are not implying that that committee did not have the full information with respect to what had been transpiring under the Public Law 480 program. What we are saying is that that committee might well have had the information with respect to other types of assistance that were available, which would help contribute to the military assistance objectives that were involved under the Public Law 480 program. We are talking about programs that lie outside——

Representative BROWN. You lost me on the second part. would you repeat? The Agricultural Committees know how the Public Law 480 funds were spent?

Mr. STAATS. Including presumably the 480 funds which went to undergird the country.

Representative BROWN. Which is authorized by law?

Mr. STAATS. Which is authorized by law. The question is whether the committee had the knowledge of defense aid grants support which fell to another committee and another agency of the Government.

Representative BROWN. In other words, you are asking if any single committee exercises overall oversight.

Mr. STAATS. Or has the information available.

Representative BROWN. Or has the opportunity to get it.

Mr. STAATS. Right.

Representative BROWN. Let's pursue that for a moment. What about the Appropriations Commitee in the House which has within it all the appropriations of the Federal Government.

Mr. STAATS. To the best of our knowledge the Appropriations Committee has not assembled all of the data with respect to all of the programs which go to support military forces abroad in the way in which it is attempted here.

Representative BROWN. And the Military Operations Subcommittee of the Government Operations Committee.

Mr. STAATS. That would be true there also.

Representative BROWN. In other words, what you are saying is that Congress has not previously exercised its oversight in this area.

Mr. STAATS. Certainly it has not had the information which may have improved that oversight.

Representative BROWN. The Congress has not sought the information apparently. Whether the information is available or not, the Congress has not exercised its oversight.

Mr. STAATS. Not in a total program sense, no.

Representative BROWN. And, of course, this supports the point that I, as a member of the minority party in the Congress, have been feeling very strongly about for sometime. Maybe we are realizing today one of the bonuses of having a Congress in the hands of one party while the Administration is in the hands of the other party. We are going into some programs that nobody ever looked at when the Congress and the administration were in the hands of the same party. And it occurs to me that it will be beneficial to the operation of the Congress when we can get the majority to agree to give the minority the opportunity to control the oversight committees of the Congress.

The Government Operations Committee is a good example, and there has been a proposal in this area. I would like to suggest we undertake this seriously sometime. What would you think of that, Mr. Staats?

Mr. STAATS. I am not sure I can respond directly to all the points you have made here, but I think anything which helps the Congress get the total information that contributes to a single objective, in this case the objective is to strengthen the defense forces of other counries, is going to improve that oversight. Therefore to the extent that you could get an agreement within the Government Operations Committee or the Appropriations Committee as to how this information is going to be developed and how it is to be utilized by the various committees is bound to be of great help.

Representative BROWN. I think one of the things we can learn from this hearing is the method by which the Congress could get a little more militant or a little more aggressive in its effort to provide oversight for the operations of the executive branch of Government. The figures which you have presented deal essentially with the era of the Johnson Democratic administration when you had total control of the Congress by the Democratic Party, as a matter of fact, overwhelming control. We are saying, in effect, that during that period of time there was never any oversight given to this particular problem of the use of military assistance funds and the distribution of military excess equipment and so forth. Isn't that about correct?

Mr. STAATS. Well, the word "any" may be too strong, but certainly it could have been improved.

Representative BROWN. Perhaps I should use the word "effective." We haven't had effective oversight.

Senator Fulbright viewed with such alarm the development of the Freedom Fighter airplane in the interest of other nations and not for our own utilization, apparently, as a piece of military equipment.

As you see it, did the Defense Department efforts to develop and

sell this airplane or the proposal that they develop and sell it come within the purview of section 623 of the legislation passed by Congress in the Foreign Assistance Act of 1961 which authorizes this kind of activity?

Mr. STAATS. I would like to check on that, Congressman Brown, but I would say not. As I understand it, that would have to be authorized separately.

Representative BROWN. Well, you have said in your testimony that section 623 of the act defines the responsibility of the Secretary of Defense which included determining military end requirements, end item requirements and procurement, and delivery of the items to the foreign country. Would this include this Freedom Fighter airplane then?

Mr. DUFF. You are referring to the F–5 aircraft?

Representative BROWN. I am referring to the Freedom Fighter.

Mr. DUFF. The Freedom Fighter I assume is the F–5 aircraft. Funds were justified under the military assistance program for the development of that aircraft.

Representative BROWN. Well, my question still applies to the testimony that Mr. Staats gave in his statement and the description of Section 623.

Mr. STAATS. Well, I think the answer to your question is that they would have to justify it. The Freedom Fighter, as we understand it, is an updating and improvement of the F–5 airplane. They would have to come to Congress to get justification for that. They would have to get the money for it, and justify it, but they would still have the responsibility here under this authority to do that within any funds available.

Representative BROWN. Yes. As I read your language it makes pretty clear that the Secretary of Defense is given authority by the Foreign Assistance Act of 1961 under section 623, to look at the end item requirements of other nations, and to pursue programs which would develop military hardware that would be utilized by other nations without reference to whether or not we need it. Is that correct?

Mr. STAATS. That would be correct.

Representative BROWN. So what we are talking about here again is a question of the language written in a law in 1961 which yielded the authority of the Congress up to the administration to make these determinations.

Mr. STAATS. But we would still have to come back to Congress for money to get it.

Representative BROWN. Sure, you would have to come back to Congress for money because the administration would not be able to do anything unless it has the authorization to spend. But the Secretary of Defense has the authorization under law to do this kind of developmental work and to expend the money if the Congress will authorize it and appropriate it.

Mr. STAATS. That is correct.

Chairman PROXMIRE. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

I would like to carry on what the gentleman from Ohio, Mr. Brown, is saying that the Congress should be more effective in reviewing the

many, many programs, and I take this opportunity to say a word of congratulations to the chairman of this subcommittee. I would say that the Senator from Wisconsin has been an ardent fighter against waste in government no matter what administration was in power, and I am sure that this hearing today would have occurred no matter who was controlling the White House because, I think, the Senator really believes in the use of this subcommittee and this full committee as a way of looking over the entire spending program of the Government, and I commend him for that.

Mr. Staats, your table 1 shows quite a change in the military assistance program as compared to the military assistance service funded support with its tremendous growth in the latter category from $34 million to $201 billion. Is that exclusively or almost exclusively the result of Vietnam?

Mr. STAATS. It is Vietnam, Thailand, and Laos.

Representative MOORHEAD. Southeast Asia.

Mr. STAATS. Right.

Representative MOORHEAD. Our increased activity there.

Mr. STAATS. Yes.

Representative MOORHEAD. In your testimony you state:

> The costs of U.S. general purpose forces committed to NATO and stationed in the European command, but not directly associated with support of NATO headquarters and agencies, are not included.

Are they included in any figures in your statement?

Mr. STAATS. No, they are not included in our statement, and we have defined those to be excluded from the purpose of the hearing since they are U.S. forces, even though committed to NATO.

Representative MOORHEAD. I think it would be helpful for the record if you can submit the costs of that in a separate category.

Mr. STAATS. I believe that could be done. We have not attempted to do that but I believe it could be done.

(The following information was subsequently supplied for the record:)

> The Department of Defense estimates that the annual operating cost of maintaining U.S. forces in Europe committed to NATO is about $2.9 billion.

Representative MOORHEAD. Table 2 on foreign military sales shows cash sales and Export-Import Bank loans. Can those be broken down into the two categories?

Mr. HYLANDER. Not very precisely, sir. In the statement we give an explanation of how those were derived. We explain the Export-Import action which establishes a line of credit, and then when the Department of Defense negotiates sales under that line of credit it picks them up as sales.

Representative MOORHEAD. And for the total period Export-Import Bank loan authorizations of $1.5 billion, much less than 50 percent of the total.

Mr. HYLANDER. Yes, the rest of those would be cash sales. They wouldn't be precisely comparable because some of that $1.5 billion of Export-Import Bank credit probably hasn't resulted in sales yet, it is still an outstanding line of credit, but it is roughly that amount as opposed to the amount on the previous page.

Representative MOORHEAD. In your statement, Mr. Staats, you say,

"Credits may be granted directly by the Department, or it may guarantee credits extended by the Export-Import Bank or by private banks." Can the Defense Department still guarantee Export-Import Bank loans?

Mr. STAATS. Yes, sir.

Representative MOORHEAD. Didn't we make some change in the law in that respect? I remember, I know there are no Export-Import Bank loans guaranteed for the years 1969 and 1970.

Mr. STAATS. I believe you are correct that there was a change made in that. I don't believe that any Defense Department guarantees of Ex-Im Bank loans have been made recently, not in the last 2 or 3 years, I don't believe. Let us submit a statement on that if we may.

Representative MOORHEAD. But it is still possible for the Defense Department to guarantee?

Mr. STAATS. I believe technically it is. I believe the law still permits it.

Representative MOORHEAD. I would like to have that for the record. It was my recollection that we had this up before the Banking and Currency Committee and were quite shocked by this secret transaction by the Ex-Im Bank.

Mr. STAATS. That was several years ago.

Representative MOORHEAD. And I thought we changed the law.

Mr. STAATS. On further thought, I have the recollection that a change was made. We will submit a statement on that.

(The following information was subsequently supplied for the record:)

Section 24 of the Foreign Military Sales Act of 1968, 82 Stat. 1320, which authorizes the President to guarantee against political and credit risks nonpayment arising out of the financing of credit sales of defense articles and services to friendly countries and international organizations specifically excludes such guarantees to United States Government Agencies. This, accordingly, excludes guarantees to the Export-Import Bank since it is an agency of the United States.

Representative MOORHEAD. But the Defense Department can still guarantee loans by private banks?

Mr. STAATS. Yes, sir.

Representative MOORHEAD. Although apparently none were so guaranteed during the year 1970 according to your time?

Mr. STAATS. Right.

Representative MOORHEAD. Are you going to supply for us figures for 1971?

Mr. STAATS. To the extent that we can get them. They will be program figures for the most part. We are still, of course, within the 1971 fiscal year; but on a program basis, we will be able to bring this table up to date.

In overall terms it will not change the figures in total represented in these five tables very much. It will be up slightly, but not substantially, approximately the same.

Representative MOORHEAD. In your statement, Mr. Statts, you say, "we are also submitting," the next to the last paragraph, "at the Committee's request, a list of the major U.S. suppliers of weapons." Does that mean the list is not ready now or has it been submitted?

Mr. HYLANDER. We have it with us and it has been submitted for the record.

Representative MOORHEAD. In the statement you describe the ship loan and lease program for the years 1965 through 1970, and you say, "Loaned ships are major combatant types such as battleships, aircraft carriers." Have we loaned any battleships or aircraft carriers during the years 1965 to 1970?

Mr. WOHLHORN. Most of them are destroyers and submarines.

Representative MOORHEAD. I am asking have we loaned any battleships or any aircraft carriers from 1965 to 1970?

Mr. WOHLHORN. We loaned one carrier during this period.

Representative MOORHEAD. In the surplus military equipment program, how is it valued as compared to acquisition cost?

Mr. HYLANDER. Roughly about 30 or 35 percent usually. Defense usually uses a figure of about 30 percent of acquisition costs as being the utility value of it on transfer but it varies with the items.

Representative MOORHEAD. How is it contemplated that we will handle the transfer of real property in Vietnam, I am thinking of the real property facilities at Cam Ranh Bay or the Pentagon East and things like that. Is there any plan for that? Do we know?

Mr. HYLANDER. That is a part of the phase down of our forces out there.

Mr. STAATS. I might say Congressman Moorhead, we are involved in a study now of the phase-down operations in Vietnam and the handling of excesses of inventories, both from the standpoint of effective utilization as among the three services of excesses as the phase down takes place, and use of those excesses for the military assistance program, the question of determining what are items usable by the Vietnamese themselves. All of these things are now in a report in preparation that we are making for the Congress on our own initiative. We have been involved in this now for several months and we hope to have a report to the Congress soon.

Representative MOORHEAD. Within a matter of a few weeks?

Mr. STATTS. We would hope so.

Representative MOORHEAD. I look forward to seeing that, Mr. Staats. Thank you, Mr. Chairman.

Representative BROWN. Would you yield on that point? Are you going to make a specific recommendation in that report as to how this static—well static or nonstatic—military equipment in Vietnam should be handled? Whether it should be left there, whether it would be more economic to bring it back?

Mr. STAATS. This will be involved, Congressman Brown, but we have been more particularly interested in seeing what could be done to improve the utilization of that equipment rather than buying new equipment and sending it out there, obtain common use requirements among the services, and to be sure that information on inventories is available to the three services. We have made quite a number of findings in this area. For the most part, we are happy to say the Defense Department has responded very well to our suggestions and have accepted a great many of our recommendations on the basis of our report in draft.

Representative BROWN. You are talking about the situation as it exists now. I thought Mr. Moorhead's point related to the eventual withdrawal from Vietnam and whether we will go to the expense of taking everything out of Vietnam that we put in or whether it would

be more economical to leave it there. This is really the thrust of my question. It might not be appropriate to negotiate some kind of a trade off with the Vietnamese relating to having some kind of rights in Vietnam for future activity.

Mr. STAATS. As you are aware some of the bases have already been turned over to the Vietnamese so the problem that you refer to has already been faced to some degree. Now, it hasn't been faced with respect to the big bases that Congresman Moorhead referred to but some of them——

Representative MOORHEAD. Are those transfers reflected in this report of yours, Mr. Staats?

Mr. STAATS. To the extent that that information was available in 1965 through 1970, it was reflected.

Representative MOORHEAD. How were the bases then valued, as the dollar value shows in your report?

Mr. STAATS. Anything which is in the nature of total excess is transferred at no cost to the foreign government but the transfer is shown at acquisition cost. If it is still property that the services are using and a new requirement would have to be met in the event of a transfer of this property then it is still transferred free but shown at acquisition cost but in the case of the excess the actual value is less than acquisition cost. I think this makes fairly good sense.

Representative MOORHEAD. Obviously we are not procuring other bases so it must be valued at something other than acquisition cost, is that not correct?

Mr. STAATS. That would be true.

Representative MOORHEAD. And what would they be valued on, maybe zero is a proper value, I just wanted to know if we knew, to know how much these figures are complete.

Mr. HYLANDER. Generally, it would be our investment in the property, that is the improvements in the property, we usually don't own the land, the country made available the land, we constructed certain improvements to it, and the value which Defense would have would be the cost of those, the original cost of those, improvements.

Representative MOORHEAD. And that would be the figure that would be reflected here, the original acquisition cost of the improvements erected on the real estate?

Mr. HYLANDER. Yes; except as we pointed out in our statement we don't have the figures for Vietnam. The Defense Department does not have available real estate turnover figures, for Vietnam or Southeast Asia, they do for Europe and other areas.

Representative MOORHEAD. The figures they do have are investments value?

Mr. HYLANDER. Yes.

Representative MOORHEAD. But they don't have complete figures.

Mr. HYLANDER. That is correct.

Representative MOORHEAD. Presumably this is one of the things you are studying in your report?

Mr. STAATS. This we may cover in our report. I can't really answer your question as of now.

Representative MOORHEAD. I think what Mr. Brown and I were trying to find out will you be making recommendations as to how the transfers of particularly real estate or improvements on real estate

and I suppose you would add to that difficult-to-move personal property.

Mr. STAATS. We can't say at this point in time; we haven't any criticism as to the way in which the Defense Department is doing it. We will cover this point, Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Staats.

Thank you, Mr. Brown.

Chairman PROXMIRE. May I ask you, Mr. Staats, to again refer to your table, table 1, the very revealing military support to other nations and you answered Mr. Moorhead by saying the enormous increase from $34 million to $2.1 billion is the Vietnam war. Well, as you say particularly in 1968 it was $1.6, and it increased to $2 billion in 1969, it increased to nearly $2.2 billion the following year and it is close to $2.3 billion, as I understand it, on the basis of Senator Fulbright's testimony, in 1971. In other words, it is going up. As the war is going down the costs of the war are cut in half and the cost of this program is increasing rapidly. How do you explain that?

Mr. HYLANDER. Presumably that is part of the costs of Vietnamization.

Chairman PROXMIRE. If that is the cost of the Vietnam war, you said presumably, I think presumably is the right word to use. We don't know, do we?

Mr. HYLANDER. No.

Chairman PROXMIRE. Do we know how much of the cash, for example, that can be given, I understand, in this program by the services to these countries is actually used for military purposes.

Mr. HYLANDER. I would have to see, sir. I don't know myself at this time.

Chairman PROXMIRE. You don't know how much of this is going to Vietnam and how much to other countries? It could be increasing to other countries as well as to Vietnam, is that correct?

Mr. HYLANDER. The breakdown, country by country, is classified but the information is available.

Chairman PROXMIRE. May I ask, Mr. Staats, has the GAO made any attempt to verify the cost information you have gathered? Have you made any audits of the military information outlined in your statement or are they just the costs given to you?

Mr. STAATS. We have not had time to go into the field or check out the audited figures; no, sir.

Chairman PROXMIRE. You have not done that. These are simply accepted on their face value from the Defense Department?

Mr. STAATS. These are the best figures we can obtain from the agencies that have the responsibility of administering the program.

Chairman PROXMIRE. You say: "The Secretary of State under the direction of the President will be responsible for the continuous supervision and general direction of economic and military assistance programs." And yet the accounting of military assistance programs contained in your statement indicates that most of the actual resources are under the control of the Defense Department. It is my experience that the actual control of resources is a major lever of control of program activity. What actual resources does the Department of State have under its control with respect to military assistance now?

Mr. STAATS. Well, the State Department's role here is primarily one of coordinating the economic and the military. It has the right, of course, to go to the President if need be to reconcile differences of opinion, but from my own experience, and this goes back prior to my experience prior to assuming my present position, the State Department's position is a relatively weak one.

Chairman PROXMIRE. Particularly in view of the fact that this is, as I understand it, service-administered programs. In other words, the Army, the Navy, and the Air Force are the ones who provide these funds as you indicated not the Department of Defense working, which would work, presumably closely with the Department of State here in Washington, but it would be necessary for the State Department to have an influence over the Army or over the Air Force or over the Navy in the way they conduct the military assistance program.

Mr. STAATS. The funds in that category were appropriated to the President. They were allocated to the Defense Department and unless the issue is a pretty major issue involving, say, the political versus the military type of problem, the State Department rarely got into it.

Chairman PROXMIRE. As you know, over $2 billion were used last year for military assistance service funded programs. Can you break down the amounts by country? Did I understand you to say you could not?

Mr. STAATS. Only on a classified basis.

Chairman PROXMIRE. Why should this information be classified? You have all the publicity of the U.S. defense program. Why shouldn't this information be public knowledge?

Mr. STAATS. Well, as you know, we have, and must accept, the security classification made by the agency. I think you would probably have to get that from the agency.

Chairman PROXMIRE. What is your reaction to classifying it? Is it justified?

Mr. STAATS. The reason for this is that it involves the level of assistance provided to individual countries on classified security programs and it would be easy, I suppose, to translate dollars into the nature of the programs in many cases for any particular country.

Chairman PROXMIRE. It is very hard for us to have any effective control over this under these circumstances. Of course, we have access to classified information, but it can't be debated, it can't be discussed, can't be brought out in the hearings, can't be made part of the hearing report, it can't be in the press. Under these circumstances, as long as it is classified, it is going to be very hard for us to get hard control over these enormous sums, isn't that correct?

Mr. STAATS. It is traditionally——

Chairman PROXMIRE. That is the price you have to pay for this kind of classification. Unless there is a good clear reason, a very strong reason, it seems to me, for classifying it, I can't understand why it should be classified.

Mr. STAATS. It is an aspect of the exchange I had with Congressman Brown a few minutes ago—the difficulty in getting in one central place in the Congress all of the story with respect to what is being done vis-a-vis a particular country in all its aspects.

Chairman PROXMIRE. Are these service funded moneys this $2 plus billion, being under the control of the services, is this program a line item in the budget document?

Mr. STAATS. I believe not.

Chairman PROXMIRE. It is not. It is classified and it is not a line item?

Mr. STAATS. I believe not.

Chairman PROXMIRE. No wonder it is so hard to get at it by the Congress. What is the reason for that?

Mr. STAATS. I don't think we can answer that.

Chairman PROXMIRE. If we subsidized the military establishments in countries other than Vietnam by buying local currencies, do we buy Korean or Thai currency?

Mr. HYLANDER. Yes, we have; although Vietnam was the only one of this magnitude. Korea, of course, we have forces there and we bought local currency.

Chairman PROXMIRE. What is the statutory basis for this subsidy? Our buying does not reflect the value of the currency, a direct subsidy, that seems to be a deception to me. Of course, we find out about it later.

Mr. HYLANDER. I don't know, sir.

Chairman PROXMIRE. It makes it very hard for us to calculate how much we are providing in the way of subsidy. Is there any statutory basis for it?

Mr. HYLANDER. We would have to submit something for the record on that. I don't know myself.

Chairman PROXMIRE. You don't know about that.

Mr. HYLANDER. I assume there is but I don't know what it is.

Mr. STAATS. I believe it is a matter of agreement between——

Chairman PROXMIRE. Will you submit that for the record, Mr. Staats?

Mr. STAATS. Yes; we will.

(The following information was subsequently supplied for the record:)

The Act of December 23, 1944, as amended (58 Stat. 921) authorizes disbursing officers of the United States to conduct exchange transactions involving United States and foreign currency for official purposes, subject to regulations promulgated by the Secretary of the Treasury.

Department of Treasury Circular 830, dated July 28, 1966, provides, in part:

"11. *Rate of Exchange for Purchase from non-Government Sources.* Foreign exchange, when purchased from sources other than the United States Government, should be acquired at the cheapest rate available in accordance with the laws of the country in which the exchange is to be expended in relation to the use to which the exchange is to be put."

Chairman PROXMIRE. Is there any way to calculate the costs of the construction programs you describe in the statement. Now, there are similar military construction costs in other programs, can they be calculated and are these costs included in any of the previous categories you have discussed?

Mr. HYLANDER. We don't know of any others.

Mr. STAATS. These, of course, relate to construction for our own needs or for the joint needs of the United States and, in this case Vietnam. What we are saying here is that while those things are done to provide for that immediate need they, nevertheless, provide consid-

erable impact on the economy of the country, in some cases, roads, for example, or railroads, but this has been true in any military effort in which the United States has been engaged abroad. It is an incidental effect but, nevertheless, one we believed should be reflected in the statement.

Chairman PROXMIRE. What are the costs?

Mr. STAATS. I don't think this has ever been surveyed.

Mr. WOHLHORN. Sir, many of the costs of this particular program are set forth in other line items. The direct costs, the contracts awarded and that type of thing are in a line item the AID-DOD realignment figure.

Chairman PROXMIRE. So it makes it very, very hard for us to assess this, put it together, to know what it is. You say they are reflected in other line items, you have to dig it out somehow and relate it.

Mr. WOHLHORN. That is correct.

Mr. STAATS. This would generally be reflected in our own U.S. military construction authorization and appropriations but you would have to have a breakdown by country in order to be able to relate it to the totals say in a situation like Vietnam.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Staats, what is the basic problem with our military assistance programs with reference to recordkeeping? Several things occur to me and I don't want to suggest anything in particular. Could you respond to that? Is it the classification, is it—well, go ahead with your comment.

Mr. STAATS. I would like to let my colleague in on this.

Representative BROWN. Fine, if they have been closer to it than you I would be happy to have their remarks.

Mr. DUFF. You refer to the military assistance program as such and my reply to that would be that it is not too difficult to obtain figures for that program. A problem arises when you attempt to get all of the other programs involved, like the military services expenditures in Thailand and Vietnam. To pull these expenditure figures together, such as we have attempted to do here, is a most difficult task. If you wanted the figures solely for the MAP program, this could be readily made available.

Representative BROWN. I didn't really have in mind just the military assistance program although that is the way I phrased it. I had in mind all military expenditures. There always seems to be much more difficulty in determining what federal expenditures are in the military area than in any other area.

Mr. STAATS. You have broadened the question somewhat, I believe. The dimension which this hearing is directed to is not the military assistance program in the narrower context in which it was originally defined but rather to all the U.S. expenditures which go to support the military security of other countries, and that is the kind of total which has not been made available in the executive branch or in the Congress up to this point.

Representative BROWN. Well, let me suggest that classification is probably part of the problem for the Congress.

Mr. STAATS. It is very definitely.

Representative BROWN. That is security classification. But, more

than that, crash programs and the fact that we frequently are spending money in the military sense in a breathless last minute dash to get the job done. Is that part of it? Are records just not adequately kept here because of that?

Mr. STAATS. The military is a highly decentralized operation, and I think necessarily so. This means that records for the most part are not kept in Washington in the way they would be kept in the Department of Health, Education, and Welfare, but rather they are kept at the command level or in the case of contracting at the project officer level, which may be in Dayton or it may be somewhere else, but the military is a much more highly decentralized operation because of its size. This makes much of this data very difficult to obtain centrally.

Representative BROWN. Now, with reference to the foreign military expenditures, do we have a problem because foreign nationals get involved in this or is it a distance problem? What is the problem with the foreign military expenditures? Is that also just decentralization?

Mr. STAATS. And the fact that records have not been kept on a historic basis to make it possible to compare data over a period of several years.

Representative BROWN. Well, the records just haven't been kept. Is that what you are saying?

Mr. STAATS. Yes.

Representative BROWN. There just are no records. How far back are you going on that?

Mr. STAATS. In this case we went back to 1965 but we found that during this period some of the information just was not maintained.

Representative BROWN. Do you have any explanation or reason for that? Does that have to do with security again or does it have to do with the fact that when you are spending money in Thailand it is hard to find forms on which to make the reports?

Mr. STAATS. Well, that is it, plus the fact that they are trying to defend a country or fight a war, and they don't see the need for this information. Nobody is asking for it and therefore it is just not maintained.

Representative BROWN. Let me ask you about records then of private corporation sales abroad. Do we keep records or does the law require that records be kept of private corporations sales in the way of military supplies to foreign nations?

Mr. HYLANDER. The Department of State has to approve an export license for each of these sales. It is our understanding that the Department of State maintains files of records of each of these approvals. They do not summarize it or report it in any fashion.

Representative BROWN. In other words, they only approve the license for each sale, each transaction, but the nature and the amount of that transaction is not kept as a matter of public record?

Mr. HYLANDER. We have not been able to locate any reports which would summarize or categorize or classify that information by contractor or manufacturer.

Representative BROWN. But that is in accordance with existing laws. Is that correct?

Mr. HYLANDER. Yes; there is no specific legal requirement that we are aware of.

Representative BROWN. Let me ask you one final question, if I may.

Well, perhaps I have one other thought here I would like to pursue: Mr. Staats, how do you measure the effectiveness of Federal expenditure in the military area or in the aera of foreign assistance programs, whether military or strategic or nonstrategic terms?

Mr. STAATS. One of the most difficult problems we have in the GAO is to evaluate the effectiveness of our foreign assistance programs, both economic and military. My feeling is that about the only way that you can get at this is to have people who live very much with these programs. To some degree it has to be subjective. It has to be subjective on the part of people who have charge of the program execution, although we feel we also can make a contribution to it. We can also do a great deal by looking at how effectively managed the programs are—strictly from the management point of view. What controls do they have? Do they have the information feedback to make adequate judgments themselves. This is an area in which we are talking about here today. If they don't have the information then the question is how can they make effective evaluations themselves, leaving aside any evaluation we make of our own.

Representative BROWN. It is similar then to the evaluation you make in social spending by the Federal Government in this country?

Mr. STAATS. Very similar.

Representative BROWN. In other words, we have really no empirical method of determining whether a dollar spent by OEO in a certain program has either done the job that the law suggests it was designed to do, which it seems to me is the simplest approach, or has been returned by some benefit that the Federal Government receives.

Mr. STAATS. It is very, very difficult and we would not want to be very dogmatic of how good a job we or anyone else have been able to do. You can talk in terms of number of nationals trained, for example, how much equipment has been turned over, you can talk in terms of any number of quantitative terms, but that still doesn't necessarily tell you how effective a fighting force they have any more than you can be too dogmatic about how effective a manpower program is in terms of number of people who went through different types of training programs.

Representative BROWN. I don't want to make a J. Edgar Hoover mistake but what you are saying is a dollar given to the Israelis on the basis of their Six-Day war is more effective than a dollar of assistance given to another country which shall be nameless because I don't want to offend anybody on the basis of their successful military efforts, is that right?

Mr. STAATS. I don't see how you can really effectively judge the value of an economic or military assistance program in the short term. In the long term you can begin to develop measures such as increase in their per capita income or their capital investment or in terms of highways and things of this type, but in the short term, it is extremely difficult to be too certain about how effective any of these programs are.

Representative BROWN. Well, it occurs to me this may be one of the things that's happened to us in the past. The disagreement in our country on foreign programs has tended to terminate at the water's adge and we have not really evaluated those programs because everybody has been in substantial agreement that whoever occupies the

White House should determine how those programs are undertaken and operated. And as we have developed stronger internal differences of opinion in our society as to how those programs should operate, we have not looked at the evaluation of whether the programs are effective. Perhaps if we are going to have intelligent differences of opinion in this country about our military spending and our foreign assistance programs, that for all of us who intend to engage in that debate, we had better find some way of evaluating the effectiveness of this spending. Otherwise we tend to be arguing in some kind of a vacuum which would tend to get us into difficulty.

Mr. STAATS. I agree with you very much indeed. The effort we have been making has been to look at all of our programs in a given country or in a given geographic region to see to what extent our programs are carried out relative to our foreign policy. You ask who states them. To some extent they are stated by Congress and to some extent by the overall policy of the President, and to some extent by the agreements between the Department of State and the recipient country.

Representative BROWN. This is where the exchange program comes into effect because I think it deals with the exchange rate.

Mr. STAATS. That is correct, but it also covers what kind of investment will they put in, what kind of programs will they establish of their own, all these things come into the agreement between this country and the recipient country.

Representative BROWN. Are you referring to the treatymaking powers? This, of course, absolves the House of Representatives, but we leave it to the U.S. Senate, in their wisdom.

Mr. STAATS. That is correct. I don't want to be too discouraging on this point, Congressman Brown, because the fact that evaluation is difficult and to some degree uncertain, and imprecise, doesn't mean we shouldn't make the effort.

Representative BROWN. No; I am not suggesting that.

Mr. STAATS. We, for example, have two studies in process in the military assistance program at the moment, one in the Philippines and one in Taiwan which we plan to send to the Congress as soon as we finish them. One is going to be finished very shortly and the other one has to go back to the field and will take another 6 months, but this is what we are doing in GAO, we are learning by doing.

Representative BROWN. Through my work on the Government Operations Committee, I have been interested in this domestic area and efforts to assess the value of dollars in any Federal program. I would be satisfied if we can learn after the fact to determine whether or not the money we expended was accomplishing anything. That is, particularly, as it relates to those broad general terms we write in the beginning of the legislation about what the purpose of the legislation is regardless of whether or not it has any value.

Mr. STAATS. This committee has had a particular interest in having the GAO do more cost-benefit type studies. The Legislative Reorganization Act just enacted by Congress places a specific responsibility on our office to make these studies either on our own initiative or at the request of the Congress.

Chairman PROXMIRE. Yes; and we are trying to achieve a capability

in that respect. We have some appropriations and we have a staff on that to do cost-benefit studies in our own committee and we rely on you to do it but we want to develop our own independent capability and I think we can develop that.

I think the interrogation and responses have been most helpful because it brings us to a good point of departure. In the first place. I would like to ask you, Mr. Staats, to give us all the studies that you have made or that you know of or will make pertaining to evaluation of the military assistance programs. We would like to have those. You referred to something like that in your statement.

Mr. STAATS. We would be glad to.

(The following information was subsequently supplied for the record:)

LIST OF GAO REPORTS PREVIOUSLY PROVIDED TO THE SUBCOMMITTEE

Title	Number	Date
"Need for Increased Control Over Local Currency Made Available to the Republic of Vietnam for Support of Its Military and Civil Budgets".	B-159451	July 24, 1970
"Questionable Payment of Taxes to Other Governments on U.S. Defense Activities Overseas".	B-133267	Jan. 20, 1970
"Omission of Significant Costs from Charges to the Federal Republic of Germany for Pilot Training".	B-167363	Nov. 19, 1969
Letter reports to the Secretary of Defense and the Administrator of AID, on the "Review of Disbursal Rate Used for Payments Made on Piaster Contracts of the U.S. Government Agencies in Vietnam".	B-159451	Sep. 11, 1969
Letter Report to the Secretary of Defense on "Review of Overhaul Practices for MAP J-65 Jet Aircraft Engines in Greece and Turkey".	B-166986	June 2, 1969
Letter Report to the Secretary of Defense on the "Review of Management of Agricultural Sales Funds Allocated for Common Defense Purposes".	B-146820	Apr. 24, 1969
"Survey of Selected Aspects of the Administration of the Foreign Military Sales Fund"	B-165731	Apr. 16, 1969
"Difficulties Encountered in Arranging Air Support Services for U.S. Contractors in Vietnam".	B-159451	Nov. 14, 1968
"U.S. Construction Activities in Thailand, 1966 and 1967"	B-159451	Nov. 13, 1968
"Economic Assistance Provided to Korea by AID"	B-164264	July 16, 1968
"Need for Improvement in the Management of Equipment for MAP"	B-162479	Nov. 14, 1967

In addition to these reports issued during the period 1967 to 1970 we have the following reviews in process:

1. Review of the U.S. Military Assistance Program to Taiwan
2. Review of the U.S. Military Assistance Program to the Philippines
3. Review of Assistance Provided to the Free World Forces in Vietnam
4. Review of Assistance Provided to the Government of Thailand in Connection with Thai Military Forces in Vietnam (Review being made at the request of Senator Symington)
5. Review of Military Assistance Training (Review being made at the request of Senator Fulbright)
6. Review of the Use of Excess Property for Military Assistance Requirements (Review being made at the request of Senator Fulbright)
7. Review of the Phasedown of U.S. Military Activities in Vietnam

Chairman PROXMIRE. I can announce now that tomorrow, as we have indicated in the press release, we are going to have a full day, morning and afternoon, of testimony by well-known experts who were former Government officials and among the very, very few people in Government who have worked on this, and I think their testimony will help us greatly to determine how far we can go in this area of evaluation which is so essential if we are going to have our spending programs economical and efficient.

We are going to hear from Townsend Hoopes and Nicholas Katzenbach, who worked directly and explicitly in this area.

In the afternoon, we have a panel consisting of Mr. Fried, Mr. Halperin, and Mr. Whitson who are outstanding experts.

Mr. Staats, thank you again for an outstanding job.

Mr. STAATS. Thank you.

Chairman PROXMIRE. The subcommittee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:40 p.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, January 5, 1971.)

ECONOMIC ISSUES IN MILITARY ASSISTANCE

TUESDAY, JANUARY 5, 1971

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to notice, at 10:05 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire; and Representatives Moorhead and Brown.

Also present: John R. Stark, executive director; Richard F. Kaufman, economist; and George D. Krumbhaar, Walter B. Laessig, and Leslie J. Barr, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

One of the prime purposes of economic analysis of Government programs is to determine whether tax dollars are being well spent. In order to make such a determination several kinds of information are needed. We need to know, first, how much is being spent over given periods of time, and yesterday we had a dramatic difference in amounts between the Comptroller General of the United States who should know more about Government spending than almost anybody, he has the capability of determining these with his great staff of auditors and accountants, and the chairman of the Foreign Relations Committee, who, of course, is a highly capable and responsible—has an excellent staff and who had an entirely different estimate. This morning we have another man, who should know as much about this program as anybody and he has an entirely different figure. I think this tells us something about the lack of congressional oversight, of public knowledge, of understanding of the size of this program.

We need to know the end uses of the outlays. We need to somehow be able to measure the benefits or the effectiveness of the outlays against the costs. Because of these fundamental requirements it is disconcerting to encounter a government program of the size and duration of military assistance in which the total costs are unknown. It is difficult to evaluate output when we do not know even what the input is.

Nevertheless, military assistance is no sacred cow. It is a government program employing billions of dollars of public funds, and the Congress would be derelict in its responsibilities to the taxpayer if

it did not subject this program to the same sort of scrutiny and questioning that other programs are subjected to.

It is one thing, for example, to call for a new turn in foreign policy, as the President did when he announced the Nixon doctrine. It is something else to assure the public that its implementation will somehow lighten the burden of previous policies, that it will, for example, be less expensive and more beneficial to American interests.

This morning we will hear from two of the Nation's most distinguished former public servants. Townsend Hoopes, vice president and director of the firm of Cresap, McCormick & Paget, Inc., was Under Secretary of the Air Force from 1967 to 1969. Before that he was the principal Deputy Assistant Secretary of Defense for International Security Affairs. From 1947 to 1948 he was an assistant to the chairman of the House Committee on Armed Services, an experience that has surely served him well in times like these. He was a Marine, during World War II, is a graduate of Yale University. He is also the author of an important book on the Vietnam war, "Limits of Intervention."

Mr. Hoopes, we have your prepared statement. You may proceed in any way that you wish. Will you come forward to the table. Following your testimony I will introduce Nicholas Katzenbach who is flying down from New York and we hope will be able to get here this morning. In view of the weather, that may be a problem.

STATEMENT OF TOWNSEND HOOPES, VICE PRESIDENT AND DIRECTOR, CRESAP, McCORMICK & PAGET, INC.

Mr. HOOPES. Thank you, Mr. Chairman.

I have, in an effort to be responsive to questions which you put to me in your letter of November 25, scratched out a prepared statement which is somewhat longer than the 20-minute limitation you suggested. I think I can, with several excisions, hold the reading to 20 minutes.

Chairman PROXMIRE. We would appreciate that and the entire prepared statement will be printed in the record in full.

Mr. HOOPES. All right, sir.

Your letter of the 25th asking me to appear today indicated the committee's interest in several questions relating to military assistance. I will try to address each of these questions briefly, and in the order in which the Chairman's letter stated them, asking the committee to bear in mind that my detailed familiarity with this program ended in mid-1967.

SIZE OF PROGRAMS

As to the current size of the several grant, loan, and sales programs which together make up U.S. military assistance to foreign countries, you are, I believe, in receipt of recent written presentations from the Department of Defense. Your information is, therefore, I assume, more detailed and accurate than my own. I could recite for you the presentation figures for fiscal year 1971 given by the administration. But I think in the light of the testimony given yesterday that it would be redundant for me to mention these.

Let me comment, however, on the military assistance service funded segment, called MASF. This program originated in fiscal year 1966. At that time, equipment and material support for the Saigon Army

was being funded through the regular MAP appropriations at a level of about $250 million a year, but the required amount was rising sharply, to an estimated $600 million for fiscal year 1967. The total MAP appropriation at that time was about $1 billion, and was designed to support grant programs for some 43 countries. It thus became apparent that the burgeoning needs of South Vietnam could not be met out of available MAP funds unless there was a drastic scaling down of several other programs—in Korea and Turkey, for example; such reductions would risk dislocation of diplomatic-military relations with those countries. The course adopted by the Johnson administration was, in essence, to ask Congress to transfer material support of the Saigon army from the MAP appropriation to the regular Defense Department budget. Congress agreed to this.

The following year, fiscal year 1967, the Laos and Thailand programs were similarly transferred out of MAP. Also at about that time, special allowances were negotiated for the support of certain of the friendly forces fighting alongside U.S. forces in South Vietnam; that is, those of Korea, Thailand, and the Philippines. These allowances were also funded out of the regular Defense Department budget. The military assistance programs to South Vietnam, Laos, and Thailand, and the special allowances for Koreans, Thais, and Filipinos fighting in Vietnam now appear to total about $2.2 billion, and are identified under the heading "Military Assistance Service Funded (MASF)."

MANAGEMENT AND COORDINATION

With respect to management and coordination of the several programs within the U.S. Government, I cannot, of course, speak with authority on the current situation. I can describe the arrangements that obtained from 1965 through 1967. Under the Foreign Assistance Act of 1961, the Secretary of State is charged with policy responsibility for all foreign aid—economic, technical, and military—but the law provides that operation and management of the programs be delegated to the AID Administrator. A further delegation of authority to manage the military assistance programs—both grant and sales—was made by the AID Administrator to the Secretary of Defense.

Within the Defense Department, control of the military programs was located in the Office of the Assistant Secretary for International Security Affairs (ISA). In the period in question—1965 through 1967—the grant and sales programs were organized as separate units under him—the grant program in the Office of Foreign Military Assistance headed by a flag or general officer, the sales program under a Deputy Assistant Secretary of Defense. During that period, Gen. Robert Wood and later Vice Adm. Luther Heintz ran the grant program (called MAP), while Mr. Henry Kuss was responsible for sales. I understand these two operations have now been combined in one office.

Briefly, this is how the process worked. Secretary McNamara himself played a large role in determining the level of the MAP appropriations request, and he was basically an advocate of steady reductions in the grant aid program; in part because he felt that the size and sophistication of forces we were attempting to underwrite in

certain parts of the world were excessive to both the capabilities and needs of the recipients; and in part because he sensed the adverse political and economic effects of imposing the burden of large armed forces on the frail structures of poor countries.

He also shared with his civilian Pentagon colleagues the view that the MAP program was too diffuse; that it was supporting too many recipients whose military strength was a matter of little or no national interest to the United States.

There was, of course, discussion of the overall military aid level between McNamara and Rusk, and with William Gaud, the AID Administrator. They were in general agreement that the United States should be alert to opportunities for reducing military assistance. From AID's point of view, excessive military establishments in underdeveloped countries were serious impediments to economic development. The State Department was more sensitive to the political dangers of reducing military aid too fast, and also considered military aid an attractive diplomatic tool to use when the United States needed the support of a particular country on a particular range of issues.

I recall, however, no serious disagreement to the annual military aid ceilings proposed by Secretary McNamara—when these came down progressively from $1.8 billion in 1962 to about $750 million in 1968.

Within the framework of that agreed level of operations, the staffs of AID, State, and ISA worked to refine the allocation of funding among some 40-odd AID recipients. As the Principal Deputy in ISA, one of the duties assigned me by Secretary McNamara and Assistant Secretary John McNaughton was what we called military assistance policy review. This involved exercising, on their behalf, a continuous overview of the grant aid and sales programs to be sure they were consistent with each other and with our purposes in particular countries, and to provide authoritative liaison and coordination with the other interested parties.

Two characteristics of this process should be borne in mind. First, there is the fact that procurement of equipment for the MAP and sales programs is mingled with procurement for our own military services. There is no separate procurement for military assistance. This means that decisions made from time to time by United States military services to shift priorities, effect model changes, or slow down or phaseout specific production lines have a direct impact on the cost and delivery schedule of items in the grant and sales programs. The considerable turbulence and fluctuation in the U.S. military procurement programs thus create major problems of management, coordination, and adjustment for the military assistance programs. Second, there is the fact that the flux of international events tends to force major adjustments in a number of country military aid programs several times during the course of an average fiscal year. For example, the Indo-Pakistani war of September 1965 resulted in President Johnson's decision to cutoff all military aid to both parties. This meant immediately stopping shipments to these countries (in some cases by redirecting vessels on the high seas), and then deciding whether to hold the two programs in escrow, or to reallocate the equipment to other countries. Other similar examples could be cited.

I would say that, on the whole, interdepartmental coordination on the grant aid programs was excellent. The parties involved shared a common understanding of the political military objectives, and the working relations were cordial and close. Only infrequently did State agree with an allocation or priority proposed by ISA, and on these occasions there was——

Chairman PROXMIRE. You say agree or disagree, you have disagree in your text.

Mr. HOOPES. I beg your pardon, sir. Only infrequently did State disagree to an allocation proposed by ISA, and on these occasions there was adjudication personally between Secretaries Rusk and McNamara.

Coordination was somewhat more difficult with respect to military sales, and here State Department disagreement was more frequent and sharper. The basic problem was that Mr. Henry Kuss, who ran the sales program, was an aggressive and independent operator with a broad mandate from Secretary McNamara to improve U.S. balance of payments through the sale of military equipment, and direct access to the Secretary.

The great bulk of military sales were made to Europe, which raised few questions of political wisdom or adverse economic impact, since the recipients were for the most part rich nations and NATO allies. But efforts to make large sales of sophisticated equipment to less developed countries did raise both of these questions, and thus cut directly across the jurisdiction and the judgment of State and AID. In the context of my responsibility for "military assistance policy review" in ISA, I worked hard at keeping the sales effort consistent with and subordinate to our foreign policy interests and objectives. The inner workings of the sales program were frequently esoteric, and Secretary McNamara's position on it was occasionally ambivalent. As you know, Congress soon thereafter imposed a statutory ceiling on military sales to less developed countries.

MEASURING THE BENEFITS

Over a period of years, the military assistance program (grants and sales) has evolved four purposes, and these have also come to be the basic standards for measuring the program's benefits to the United States. These purposes are:

1. To arm friends against the threat of external attack;
2. To help them protect the fabric of their societies against internal violence;
3. To obtain U.S. access to bases and other facilities in strategic places; and
4. To gain the general allegiance or the particular diplomatic support of aid recipients.

It is irrefutable, I think, that the rearmament of Western Europe during the 1950's, which was largely financed by the military assistance program, contributed immensely to the present East-West stability in that part of the world, and to the relative political confidence in Western Europe. Similarly in Korea, we can say that military grant aid greatly strengthened the South Korean Armed Forces, and thus

helped to create a situation in which an attack from North Korea is unlikely. In both situations, U.S. military assistance was not, of course, the only factor. The NATO treaty and the U.S.-South Korea security treaty, which commit the United States to defend those two areas against attack, are of greater importance. It is accurate to say that military assistance has in both cases reinforced the deterrent power created by the U.S. commitment.

In places like Spain, Portugal, Ethiopia, Thailand, and the Philippines, the aid program has served chiefly as payment for base rights or political allegiance; certainly it has not had the intention of developing significant military forces in those countries. In the case of some, the United States is fundamentally indifferent to the quality of the local forces; in the case of the Philippines, there is virtually no external threat.

The measures of effectiveness provided by these four purposes are necessarily general, and to that extent unsatisfactory. When applying them it is necessary to ask a number of qualifying questions with respect to particular country programs before one can judge whether such programs are providing net benefits to the United States. For example, one must periodically ask whether the program is responsively related to a realistic assessment of the threat, and has been adjusted to accord with changes in the threat. In cases where the principal threat is internal security, one must ask whether the political stability which the program seems to be buying may not in reality be frustrating local political processes by strengthening undemocratic military regimes to the longer term detriment of U.S. interests. Where the U.S. need is for base rights, one must ask whether we cannot devise a less cumbersome and less politically awkward quid pro quo than the provision of military equipment. Where none of the first three purposes is present, one must ask whether military assistance should be given merely to gain a pro-U.S. political orientation, or indeed whether the military assistance program is capable of producing such a result in the absence of rather genuine mutual security interest between the U.S. and the recipient.

ECONOMIC IMPACT

If the question regarding the economic impact of military assistance programs, as posed by the committee, relates to the impact on the recipient countries, I respectfully suggest it can be properly answered only by an official who is familiar with the internal local situation; that is, the U.S. Ambassador or the U.S. AID Director serving in the particular country.

If the question relates, on the other hand, to the impact on our own domestic economy, my somewhat general response would be that the effect of the grant assistance program is now rather small—it is under $400 million—that large military sales, particularly to Europe and Japan, make a substantial contribution to the balance of payments; and that the military assistance service funded (MASF) segment presents a problem of domestic impact that is intimately related to the size of the Defense budget and the broader question of the Vietnam war.

STRATEGIC ASSUMPTIONS AND NEW CONDITIONS

Military assistance has been, since its inception in 1949, an instrument of national policy, serving both military and foreign policy purposes; it has been used to affirm U.S. sympathies as well as formal commitments, and to strengthen the will of friendly governments to defend themselves against a wide variety of threats. It has never been clear, however, especially in Asia, whether this assistance was designed to provide only a capability for initial defense, which U.S. forces would be required to reenforce, or to permit a local defense that would involve no need to engage U.S. forces.

It is timely for Congress to reexamine this central ambiguity, for the administration is now making the argument that the price tag on the Nixon doctrine—for a lower U.S. profile in Asia—is a much larger outlay for military assistance.

While this is not the place for an extended analysis of that proposition, a few general comments are in order. First, one must face up squarely to the power realities in Asia. There now exists a kind of four-sided balance of power in that region, comprising the presence and the interests of China, Russia, Japan, and the United States. While existing relationships between and among these four powers can be defined, they are all characterized by fluidity and uncertainty. Present relationships could prove to be quite transient. And the removal of one power from contention would dramatically alter the calculations and thus the probable behavior of the others.

One other point should, I think, be perfectly clear. It is that the cluster of small, diverse, widely separated Asian recipients of U.S. military assistance cannot under any circumstances substitute for U.S. power in that area. Individually and collectively, they lack significant military capacity, wealth, political stability, or social cohesion; moreover, they have almost no experience in, or serious inclination toward, military or political cooperation with each other. Therefore, U.S. military assistance, whatever its magnitude, cannot make giants out of pigmies; it cannot determine the military balance of Asia; it cannot serve as a substitute for the U.S. presence.

Those who are seeking to infuse the Nixon doctrine with some coherence have not, it seems to me, given enough thought to that central reality. While the "doctrine" is, of course, embryonic, one is justified in observing that the Nixon administration appears to see it as an instrument for carrying on the cold war by other means. Instead of realizing that even a moderate retreat from insistence on the primacy of U.S. interests everywhere in Asia requires a serious effort to adjust our relations with China (and particularly to allow our clients to seek viable accommodation with that power), the Nixon administration seems to be fashioning a policy in which insubstantial fringe states are expected to become the principal agents of containment. This approach leads to proposed military assistance programs that are larger than necessary, if a continuing American commitment is assumed; it leads to programs that are absurdly small, if it is assumed both that (a) the American commitment is in doubt and (b) the U.S. Government will at the same time frown on any effort by the recipient to reach a genuine understanding with Communist China.

For example, when South Korea was attacked in 1950, it possessed a ragtag army of 100,000 men and no clear security commitment from the United States. Today the ROK Army is five times larger, and also far better trained, better equipped, and better positioned. It outnumbers its North Korean counterpart substantially, and it has a respectable air force that is beginning to include the F–4. There is now, moreover, the most explicit U.S. treaty commitment to defend South Korea against attack, and to this are added various U.N. resolutions, including the threat that, in the event of an attack on South Korea, the U.N. response might not be confined to Korea. These factors create a prospect which is, to understate the case, unattractive for North Korea if it should be contemplating an attempt to unify the country by force. Moreover, there is nothing in the record to indicate that Communist China is anxious to assume high risks for the sake of North Korea; indeed, it is clear in retrospect that China's participation in the 1950–53 Korean war was reluctant, defensive, and largely provoked by General MacArthur's insistent sweep to the Yalu River boundary—a move that was contrary to President Truman's understanding of MacArthur's plan and quite possibly in defiance of Truman's instructions.

The military balance in Korea is thus rather favorable. and the wider threat does not seem unmanageable. Nevertheless, President Nixon, in his message to Congress of November 18, expressed the view that South Korean forces need a much larger military assistance program. Not only did he request authority to transfer all of the modern equipment that will be left behind by 20,000 U.S. forces now scheduled to be withdrawn—on balance, a reasonable proposition—but he also requested another $150 million for further modernization of the South Korean forces. Congress would be well advised to examine more closely the question as to why such a robust increase is either a military or a political requisite for the withdrawal of about 40 percent of the U.S. forces in South Korea.

Of course the Nixon administration is by no means the only possessor of, or conduit for, dubious assumptions regarding military assistance. Over the years, a number of unaltered programs have come to reflect either an exaggeration of the threat or a muddled rationale, or both. Before 1965, Taiwan was one of these. U.S. military assistance guidelines for Taiwan perennially assumed a serious threat of massive invasion from the mainland; they thus supported Nationalist Chinese military forces totaling 605,000 (including a ground army of 415,000)—on a per capita basis the largest in the world (5 percent). Whether U.S. authorities in fact believed that Taiwan was seriously threatened with invasion, or whether their position reflected implicit support for Chiang's basic desire to nurture a large ground army in order to make good his dreamed of return, was not always clear.

But the military realities were perfectly clear—to anyone prepared to examine them with reasonable candor. I had the opportunity for such an examination in 1965, as part of a reappraisal of MAP programs for nine of the 11 so-called forward defense countries, at the direction of Secretary McNamara. Analysis showed unmistakably that the Chinese Communists pose no serious invasion threat to Tai-

wan. They cannot get there in force. They have very little airlift and no substantial sealift. They could assemble a makeshift armada, but it would gravely strain their entire transport system, and it would be detectable at least 45 days before it could be launched. They would then face the problem of bringing a slow, unwieldy, vulnerable force across 120 miles of open water against the combined sea and air power of the United States and Nationalist China. The outcome of any such attempt would depend on control of the sea and air rather than on massive ground armies. Some few units might land, but could not thereafter be reinforced or logistically sustained. While there are, of course, some uncertainties in the analysis, they are not great enough to encourage Peking to believe that an assault on Taiwan could have any substantial chance of success, or could indeed produce anything but disaster for the invading force. There is no indication that the Chinese Communist leadership does not fully understand these logistical impossibilities.

I am gratified to say, Mr. Chairman, that the 1965 analysis made by my group has gradually become the basis for our military assistance guidelines regarding Taiwan. U.S. policy is now concerned with the legitimate needs of the island's defense, but not more than that. Since that year, grant aid to Taiwan has dropped steadily from about $90 million to about $20 million a year. The Nationalists have sought to make up some of the loss by resorting to military purchases. But purchases, of course, engage the recipient's budget process, as grant aid does not. The sudden requirement to spend one's own money leads to a remarkably sober and restrained approach to the question of what level of arms is really necessary.

That completes my statement, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Hoopes, for a very helpful and interesting statement and for a remarkably fine analysis of the situation and the problems involved which are certainly very considerable.

(The prepared statement of Mr. Hoopes follows:)

PREPARED STATEMENT OF TOWNSEND HOOPES

Mr. Chairman and Members of the Committee, Senator Proxmire's letter of November 25, asking me to appear today, indicated the Committee's interest in several questions relating to military assistance: (1) how much does the United States spend annually on grant and loan programs? (2) what are the total amounts of cash and credit sales to foreign countries? (3) how does the U.S. Government coordinate the management of military assistance programs, inasmuch as responsibility is divided among several agencies? (4) how does the U.S. Government measure the benefits of such assistance? (5) what is the economic impact? (6) what are the strategic assumptions on which military assistance has been based? and (7) how much do these assumptions need modification in the light of new conditions and circumstances?

I will try to address each of these questions, and in the order in which the Chairman's letter stated them, asking the Committee to bear in mind that my detailed familiarity with the military assistance program ended in mid-1967.

SIZE OF THE PROGRAMS

As to the current size of the several grant, loan, and sales programs which together make up U.S. military assistance to foreign countries, the Congress is, I believe, in receipt of written presentations from the Department of Defense. Your information is therefore, I assume, more detailed and accurate than my

own. To the best of my knowledge, however, the figures for FY 71 were as follows:

	Millions
1. Grant military assistance (MAP):	
New obligational authority	$350
Recoupments	42
Total	392
2. Foreign military sales (FMS):	
Developed countries	1,434
Cash	952
Credit	135
Commercial	347
Less developed countries	519
Cash	221
Credit	230
Commercial	68.9
Total	1,953
3. Military assistance service funded (MASF)	2,200
4. Ship loan program [1]	-----

[1] Amount unknown to me.

The program called Military Assistance Service Funded began, as I believe you know, in FY 66. At that time, equipment and material support for the Saigon army was being funded through the regular MAP appropriation at a level of about $250 M. But the required amount was rising sharply—to an estimated $600 M for FY 67. The total MAP appropriation at that time was about $1 B, and was designed to support grant programs for some 43 countries. It thus became apparent that the burgeoning needs of South Vietnam could not be met out of available MAP funds unless there was a drastic scaling down of several other programs—in Korea and Turkey, for example; such reductions would risk dislocation of diplomatic-military relations with those countries. The course adopted by the Johnson Administration was, in essence, to ask Congress to transfer material support for the Saigon army from the MAP appropriation to the regular Defense Department budget. Congress agreed to this. The following year, FY 67, the Laos and Thailand programs were similarly transferred out of MAP. Also at about that time, special allowances were negotiated for the support of certain of the friendly forces fighting alongside U.S. forces in South Vietnam—i.e., those of Korea, Thailand, and the Philippines. These allowances were also funded out of the regular Defense Department budget. The military assistance programs to South Vietnam, Laos, and Thailand and the special allowances for Koreans, Thais, and Filipinos fighting in Vietnam now appear to total about $2.2 B, and are identified under the heading Military Assistance Service Funded (MASF).

MANAGEMENT AND COORDINATION

With respect to management and coordination of the several programs within the U.S. Government, I cannot of course speak with authority on the current situation. I can describe the arrangements that obtained from 1965 through 1967. Under the Foreign Assistance Act of 1961, the Secretary of State is charged with policy responsibility for all foreign aid (economical, technical, and military) but the law provides that operation and management of the programs be delegated to the AID Administrator. A further delegation of authority to manage the military assistance programs (both grant and sales) was made by the AID Administrator to the Secretary of Defense.

Within the Defense Department, control of the military program was located in the Office of the Assistant Secretary for International Security Affairs. In the 1965-67 period, the grant and sales programs were organized in separate units under him—the grant program in the Office of Foreign Military Assistance headed by a flag or general officer; the sales program under a Deputy Assistant Secretary of Defense. During that period, General Robert Wood and later Vice Admiral Luther Heintz ran the grant program (called MAP), while Mr. Henry Kuss was responsible for sales. I understand these two operations have now been combined in one office.

Ultimate policy authority rested with the Secretary of State, but it is accurate to say that the Defense Department exercised broad influence and initiative in the development, refinement, and revision of the military aid programs. Briefly, here is how it worked. Secretary McNamara played a large role in determining the level of the MAP appropriations request. He was basically an advocate of steady reductions in the grant aid program—in part because he felt that the size and sophistication of forces we were attempting to underwrite in certain parts of the world were excessive to both the capabilities and needs of the recipients; and in part because he sensed growing opposition in the Congress to the adverse political, economic, and social effects of imposing the burden of large armed forces on the frail structures of poor countries. He also shared with his civilian Pentagon colleagues the view that the MAP program was too diffuse—that it was supporting too many recipients whose military strength was a matter of little or no national interest to the United States.

There was of course discussion of the overall military aid level between McNamara and Rusk, and with William Gaud, the AID Administrator. They were in general agreement that the U.S. should be alert to opportunities for reducing military assistance. From AID's point of view, excessive military establishments in underdeveloped countries were serious impediments to economic development. The State Department was more sensitive to the political dangers of reducing military aid too fast, and it also considered military aid an attractive diplomatic tool to use when the U.S. needed the support of a particular country on a particular issue. I recall, however, no serious disagreement to the annual military aid ceilings proposed by Secretary McNamara.

Within the framework of the agreed level of operations, the staffs of ISA, AID and State would work to refine the allocation of funds among some 40-odd aid recipients. As Principal Deputy in ISA, one of the duties assigned me by Secretary McNamara and Assistant Secretary John McNaughton was what we called "Military Assistance Policy Review". This involved exercising, on their behalf, a continuous overview of both the grant aid and sales programs to be sure they were consistent with each other and with our purposes in particular countries, and to provide authoritative liaisons and coordination with State, AID, the Joint Chiefs and the Military Services. In this capacity I worked closely with all of those groups, but perhaps most importantly with the Office of Political-Military Affairs in the State Department, which was the staff custodian and agent of Secretary Rusk's statutory responsibility for policy control over all foreign aid.

Two characteristics of this process should be borne in mind. First, there is the fact that procurement of equipment for the MAP and sales programs is mingled with procurement for our own military services. There is no separate procurement for military assistance. This means that decisions made from time to time by U.S. military services to shift priorities, effect model changes, or slow down or phase out specific production lines have a direct impact on the cost and delivery schedule of items in the grant and sales programs. The considerable turbulence and fluctuation in the U.S. military procurement programs thus create major problems of management, coordination, and adjustment for the military assistance programs. Second, there is the fact that the flux of international events tend to force major adjustments in a number of country military aid programs several times during the course of an average fiscal year. For example, the Indo-Pakistani war of September 1965 resulted in President Johnson's decision to cut off all military aid to both parties. This meant immediately stopping shipments to these countries (in some cases by redirecting vessels on the high seas), and then deciding whether to hold the two programs in escrow, or to reallocate equipment to other countries. Similarly, the large-scale Israeli raid on the Jordanian village of Es Samu in late 1966 produced a U.S. decision to provide a dramatic airlift of modern military equipment to King Hussein, who was threatened with serious unrest within his army. The implementation of that decision required a shift of priorities and resulted in the postponement of the delivery of similar items to other recipients.

I would say that inter-departmental coordination on the grant aid programs was excellent. State, AID, and ISA shared, broadly speaking, a common understanding of the political-military objectives, and working relations were cordial and close. Only infrequently did State disagree with an allocation or priority proposal by ISA; on those occasions, Secretary Rusk would normally

write to Secretary McNamara, and they would resolve the matter through personal consultation.

Coordination was somewhat more difficult with respect to military sales, and here State Department disagreement was more frequent and sharper. The basic problem here was that Mr. Henry Kuss was an aggressive, independnt operator who had a broad mandate from Secretary McNamara to improve the U.S. balance of payments through the sale of American military equipment, and direct access to the Secretary. The great bulk of military sales were made to Europe, which raised few questions of poiltical wisdom or adverse economic impact, since the recipients were for the most part rich nations and NATO allies. But efforts to make large sales of sophisticated equipment to less developed countries did raise both of these questions, and thus cut directly across the jurisdiction and the judgment of State and AID. In the context of my responsibility for "military assistance policy review" in ISA, I worked hard at keeping the sales effort consistent with and subordinated to our foreign policy interests and objectives. The inner workings of the sales program were frequently esoteric, and Secretary McNamara's position on it was occasionally ambivalent. As you know, Congress soon thereafter imposed a statutory ceiling on military sales to less developed countries.

MEASURING THE BENEFITS

Over a period of years, the military assistance program (grants and sales) has evolved four purposes, and these have also come to be the basic standards for measuring the program's benefits to the United States. These purposes are:

1. To arm friends against the threat of external attack;
2. To help them protect the fabric of their societies against internal violence;
3. To obtain U.S. access to bases and other facilities in strategic places; and
4. To gain the general allegiance or the particular diplomatic support of aid recipients.

It is irrefutable, I think, that the rearmament of Western Europe during the 1950's, which was largely financed by the military assistance program, contributed immensely to the present East-West stability in that part of the world, and to the relative political confidence in Western Europe. Similarly in Korea, we can say that military grant aid has greatly strengthened the South Korean armed forces and thus helped to create a situation in which an attack from North Korea is unlikely. In both situations, U.S. military assistance has not of course been the only factor. The NATO treaty and the U.S.-South Korea security treaty, which commits the U.S. to defend these two areas against attack, are of greater importance. It is accurate to say that military assistance has in both cases reinforced the deterrent power created by the U.S. commitment.

In places like Spain, Portugal, Ethiopia, Thailand and the Philippines, the aid program has served chiefly as payment for base rights or political allegiance; certainly it has not had the intention of developing significant military forces in those countries. In the case of some (Spain and Ethiopia, for example), the U.S. is fundamentally indifferent to the quality of the local forces; in the case of the Philippines, there is virtually no external threat.

The measures of effectiveness provided by these four purposes are necessarily general and thus not fully satisfactory. When applying them it is always necessary to ask a number of qualifying questions with respect to particular country programs before one can make a judgment as to whether such programs are providing net benefits to the United States. For example, one must periodically ask whether the program is responsively related to a realistic assessment of the threat, and has been adjusted to accord with changes in the threat. In cases where the principal threat is internal security, one must ask whether the political stability which the program seems to be buying may not in reality be frustrating local political processes by strengthening undemocratic military regimes to the longer-term detriment of United States interests. Where the U.S. need is for base rights, one must ask whether we cannot devise a less cumbersome and less politically awkward quid pro quo than the provision of military equipment. Where none of the first three purposes is present—that is, defense against external attack, strengthening internal security, or securing base rights—one must ask whether military assistance should be given merely to gain a

pro-U.S. political orientation, or indeed whether the military assistance program is capable of producing such a result in the absence of rather genuine mutual security interests between the United States and the recipient country.

An effort is also made to evaluate military assistance programs against "free world force goals" as formulated by the Joint Chiefs of Staff organization. Judged against these criteria, all programs are in deep trouble and have suffered from chronic and progressive "short-falls" for years. The "free world force goals" appear in Annex J of a JCS document known as the Joint Strategic Operating Plan. In the 1965-67 period, Annex J was one of those examples of military logic carried to ludicrous extremes. It presumed to establish the desirable size and composition of the military forces of nearly every sovereign noncommunist nation in the world; it calculated the military budget of each country, and then estimated the added equipment, training, and incremental funding that would be required to bring that country's armed forces up to JCS standards of size and quality. This annex was forwarded each year to the Secretary of Defense as JCS guidance for the development of the military assistance program; it included countries to which the U.S. neither gave nor contemplated giving military assistance. The manpower and dollar totals were of course astronomical.

During the 1965-67 period, we in Secretary McNamara's office did two things in respect of Annex J. We politely ignored it as a serious guide to the formulation of country programs, and we undertook earnest, informal talks with the JCS staff designed to promote a fuller exchange of views with regard to the strategic, political and fiscal conditions of the real world. The JCS proved quite reasonable and responsive. Over the course of a year or so, a whole segment of countries was removed from the list entirely, and more realistic judgment was applied to the remaining programs. There remained of course large gaps between what the Joint Chiefs of Staff wanted to have in terms of a worldwide military assistance program, and what the political authorities—in both the Executive Branch and the Congress—were willing to support. I am sure this condition still obtains.

ECONOMIC IMPACT

If the question of economic impact of military assistance programs relates to the impact on the recipient countries, I believe it can be properly answered only by an official who is familiar with the internal local situation, i.e., the U.S. Ambassador or the U.S. AID Director serving in the particular country.

If the question relates, on the other hand, to the impact on our own domestic economy, my somewhat general response would be that the effect of the grant assistance programs is rather small (it is under $400 M); that large military sales, particularly to Europe and Japan, make a substantial contribution to the balance of payments; and that the Military Assistance Service Funded (MASF) segment presents a problem of domestic impact that is intimately related to the size of the Defense budget and the broader question of the Vietnam war.

STRATEGIC ASSUMPTIONS AND NEW CONDITIONS

Military assistance has been, since its inception in 1949, an instrument of national policy, serving both military and foreign policy purposes; it has been used to affirm U.S. sympathies as well as formal commitments, and to strengthen the will of friendly governments to defend themselves against a wide variety of threats. It has never been clear, however, especially in Asia, whether this assistance was designed to provide only a capability for initial defense, which U.S. forces would be required to re-enforce, or to permit a local defense that would involve no need to engage U.S. forces.

It is timely for Congress to re-examine this central ambiguity, for the Administration is now making the argument that the price tag of the Nixon Doctrine—for a lower U.S. profile in Asia—is a much larger outlay for military assistance.

While this is not the place for an extended analysis of that proposition, a few general comments are in order. First, one must face up squarely to the power realities in Asia. There now exists a kind of four-sided balance of power in that region, comprising the presence and the interests of China, Russia, Japan, and the United States. While existing relationships between and among these

four powers can be defined, they are all characterized by fluidity and uncertainty. Present relationships could prove to be quite transient. And the removal of one power from contention—for example, the United States—would dramatically alter the calculations and thus the probable behavior of all the others.

One other point should, I think, be perfectly clear. It is that the cluster of small, diverse, widely separated Asian recipients of U.S. military assistance cannot under any circumstances substitute for United States power in that area. Individually and collectively, they lack significant military capacity, wealth, political stability, or social cohesion; moreover, they have almost no experience in or serious inclination toward military or political cooperation with each other. Therefore, U.S. military assistance, whatever its magnitude, cannot make giants out of pigmies; it cannot determine the military balance of Asia; it cannot serve as a substitute for the U.S. presence.

Those who are seeking to infuse the Nixon Doctrine with some coherence have not, it seems to me, given enough thought to that central reality. While the "doctrine" is of course embryonic and amorphous, one is justified in observing that the Nixon Administration appears to see it as an instrument for carrying on the Cold War by other means. Instead of realizing that even a moderate retreat from insistence on the primacy of U.S. interests throughout Asia requires a serious effort to adjust our relations with China (and particularly to allow our clients to seek viable accommodation with that power), the Nixon Administration seems to be fashioning a policy in which insubstantial fringe states are expected to become the principal agents of containment. This approach leads to proposed military assistance programs that are larger than necessary, if a continuing American commitment is assumed; it leads to programs that are absurdly small if it is assumed that the American commitment is in doubt and that the U.S. Government will at the same time frown on any effort by the recipient to reach a genuine understanding with Communist China.

For example, when South Korea was attacked in 1950, it possessed a ragtag army of 100,000 men and no clear security commitment from the United States. Today the ROK Army is five times larger, and also far better trained, better equipped and better positioned. It outnumbers its North Korean counterpart 540,000 to 345,000, and it has an air force of 24,000 that is beginning to include the F–4. There is now, moreover, the most explicit U.S. treaty commitment to defend South Korea against attack, and to this are added various U.N. resolutions, including the threat that, in the event of an attack on South Korea, the U.N. response might not be confined to Korea. These factors create a prospect which is, to understate the case, unattractive for North Korea if it should be contemplating an attempt to unify the country by force. Moreover, there is nothing in the record to indicate that Communist China is anxious to assume high risks for the sake of North Korea; indeed, it is clear in retrospect that China's participation in the 1950-53 Korean War was reluctant, defensive, and largely provoked by General MacArthur's insistent sweep to the Yalu River boundary—a move that was contrary to President Truman's understanding of MacArthur's plan and quite possibly in defiance of Truman's instructions.

The military balance in Korea is thus rather favorable, and the wider threat does not seem unmanageable. Nevertheless, President Nixon, in his message to Congress of November 18, expressed the view that South Korean forces need a much larger military assistance program. Not only did he request authority to transfer all of the modern equipment that will be left behind by 20,000 U.S. forces now scheduled to be withdrawn—a reasonable proposition; he also requested another $150 million for further modernization of the South Korean forces. Congress would be well advised to examine more closely the question as to why such a robust increase is either a military or a political requisite for the withdrawal of about 40 per cent of the U.S. forces in South Korea.

Of course the Nixon Administration is by no means the only possessor of, or conduit for, dubious assumptions regarding military assistance. Over the years, a number of unaltered programs have come to reflect either an exaggeration of the threat or a muddled rationale, or both. Before 1965, Taiwan was one of these. U.S. military assistance guidelines for Taiwan perennially assumed a serious threat of massive invasion from the mainland; they thus supported Nationalist Chinese military forces totaling 605,000 (including a ground army of 415,000)—on a per capita basis the largest in the world (5 per cent). Whether U.S. authorities in fact believed that Taiwan was seriously threatened with

invasion, or whether their position reflected implicit support for Chiang's basic desire to nurture a large ground army in order to make good his dreamed-of return, was not always clear.

But the military realities were perfectly clear—to anyone prepared to examine them with reasonable candor. I had the opportunity for such an examination in 1965, as part of a reappraisal of MAP programs for 9 of the 11 so-called Forward Defense Countries, at the direction of Secretary McNamara. Analysis showed unmistakably that the Chinese Communists pose no serious invasion threat to Taiwan. They cannot get there in force. They have very little airlift and no substantial sealift. They could assemble a makeshift armada, but it would gravely strain their entire transport system, and it would be detectable at least 45 days before it could be launched. They would then face the problem of bringing a slow, unwieldy, vulnerable force across 120 miles of open water against the combined sea and air power of the United States and Nationalist China. The outcome of any such attempt would depend on control of the sea and air rather than on massive ground armies. Some few units might land, but could not thereafter be reinforced or logistically sustained. While there are of course some uncertainties in the analysis, they are not great enough to encourage Peking to believe than an assault on Taiwan could have any substantial chance of success, or could indeed produce anything but disaster for the invading force. There is no indication that the Chinese Communist leadership does not fully understand these logistical impossibilities.

I am gratified to say that the 1965 analysis of my group has gradually become the basis for our military assistance guidelines regarding Taiwan. The U.S. policy is to be concerned with the legitimate needs of the island's defense, but not more than that. Since that year, grant aid to Taiwan has dropped steadily from about $90 million to about $20 million a year. The Nationalists have sought to make up some of the loss by resorting to military purchases. But purchases of course engage the recipient's budget process, as grant aid does not. The sudden requirement to spend one's own money leads to a remarkably sober and restrained approach to the question of what level of arms is really necessary.

That completes my statement, Mr. Chairman.

Chairman PROXMIRE. I would like to start off, Mr. Hoopes, by asking about the contradiction we have to get at as to the amounts involved here. As I said in my opening remarks we had an estimate from Senator Fulbright which, excluding sales, amounted to about $5 billion and from the Comptroller General, Mr. Staats, about $4 billion, and we get one from you which is considerably less, it is what, two——

Mr. HOOPES. It would be the order of $4½ billion, I think, Mr. Chairman.

Chairman PROXMIRE. It would be, I beg your pardon, I misunderstood that.

Mr. HOOPES. Let me just total it——

Chairman PROXMIRE. That is with sales. You see, I excluded sales from both the Staats, and he excluded them, and from the Fulbright, he included them. I took the sales out. So that is exclusive of sales; it would be $5 billion for Fulbright, $4 billion for Staats, and for you, Mr. Hoopes, excluding sales, I take it around $2½ billion.

Mr. HOOPES. About $2½ billion, yes.

Chairman PROXMIRE. Now, in comparing your table with that of Senator Fulbright's, and Mr. Staats had several tables, but comparing your table with his, I find he has the military portion—MAP—of foreign aid, including a request for Cambodia of $775 million in supplemental requests, that is presumably grant assistance. You have $350 million plus $42 million or $392 million, that is quite a discrepancy.

Mr. HOOPES. I think the first discrepancy, Mr. Chairman, may be a matter of which year we are talking about.

Chairman PROXMIRE. He is talking about fiscal year 1971 and so are you.

Mr. HOOPES. But I am not including the President's recent request.

Chairman PROXMIRE. All right.

How big was that supplemental, do you know?

Mr. HOOPES. I do not.

Chairman PROXMIRE. Well, at any rate that supplemental did include, for example, $500 million for Israel, special credit for Israel, which would not be included in yours, I take it.

Mr. HOOPES. That is not grant aid, Mr. Chairman.

Chairman PROXMIRE. I know, that was not included in either grant aid or—you see, this is confusing because we are discussing two different things.

Mr. HOOPES. Right.

Chairman PROXMIRE. But at any rate you would explain part of this in the fact that your figures don't include the supplemental and Senator Fulbright's do?

Mr. HOOPES. I believe the major elements of the President's supplemental requests were for Korea, $150 million, and Cambodia, on the order of $150 million, of which a part was economic aid, but I would hesitate to pose as an authority on this matter. I have simply read the President's message to the Congress of November 18 which contains all of this.

Chairman PROXMIRE. All right. We will just have to spend some time in trying to reconcile those figures based on the fact that one included the supplemental and one did not, and it would take me more than the time, the few minutes I have to ask you questions to get into that. Maybe while the other gentlemen are questioning you I can reconsider that.

The testimony yesterday established the fact that the Pentagon cannot determine the value of weapons and equipment transferred to Vietnam out of military excess and surplus property for any given period beginning in 1965 nor can it determine the value or the amount of real estate construction projects given away to Vietnam or Thailand during the same period. They had no records. The General Accounting Office testified that the Army simply told them they didn't know. You were in office part of this time. Why weren't adequate records kept? Don't you think the public is entitled to a full accounting of the money being spent especially when it is this large?

Mr. HOOPES. I agree with your general statement, Mr. Chairman. But there are obvious practical difficulties due to the exigencies of war. I think the transfers we are talking about were transfers made in the field, by the military service commanders to allied counterparts; therefore, this is, in effect, outside of what I would define——

Chairman PROXMIRE. This would be true in Thailand, too?

Mr. HOOPES. It should be a good deal less true in Thailand.

Chairman PROXMIRE. Why should it be true at all in Thailand? We don't have a war in Thailand, we haven't had.

Mr. HOOPES. I think you are technically correct.

Chairman PROXMIRE. Yet they don't have a record of how much was given away, and they don't have a record now. I can understand perhaps in the beginning, 1965, 1966, and so forth, when there

was an enormous increase, but this is 1971, we have been reducing the commitments in this war, they still don't know, and it is very, very hard to evaluate this when we don't know how much money is involved or how much is given away or to what country on in what amounts.

Mr. HOOPES. I don't have a satisfactory answer to that, Mr. Chairman. I think that part of the answer lies in the diffusion of administrative responsibility. The responsibility of ISA was confined to the grant military assistance program and the sales program, for which there was a separate appropriation. We had a lump sum appropriation from the Congress and we were responsible in conjunction with the State Department and AID for allocating that amount of money. We were not in control of the MASF segment, or of direct grants of equipment made in the field by operating units of our services.

In Thailand, as you know, there has been for some time, perhaps since 1965, a dual American military representation. There is the so-called MAAG, the military assistance advisory group, which has a long history. There are also elements of military operational units, both tactical and logistical in nature, which grew out of the SEATO planning.

Chairman PROXMIRE. But it is just appalling to me that anytime, even given the fact that we are in a war situation, that anytime we can't even keep track of the enormous amounts involved here. Secretary McNamara was a very meticulous man, he won my admiration for his tremendous knowledge of details of what was going on, and I understand he worked very hard on the budget, knew all aspects of it. Under these circumstances, it is beyond me how we can permit this huge amount to be given away without any record at all. I can understand why perhaps aid has to be given and perhaps a great deal given, but we certainly ought to know how much and if there are records that are not provided for several months or even a year, that is one thing, but for 6 years and even now we don't know.

Let me ask this: Yesterday we discussed the fact that almost $700 million in food for peace funds were used from 1965 to 1970 for foreign military assistance purposes. Over a hundred million dollars was used last year. Were you aware of this use of food for peace while you were in office?

Mr. HOOPES. I was totally unaware of this, Mr. Chairman.

Chairman PROXMIRE. This is astonishing. I don't think there is anybody in the Government who should have been closer to this than you. As I understand your functions and responsibilities you had a central responsibility in the military assistance program, and yet our Government was so uncoordinated that a hundred million dollars provided through another Department, the Department of Agriculture, for military purposes, you had no knowledge of at all.

Mr. HOOPES. I had no knowledge of that, Mr. Chairman. I assume that the food for peace grants generated local counterpart funds.

Chairman PROXMIRE. That's right.

Mr. HOOPES. Whether these counterpart funds were segregated or whether they were merged with counterpart funds generated by other funds of U.S. aid, I cannot say.

Chairman PROXMIRE. These were earmarked specifically, mandated for military purposes by our Government. It wasn't a matter of let-

ting a foreign country do what it wanted to do with the food for peace money. It was earmarked, as I understand it, by our Government for military purposes. This year $108 million, and throughout the 6 years, an average of around a hundred million dollars or so.

Mr. HOOPES. I am surprised.

Chairman PROXMIRE. In your discussion of the service funded program you point out that South Vietnam was taken out of the MAP program because its needs after 1965 threatened to swamp the military assistance program. Instead of fracturing the program why didn't the administration simply ask for more military assistance funds for Vietnam? Do you think that separating the program in two and placing the largest part in the Defense Department resulted in improved management of public funds, especially in view of the record?

Mr. HOOPES. I think the reasons for the decision are related to managerial efficiency. There was an escalating war in Vietnam; there was a strong feeling on the part of those managing the war that it would be far simpler to have a single procurement and distribution channel. There was a precedent for this in the Korean war, the South Korean forces having been supplied entirely through the U.S. Army channel. This precedent was in the congressional mind and they acceded to the administration's request.

Chairman PROXMIRE. Do you think that part of the reason for this shift to the Pentagon from the State Department, was to avoid scrutiny by the Foreign Affairs Committee of the House and the Foreign Relations Committee of the Senate which would be more critical?

Mr. HOOPES. Of the war, Mr. Chairman.?

Chairman PROXMIRE. More critical of these amounts going for this purpose and more concern with whether or not they could be justified.

Mr. HOOPES. I cannot say.

Chairman PROXMIRE. Whose idea was it to split off the program?

Mr. HOOPES. I would say that Mr. McNamara had a strong hand in it, and that was fundamentally his concern for managerial efficiency. I think he had, in a sense, ambivalent purposes here. He wanted, on the one hand, to maintain a rational ceiling on the military assistance program and progressively to reduce it. He was, on the other hand, concerned with an escalating war in a particular part of the world.

Chairman PROXMIRE. Now you also point out that 1 year after Vietnam was taken out of the MAP, Laos and Thailand were taken out, and special allowances were given to Korea, to the Korean, Thai, and Philippine forces in Vietnam. I can see how the urgency of the war might dictate special treatment for the country in which the war was being fought, but there was not supposed to be a war in any other country at that time. Why were Laos and Thailand split off from MAP?

Mr. HOOPES. I think the same reasoning applied, Mr. Chairman, rightly or wrongly. Laos was, in fact, involved in the war; military grant aid to that country was in a fluid condition; one could not estimate from month to month or year to year what the requirement might be. Thailand was a war participant in a more technical sense, because it was serving as a base for our tactical air power.

Chairman PROXMIRE. Of course, by this kind of reasoning that contributed to the Vietnam war no matter how remote you could take out of the military assistance program and put it under the service funded operation and escape the scrutiny of Senator Fulbright and his colleagues, and put it into a position where apparently the military forces weren't very interested indeed in keeping records of how much was provided and where and under what circumstances.

Mr. HOOPES. There is no question that the net result of these transfers was to reduce the capacity of the Congress to scrutinize the war-supportive programs.

Chairman PROXMIRE. My time is up, I will be back.

Mr. Brown.

Representative BROWN. Mr. Hoopes, to continue that line of questioning, was the reason this transfer was made was to get consideration of this amount of money by the Armed Services Committees of the Congress rather than by the Foreign Affairs and Foreign Relations Committees of the Congress?

Mr. HOOPES. Mr. Brown, I can give you only my own judgment, particularly with respect to the transfer of the Vietnamese program. I had passed on to other duties, when the later transfers were made. Obviously there was not a unanimity in the executive branch or indeed in the Pentagon——

Representative BROWN. Let me ask when did you transfer to—I don't know what you mean by transfer to other duties. How long did you have the responsibility of being Deputy Assistant?

Mr. HOOPES. I had it until the summer of 1967.

Representative BROWN. As I see it, the increase in military assistance service funds began in fiscal 1966 and went on apace in 1967.

Mr. HOOPES. I beg your pardon, the increase or the transfer?

Representative BROWN. Well, it jumped from $34 million to $838½ million in 1966 and then to $1,496 million in 1967. So certainly when those figures were in budget preparation in the Defense Department you or somebody must have had some knowledge of it and there was a consequent reduction, although modest, in the military assistance program.

Mr. HOOPES. That is substantially true, yes.

Representative BROWN. So you were aware of it, weren't you?

Mr. HOOPES. I was entirely aware of it, yes.

To go back to your original question, I believe the primary consideration, from the point of view of the managers of military assistance regarding the transfer of the Vietnam program out of MAP, was to avoid serious repercussions on the other MAP programs in countries where we considered our diplomatic and military relations were important.

Representative BROWN. And the other MAP programs were being reviewed by the Foreign Affairs and Foreign Relations Committees of the Congress. Is that correct?

Mr. HOOPES. Yes.

Representative BROWN. And the military assistance service funding was not being reviewed by the Foreign Affairs and Foreign Relations Committees but rather was being reviewed by the Armed Services Committees. Isn't that correct?

Mr. HOOPES. That is correct for the period after the transfers.

Representative BROWN. So the assumption that one has to draw is that the Johnson administration felt it could get along better with the Armed Services Committees than with the Foreign Affairs and Foreign Relations Committees, isn't that correct?

Mr. HOOPES. I don't agree there, at least not with respect to the initial transfer decision. As I say, we were dealing with a finite military assistance appropriation. We wanted very much to maintain and not rupture that ceiling.

Representative BROWN. In other words, you were dealing with both figures.

Mr. HOOPES. I am talking here only of the regular MAP program for the moment, if you will allow me.

Representative BROWN. All right, all right.

Mr. HOOPES. My recollection is that we were aiming for a grant ceiling in fiscal year 1966 on the order of $800 million. We wanted to maintain that ceiling. We had about 40-odd recipients of which some were very important in terms of our diplomatic and military relations. These were Korea, Turkey, to a lesser extent Taiwan, and to a lesser extent Greece. The Vietnam program, which was then a part of this lump sum, was about $250 million. But it was estimated by the military services that the developing war would push it up to $600 million. This would have devastated the lump sum program if an attempt were made to fit it within the regular MAP program; alternatively it would rupture the ceiling.

Representative BROWN. To what ceiling do you refer?

Mr. HOOPES. I refer to the appropriation provided by Congress in the previous year which was on the order——

Representative BROWN. Authorized originally by the Foreign Affairs and Foreign Relations Committees?

Mr. HOOPES. Correct, and the previous year, if my memory serves, it was on the order of $1.2 billion. Mr. McNamara was seeking to reduce that ceiling to about $800 million, and we wanted to go to Congress with a request of about that order of magnitude.

Representative BROWN. While increasing the military assistance funds?

Mr. HOOPES. Well, if you will permit me to stay within my own categories for a moment.

Representative BROWN. All right, all right.

Mr. HOOPES. My concern was with the regular military assistance program, which involved a lump sum appropriation, reviewed in its authorizing process by the Foreign Affairs and Foreign Relations Committees. We wished to retain the integrity of that lump sum. We could not do so if we had to include within it the ever-rising amount for the Vietnam program.

The Vietnam program in 1966 was completely open ended and uncertain. I don't think there was a man in the United States who could have predicted what the need would be from one year to the next, or when the war might come to an end. Therefore, the decision was made, rightly or wrongly, to remove this ever-rising program from the regular military assistance program and to merge it with the procurement and funding process directly related to fighting the war.

Representative BROWN. Well, the fact of the matter is that it had the effect of taking consideration of the authorization out of the

hands of the Foreign Affairs Committees in the House and Senate and putting it into the hands of the Armed Services Committees.

Mr. HOOPES. It clearly had that effect.

Chairman PROXMIRE. Will the Congressman yield at that point?

Representative BROWN. If I could review the amounts of total military assistance program grants in aid, as presented to us by Mr. Staats yesterday, and military assistance service funded support, the new category developed at this time, the total was $1.8 billion in 1965, $1,937 million in 1966, and $2,401 million in 1967.

Now, the change comes not in the military assistance program grant in aid which drops from $1.5 billion in 1965 to $1,098 million in 1966, and down to $905 million in 1967. The change comes in the military assistance service funded which rises from $34 million in 1965 to $838.5 million in 1966, to $1,496 million in 1967.

I would suggest that these results in terms of the programs, consideration by the Congress is very clear, in addition to the deceptiveness of the utilization of these funds.

I want to move from that now to the proposal of the present administration which deals with the funding of these grants in a somewhat more public way. In other words, aren't the proposals for military assistance to other nations now brought more clearly to the surface by the method which the President has presented them to the Congress.

Mr. HOOPES. I am not aware that there have been any significant changes, Mr. Brown.

Representative BROWN. Well, the $500 million for Israel, for instance.

Mr. HOOPES. Well, these are supplemental requests which I would think in their nature must be specific. But it is my impression that the regular military assistance program still involves a lump sum request, and still results in a lump sum appropriation that has been reviewed in its authorization process by the Foreign Affairs and Foreign Relations Committees.

Representative BROWN. The point I would make is that the mere process of moving the funding from the military assistance program down to the military assistance service funded category resulted in the fact that from 1965 to 1967 that total amount of money increased from just a little over $1 billions to about $2.5 billion. Isn't that correct?

Mr. HOOPES. That is correct.

Let me say, without reference to the merit of the transfers, that I think what happened is that the Government decided to create a separate fund for running the war in Southeast Asia; it decided concurrently to handle all other military assistance in the traditional way. Now it is not surprising, in view of events in Southeast Asia, that the military assistance service funded segment has grown, and grown very substantially. It is equally apparent that the regular MAP program has been progressively reduced—until the President's request for supplementals of November 18, 1970.

Representative BROWN. Let me, before my time is totally gone, raise one other question. With reference to your statement, "The context of my responsibility for military assistance policy review in ISA,"

et cetera, at the time you conducted that military assistance policy review, did you concur in this transfer of identification of these funds? And did you recommend any better recordkeeping, than had been done previously, of how the funds were being expended?

Mr. HOOPES. I was not a party to the decision, Mr. Brown; I concurred in it in the sense that I was the coordinator of the regular sales and grant programs. I did not make any recommendations for the development of better records. If the Vietnam program were to pass to the jurisdiction of the three military services, then their own processes would apply, and responsibility for recordkeeping would devolve upon the civilian secretaries of those services.

Representative BROWN. My time is up.

Chairman PROXMIRE. Before I yield to Congressman Moorhead, I would like to call the attention of both Congressman Brown and Mr. Hoopes, and I understand it, I am informed by the staff when these funds were taken out of MAP and out of the Foreign Relations Committee authorization they were not given to the Armed Services authorization, there was no authorization. They simply were appropriated by the Appropriations Committees so as you indicated the Congress certainly did have less oversight because there was no authorizing committee that reviewed them. As a matter of fact, Senator Stennis is now fighting hard to get some authorizing control over these funds, he has not been successful yet. But he is working to try to get that kind of authorizing control in the Armed Services Committee. So at the present time there just isn't any authorizing discipline over these funds at all in the Congress.

Mr. Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

First, I want to welcome to the subcommittee my good friend of many years' standing, Townsend Hoopes, and commend you, Mr. Hoopes, for an excellent statement that you have made.

I find particularly brilliant your analysis of the strategic situation in Asia as we face it, as we move towards, apparently towards, the so-called Nixon doctrine.

There is one statement you make which frankly worries me, in which you say:

> We urge particularly that we allow our clients to seek viable accommodation with Communist China.

Is it your understanding when you were in office that either explicitly or implicitly we told those recipients of our grant program that they wouldn't get their money if they made any deal with China?

Mr. HOOPES. Well, here I think, Mr. Moorhead, we are all in a sense the victims of history, and perhaps you will allow me just to review some of the reference points of the last decade.

We emerged from the Korean war—from a bloody, 3-year fight and a very hard negotiation for a truce—at a time when the French, having attempted to reimpose their colonial authority on Indochina, were deciding that they could not, in fact, out last a revolutionary national movement.

I think you are also aware that the attack on South Korea reinforced all of the tendencies in the West to believe that we were dealing

with a Communist monolith, run by the Kremlin, which was bent on endless physical expansion. Therefore, it was not illogical for the United States to assume that we were dealing with a tentacle of international communism in Indochina, and that with the French departure an avenue would be opened up for further Communist expansion, right down the peninsula. It was in 1954 that the "Domino Theory" was created.

We were, of course, cooperating everywhere in Asia with people who opposed the Communist insurgents. In Indochina, it is clear that, in the wake of the French departure, we did two things. We sought to build an anti-Communist base of strength against the insurgents, and we built it around the core of people who had worked for the French. Therefore, the answer to your question is that we had, because of our perception of the worldwide situation, a natural sympathy for those people who opposed a change of order in Asia and elsewhere. The people who were working hardest for a change of order were the Communsits.

It is also clear, as shown by events of the last decade, that while the insurgents were Communists, they were not in every instance, in fact in few instances, controlled or directed by China or Russia. I think we are now dealing with a fragmented Communist structure; the underlying reality in Vietnam, for example, is a basically nationalist movement with Communist overtones. It is not controlled by Moscow. In fact, its fundamental strength, which explains its enormous capacity for endurance, is the national impulse to unify that country and make it independent.

Representative MOORHEAD. But what you are saying is that this policy continues today and that the change or the recommendation you make is we, in effect, permit, let's say, Thailand which is a strong nation, to make an arrangement or diplomatic arrangement with China that preserves its national integrity but that today we would not allow that, is that correct?

Mr. HOOPES. It seems to me implicit in a reduction of our posture in Asia that we should encourage these countries to adopt policies that will permit normal relationships with the largest power in the area; namely, China.

I think the continued policy of arming small states who live on the fringes of China is a source of continuing instability. The major problem is how to reach some kind of accommodation with China for the benefit of all parties.

Representative MOORHEAD. Mr. Hoopes, we had testimony yesterday that under the ship loan program we had loaned a carrier to another country. Were you familiar with that during the period of 1965 to 1970?

Mr. HOOPES. I am not familiar with that, Mr. Moorhead. I would say parenthetically that the ship loan program was a program outside my administrative jurisdiction.

Representative MOORHEAD. In your statement you refer to military aid as an attractive diplomatic tool to use when the United States needed the support of a particular country on a particular issue. Can you give us some examples of that?

Mr. HOOPES. I can give you one or two. I think Jordan is a good

example. We have had, of course, a fundamentally ambivalent policy in the Middle East since the creation of Israel. Tendencies have drawn us into closer alliance with that country, resulting in a corresponding alienation of a number of Arab States. We tried very hard all through the fifties and the sixties to maintain footholds in what we called moderate Arab countries. And clearly Jordan was one of these. We contributed, I think, to the moderation of Jordan's policy towards Israel by providing a flow, although a rather modest flow, of military assistance to the Jordanian army and to King Hussein whose position was dependent on that army.

Representative MOORHEAD. Did we use the military aid as a device to obtain votes, necessary votes, in the United Nations?

Mr. HOOPES. Not in my experience, Mr. Moorhead.

Representative MOORHEAD. In your statement you talk about how procurement for military assistance programs is commingled with procurement for our own armed services. Are you familiar with the so-called F–5 or Freedom Fighter proposal which would procure not for our services but—not for use by our services but—solely and exclusively for use by foreign nations?

Mr. HOOPES. I am aware of a proposal that was current when I was in government. There have been, of course, a number of spare part procurement programs devised exclusively for maintaining the life of obsolescent equipment.

Representative MOORHEAD. I think that spare parts equipment for planes or other weapons systems which were originally procured for our armed services, became obsolete and then were transferred to a foreign country, is a different situation——

Mr. HOOPES. Yes; it is a different problem.

Representative MOORHEAD (continuing). In my concept.

Mr. HOOPES. I am not aware, Mr. Moorhead, that there is any substantial weapons system now being procured exclusively for military assistance.

Representative MOORHEAD. I accept the word "procured" but contemplated is the so-called Freedom Fighter.

Mr. HOOPES. Yes, sir.

Representative MOORHEAD. Don't you consider that sort of a dangerous precedent for our military assistance program?

Mr. HOOPES. I am not sure I see the dangers in it, but I am not aware of the proposal in detail. Would this involve a procurement of the fighter outside the United States and thus beyond our control?

Representative MOORHEAD. No; it would be procured in the United States but not ever to be used by our armed services, only by foreign nations.

Mr. HOOPES. Whether that would be a dangerous precedent depends, I assume fundamentally, on what you regard as the future of the MAP program, and on what you regard as the legitimate military requirements of certain allies. In the absence of F–5 procurement exclusively for military assistance, we are probably providing aircraft of greater cost and weight and armament.

Representative MOORHEAD. Mr. Hoopes, in your statement you refer to the threat to internal security of a recipient nation. Do you consider that our present program of military assistance to Greece props up that regime to strengthen it, its internal security?

Mr. HOOPES. I think in all probability, Mr. Moorhead, that is the case.

Representative MOORHEAD. Thank you, Mr. Chairman.

Chairman PROXMIRE. Mr. Hoopes, why shouldn't we, with all the information we have had so far in the hearing, and that you know about and you have given us this morning, pull all of this military assistance back into the State Department? After all the State Department has the principal responsibility for our foreign policy, it should have, and have the scrutiny of this program completely under the jurisdiction of the Foreign Affairs and the Foreign Relations Committees, and then insist on comprehensive and complete records of how much is given to which country for what purposes, how much equipment is provided and how much property is given and for what purpose? Then why not declassify, and I think this is vitally important. If we can declassify the amount per country, then we can have debate, discussion and consideration and wiser decisions. In my view, we can only have that when we can discuss and challenge the assumptions on which the amount is given. Then if we phase out the grant part of the program and move into a credit program so there will be more discipline in the recipient country, the country itself will have to come up against the tough problem of paying for some of this. As long as the country is going to get this kind of cash or equipment earmarked for military purposes for nothing, of course, they are going to take it, they will take it even though it may be bad for the country's economy and bad for its social stability.

What would you think of this kind of procedure now? Can't we move in this direction now? Is it too early?

Mr. HOOPES. I would think, Mr. Chairman, that we can and should move in that general direction. I would like to try to deal with the various segments of your question.

Chairman PROXMIRE. Right.

Mr. HOOPES. In law today, the Secretary of State has the policy control and the ultimate responsibility for all military aid. He has an Office of Political-Military Affairs that is very active in following the details of this program; it is in fact the principal counterpart of the Office of International Security Affairs.

Chairman PROXMIRE. The Comptroller General told us yesterday in his view that the Secretary of State is in a weak position, and Senator Fulbright certainly confirmed that very strongly. The Secretary of State is in a weak position with respect to military aid.

Mr. HOOPES. I think that is relatively true; yes. But one must try to contemplate the managerial and administrative consequences of asking the State Department to take on this burden. The difficulties arise with respect to handling the problems of procuring, distributing, and then maintaining the equipment.

My own view, and not just on the question of military assistance, is that a layer of civilian officialdom close to the Secretary of Defense is an aid to the Secretary of State because this kind of office, on this kind of issue, is able to deal with military proposals while they are still in fluid form and before they have become crystallized in an interdepartmental adversary proceeding. Accordingly, I think the State Department would normally find it helpful to have some-

one in the office of the Secretary of Defense exercising the kind of responsibility than has up to now been exercised by ISA.

I think that, in terms of setting policy and exercising a closer supervision of the country programs, the State Department could increase its role with good effect.

I see no overwhelming reasons why most of the dollar figures cannot be declassified and discussed openly. President Nixon in asking for these specific supplementals has indicated the orders of magnitude we are dealing with.

I favor, in general, a shift from grant to sales for the reasons previously cited. I think it is very important to engage the budgetary process of the recipient country, to make them realize what military equipment costs. Many times in the early years when developing countries did not buy, but were simply given equipment, the Finance Minister was unaware of the arms costs, was even unaware of the costs of accepting the equipment and maintaining it. To engage the budgetary process of a recipient country is very useful, but it cannot be done immediately or completely in all cases. I think there are special cases, like Korea, a very poor country, which it is in our interest to maintain well armed. We cannot yet begin a phased sales program there; we can begin a phased program in Turkey. But Turkey is the poorest country in NATO, and a country which it is in our interest to maintain in military strength.

Chairman PROXMIRE. One of the criticisms of this program has been that it was lifted from Europe and European experience and transplanted to Asia, an entirely different kind of a situation requiring an entirely different kind of a program and that, therefore, it failed because we haven't recognized what the real problems were in Asia. Certainly a most significant problem is the internal subversion in these Asiatic countries. On the other hand, we seem to be providing military assistance against a full-scale conventional military attack of the kind we might conceivably face in Europe for our friends and that when we provide these big conventional arms that require manpower and require a great commitment of resources to support them, it impoverishes these countries, it destabilizes them, it means that people are poorer than they otherwise were, increasing the amount of starvation and misery and discontent, and it increases the prospects for subversion, and that, therefore, these programs are self-defeating. They are not only a matter of wasting our money but they are pernicious in that they lose far more than they gain.

I would appreciate it very much in view of your experience if you could give us your analysis with two or three countries as examples of Asia where this may or may not be the case.

Mr. HOOPES. Well, here again, Mr. Chairman, I think we are all to some extent the victims of history. The general perception of the American Government and the American people in 1953–54 was that China was a powerful expansionist nation and that the countries on the fringes, some of which were valuable to us, faced large-scale military assault. We thereupon set out to provide them with military forces, and the forces we most easily built were those modeled after our own. Later came the perception of the insurgency threat. We created our own counterinsurgency force, the Green Berets, and we

sought with varying effectiveness to persuade other countries to adopt the same kind of counter-insurgency force.

In Vietnam, it is quite ironic that, in the wake of the French departure, we helped create a wholly conventional force armed with heavy equipment, a force of about 175,000 men; and even after the insurgent danger became evident in the early sixties, it proved impossible to persuade the Vietnamese to alter their formations.

Chairman PROXMIRE. Now you take a country like Korea, where your testimony this morning is most helpful in indicating that they already have a bigger army than North Korea, a bigger military force than they have in North Korea, and seem to be far better equipped, and under these circumstances does it make sense for us to provide more military assistance for South Korea, as the administration indicates that we should, or should we recognize that to the extent that we continue to build up that very large and effective army that we may be not recognizing what is a more serious threat to South Korea than aggression which is internal subversion by imposing such a burden of defense on them.

Mr. HOOPES. I think an increase, a substantial increase, in the military assistance program for Korea is of dubious military validity. It is harder to judge the psychological-political question that arises, on the assumption that we intend to withdraw all of our forces.

The South Korean Government is, I think, nervous about the prospect of our total departure. My own view is that there exists a multifaceted deterrent—assuming our commitment endures—that the South Korean forces are in reasonably good shape, and that we can therefore withdraw our forces without paying the South Korean Government a heavy price. But this must be a matter for judgment by those who are closer to the problem.

Chairman PROXMIRE. Certainly, in Formosa you make a strong case, as I read it, that the prospects of invasion of Formosa are really pretty ridiculous. Mainland China doesn't have the Navy, in fact to take Quemoy and Matsu, which are 2 or 3 miles off Red China's coast not to mention Formosa which is a hundred miles and with the 7th Fleet, it is ridiculous for us to fear Mainland China would invade Formosa. And yet we continue to provide military assistance as if the invasion was just around the corner.

Mr. HOOPES. Mr. Chairman, there has been a downward trend in the aid to Taiwan. As I said in my statement, it has dropped very substantially over the last 5 years, and it has done so in great part because the American establishment has changed the ground rules regarding the force structure it is willing to support there.

Chairman PROXMIRE. My time is up. I have other questions but I will yield at this point to Mr. Brown.

Representative BROWN. Mr. Hoopes, I want to go back to Korea for a moment. That was my war, and, as I recall the diplomatic or international circumstances that developed, we had a little political debate going on in this country as to whether or not the American sphere of influence in the Pacific included Korea.

If we indicate that we are going to withdraw American forces from South Korea and perhaps have less specific interest in the treaty obligations which we now have in South Korea, which you

indicate are as significant if not more toward maintaining stability—at least that is what I gather from your testimony—shouldn't we send military signals that we are interested in maintaining the South Korean forces in strength?

I just wonder if that reasoning is in the picture. I would hate to see us withdraw our interest in South Korea after some 20-odd years, and precipitate another confrontation which would bring us back to the situation we had 20 years ago.

Mr. HOOPES. Well, I would totally share your objective. I don't think there is any suggestion in anything I have said that we should abandon Korea, or are about to. Quite the contrary. I am suggesting that the existing forces in the South are very strong in relation to North Korea.

Representative BROWN. The removal of American troops for whatever reason, domestic political or domestic economic, would indicate lessening of American presence in Korea, would it not?

Mr. HOOPES. Clearly it would. But, again, I am not suggesting that we do not need a strong South Korean force. I am suggesting that the present force is strong, and that it is at least dubious whether we need to provide another $150 million to make it stronger.

Representative BROWN. You did suggest it was a judgmental factor and perhaps we should leave it there.

Let me go back to your statement. You indicate the four basic reasons for military assistance to arm friends against the threat of external attack are:

1. To arm friends against the threat of external attack;

2. To help them protect the fabric of their societies against internal violence;

3. To obtain U.S. access to bases and other facilities in strategic places; and

4. To gain the general allegiance or the particular diplomatic support of aid recipients.

Do you consider any of these objectives unworthy with regard to American policy?

Mr. HOOPES. I think the fourth one is a dubious basis for giving military aid, if it stands alone.

Representative BROWN. Can you think of any instances at present where it stands alone in American military assistance programs?

Mr. HOOPES. I think it comes close to being so in Latin America.

Representative BROWN. There is no problem of an internal security threat in Latin America from Cuba or from insurgency stimulated from Cuba?

Mr. HOOPES. There is a problem of internal security in some parts of Latin America; yes.

Representative BROWN. Could you give me a specific example where the internal insurgency threat stimulated by Cuba does not exist, and the only reason for U.S. military assistance is to achieve general allegiance or the particular diplomatic support of the aid recipient?

Mr. HOOPES. Well, I think it is easy to overestimate the capability of Cuban provocations in South America.

Representative BROWN. That changes from year to year and season to season, doesn't it?

Mr. HOOPES. It may, yes; but I would say that most of the unrest in Latin America is generated, in fact, by the indigenous social and political conditions.

Representative BROWN. I think that is a fair statement and some effort to assist in that area ought to be included, I assume. In other words, if our effort internationally is only in a military way and does not include some efforts to improve the social fabric of the nations to whom we are offering support and from whom we hope to get some support, it seems to be a bad investment anyway, doesn't it?

Mr. HOOPES. I agree.

Representative BROWN. And we have sort of dealt with this policy with both hands in many, if not most, parts of the world where we had military assistance programs. Have we not?

Mr. HOOPES. You mean simultaneously trying to maintain the fabric of internal order and the protection against external threat, while improving the social and economic life of the country?

Representative BROWN. While trying to encourage and improve the economic life of those nations.

Mr. HOOPES. As I said earlier——

Representative BROWN. Did I get a response?

Has this been our policy over the past?

Mr. HOOPES. That has clearly been our policy, and it is exemplified by parallel economic and military aid programs in many places. The qualified comment I wanted to make, Mr. Brown, was that all of these purposes, I think, are valid, except where the fourth purpose stands alone——

Representative BROWN. We have indicated there are very few examples of this.

Mr. HOOPES. Very few examples.

Representative BROWN. None that we can think of, as a matter of fact. On balance, have military assistance grants to other nations been beneficial to the United States in the past?

Mr. HOOPES. That is a very general question.

Representative BROWN. Yes, sir.

Mr. HOOPES. On balance, I would guess that in most places——

Representative BROWN. We have a very general hearing.

Mr. HOOPES (continuing). Particularly in those countries to which we are allied for good reasons, there has been a net beneficial effect.

Representative BROWN. And do you think military assistance programs can be beneficial in sufficient instances in the future?

Mr. HOOPES. In certain particular places, yes.

Representative BROWN. Well, would you prefer, for instance, a policy of U.S. strength in reserve over military assistance programs for getting military assistance to another nation? We just keep U.S. military strength in reserve and if a situation erupts somewhere in the world we send U.S. military forces to resolve that problem. Would you prefer that the countries have their own military strength to defend themselves from some outside external aggression?

Mr. HOOPES. I don't think those are the only alternatives. I think the better alternative is to define more precisely the American vital interests in the world.

Representative BROWN. Let's assume that we have precisely de-

fined these interests and include Korea as an area where we have military interests. We sort of argued over that particular definition back in 1950, and you know we have been all through that. If we define Korea as an area where we have interests in maintaining the line of demarcation between east and west, if that is the way to put it, what should be our policy? Should it be military force in the United States in reserve and none on the scene, or should it be military assistance on the scene in the hope that a U.S. force does not have to be sent?

Mr. HOOPES. Well, where the United States has a clearly considered commitment to a country like South Korea, there is a great advantage in having a range of successive deterrents; and I would begin with local strength, indigenous strength on the ground.

Representative BROWN. Which infers some kind of military assistance program in some areas of the world.

Mr. HOOPES. Clearly. But I would like to go on and answer the broader aspect of your earlier question. I think there are many areas of the world where a precise re-examination of our present posture would show that we have, in fact, no vital military or strategic interests, and in those areas I would suggest that we may very well be able to relinquish the practice of giving military assistance.

Representative BROWN. I don't think we have any argument there. And I think that certainly we would assume there is a continuing review of the whole world picture both by State and Defense Departments, by the man who happens to occupy the White House, and certainly by the respective committees in the U.S. Congress, the American people and, for that matter, editorialists and others. But let me go on.

If we are faced with this business of arming perimeter nations, would you prefer that we have the perimeter nations armed and no U.S. commitment to involvement? Or would you prefer that we have them unarmed and a U.S. commitment of involvement?

Mr. HOOPES. I think your question does not lend itself to a general answer. We have to start from where we are. There are places where, I think, the American commitment is indispensable.

Representative BROWN. You mean whether the other nation is armed or not?

Mr. HOOPES. Yes. I do not think, by and large, that the small fringe states of Asia can be built through military assistance, provided by us or anybody else, to a posture that would provide them safety in all circumstances, without the prospect of American reinforcement.

Representative BROWN. If we assume American reinforcement, are we better off or worse off if we have a military assistance program that has developed some kind of a defense system in that country prior to the commitment of American military forces?

Mr. HOOPES. Obviously, a commitment of the kind we have made to Korea goes hand in glove with a reasonable military assistance program.

Representative BROWN. Well then, developments. Let me ask you this, doesn't arming others, if that is to be part of our policy, presume some kind of a continuing check on their capacity to respond

militarily? And would not this be in some way a function of the Defense Department operation?

Mr. HOOPES. Yes; of course.

Representative BROWN. And just to go on to a couple of other points, if I may, very quickly to finish up. Where maintaining their independence militarily is desirable, are the most vital recipient countries of this military assistance able to finance their own arms purchases?

Mr. HOOPES. The two that come most prominently to mind are Turkey and Korea, and the answer generally is no.

Representative BROWN. Would we be likely to stabilize countries like that by making them pay, or should these be grant programs?

Mr. HOOPES. I think the Korean program must continue to be substantially grant for a long time because the Korean economy, although it has improved, is still very weak and very poor. I think there is a greater hope for gradually phasing into a sales effort in Turkey. But this depends on the level and the quality, which is to say the modernity, of the forces that are required; and that requirement is a function not only of Turkish and American decision, but also of decision by the NATO council.

Representative BROWN. Thank you.

Chairman PROXMIRE. Doesn't it also depend on the terms of the credit agreement?

Mr. HOOPES. Yes; it does.

Chairman PROXMIRE. Mr. Moorhead.

Representative MOORHEAD. Just one question, Mr. Chairman.

Mr. Hoopes, you have described this Annex J to the Joint Strategic Operating Plan, the free force level. Do you happen to know whether Annex J, as is or in some modified form, is still part of the Strategic Operating Plan?

Mr. HOOPES. I have no reason to believe it is not, Mr. Moorhead.

Representative MOORHEAD. We still go on considering the size and composition of all of the armed forces of all of the non-Communist countries of the world, is that correct?

Mr. HOOPES. I have not seen the document since 1967. As I said, in that part of the prepared statement I did not read, I believe that the interaction of informal discussions between ISA and the Joint Chiefs organization produced considerable improvements in the document, and made it much more reflective of the real world. But I don't regard annex J as a particularly consequential document one way or the other; it does not figure prominently as a guidance for the people who are running the military assistance program.

Representative MOORHEAD. Thank you, Mr. Chairman.

Chairman PROXMIRE. You say it doesn't figure prominently, and yet it is a kind of a guide, it is a kind of rough indication of how much is needed in the way of military assistance, and it seems to me it can be important.

As I understand these guidelines are arrived at by the Joint Chiefs of Staff in secret and without involvement of civilians in the Defense Department or elsewhere, and am I correct in my understanding that the determination of force goals or military requirements for foreign countries has the effect then of setting at least a need, a rough guideline, on the basis of which military assistance is provided?

Mr. HOOPES. Well, yes, Mr. Chairman, you are right, yet there is involved here a rather subtle process. The Joint Chiefs of Staff clearly have the statutory responsibility to determine force goals. The Secretary of Defense and his organization have the clear responsibility to review those, and not just in budgetary terms, but to examine into the strategic premises. Analysis conducted by ISA sometimes found that force goals presented by the Joint Chiefs of Staff were based on dubious assumptions. I have in mind, as an example, the assumption that Taiwan was vulnerable to massive invasion.

Chairman PROXMIRE. Of course, the trouble is as long as this is done in a classified way, and is done by the Joint Chiefs, it seems to me it is insulated to some extent from effective challenge and debate either in committee or on the floor.

Mr. HOOPES. I quite agree that this process improves inhibitions on congressional debate. It poses no inhibitions for debate within the executive branch as between the civilians——

Chairman PROXMIRE. There may not be inhibitions. There is an inertia. The executive branch people are so busy in other things, the President, for example, has so many demands on his time, the Secretary of Defense too, and under these circumstances the opportunity for top level people in the Federal Government and the executive branch to give the attention it seems to me are very limited.

Mr. HOOPES. I agree with what I assume was your intended implication there, that greater congressional scrutiny, greater congressional vigor in this area, would be a good thing.

Chairman PROXMIRE. Is there some better way to arrive at the need than to have the JCS, the Joint Chiefs of Staff, do this privately?

Mr. HOOPES. Well, Mr. Chairman, I don't think it is fair to say that they do it privately. The product of their analysis and their recommendations are, in fact, scrutinized by the civilian side of the Pentagon, by the State Department, and then in the National Security Council.

Chairman PROXMIRE. But you see my problem is this, that the initial determination is by the JCS. They consider military factors, and on the basis of everything we have learned in Asia, especially in Southeast Asia, military factors may be much less important than social and political factors and other matters which should determine whether or not we should provide a big military assistance program that can become a burden.

Mr. HOOPES. The remedy, in general terms, is a stronger assertion of the political and economic factors as against the military within the executive branch, and with assistance from the Congress.

Chairman PROXMIRE. Who makes that input in the executive branch?

Mr. HOOPES. Which one, sir?

Chairman PROXMIRE. The social and economic and political and these other nonmilitary factors.

Mr. HOOPES. Generally speaking, the State Department and the AID.

Chairman PROXMIRE. Which is in a weak position on the basis of your testimony and the testimony of all the witnesses we have had so far.

Let me ask you this, you are very critical in your statement of the Nixon doctrine, the position that President Nixon took at Guam, in which he indicated that he would rely more, as I recall, on assisting our friends and on their own manpower, and their own troops.

Would you please amplify your analysis and explain your reservations about the Nixon doctrine?

Mr. HOOPES. First of all, I think it is a doctrine as yet difficult to understand because it has not been fully unveiled. What I tried to say in my statement was that I do not see how, through larger military assistance grants to small states, we can substitute for our own presence and our own power in those selected parts of Asia where we regard our interest as important or vital. Therefore, it is somewhat confusing to me to have it explained that the doctrine requires the transfer of military supplies in larger amounts to Asian allies, on the presumption that they will thereafter assume responsibility for their own defense in a political context of continued hostility to Red China.

Chairman PROXMIRE. Now, Mr. Brown, I thought, rather skillfully put you on the horns of a dilemma there, the argument being if we don't provide more aid then we are going to have to provide more men. If we are not going to provide more money we are going to have more Americans killed. Isn't there another consideration here? Isn't there the consideration there are other Asian countries, Japan, Indonesia, and the possibility of involving some of these countries in a regional pact in which they could provide an effective resistance in the event of external attack? In addition, isn't it likely that in terms of the more serious threat of internal subversion that the country might be better able to resist subversion if they did, in fact, have a less formidable military force, that is less people in the armed forces, fewer tanks and planes and other hardware that they had to maintain and replenish, so that they could be conceivably stronger, more stable in the relevant sense with a lesser military force than if they had a greater military force?

Mr. HOOPES. Well, it seems to me in those——

Chairman PROXMIRE. This would include Korea, it would include South Vietnam after we withdraw, it would include Thailand and Cambodia and so forth.

Mr. HOOPES. I don't think the alternatives are quite so stark as a choice between maintaining a hard posture of containment right up to the borders of China and letting everything go. I believe it is possible to conduct a policy of what might be called strategic balance in Asia which aims at restraining China, yet still permits the small Asian states on the fringes of that continent to develop positive, nonhostile, more or less normal relations with China over a period of time. We are doing this in a curious way in Europe. The maintenance of NATO is very important, yet we are now encouraging—indeed the Europeans are taking the initiative to develop—more normal relations across what used to be called the Iron Curtain. I see this as a progressive, gradual approach to accommodation.

Chairman PROXMIRE. Let me ask you this: You make a very important distinction in, two completely different purposes in, military assistance. In some countries we are reinforcing a deterrent power

against armed aggression, the NATO commitment, the former, assistance to Western Europe is a good example but in other countries you mention Spain, Ethiopia, Thailand, and the Philippines, military assistance is being used to pay for base rights or political allegiance and perhaps to buy U.N. votes. Doesn't this latter purpose suggest that American tax dollars are being used not to enhance their international security but as poker chips for military experts and diplomats to play with, and how can we justify that kind of use?

Mr. HOOPES. I think that is somewhat unfair, Mr. Chairman.

Chairman PROXMIRE. What is unfair? Is the question unfair, do you think, to you or unfair to the people who have been—I don't challenge their motives, I say this is the consequence.

Mr. HOOPES. Well, I think it is not quite fair to say that tax dollars are being played with as poker chips by presumably responsible diplomats. The need for base rights is a function——

Chairman PROXMIRE. It may be conceivably justifiable if it works to secure vital U.N. votes, on occasions. It may be that people want to justify winning support of governments by any means, and they have certainly used baser means than I have suggested here, but I just wonder if, in your judgment, this is justified in terms of our national interest.

Mr. HOOPES. I think the use of military assistance to acquire base rights has been justified in particular instances. Let me just review the history; and here we must remember that, in terms of our perception of the threat and indeed in terms of our perception of the world, we are on a moving staircase. In 1952 we perceived, and I think rationally, a need for forward bases in Spain. We were in a global confrontation with the Soviet Union, we perceived that our security was dependent on our ability to deliver a counter strategic strike, and we possessed short-legged bombers, not intercontinental bombers. We therefore needed forward bases. Spain seemed a logical, protected place.

Having made that decision we had to negotiate with the Spanish. They required some kind of quid pro quo, and we ended up giving them a relatively modest amount of military equipment. That original agreement has been renewed at 5-year intervals since that time. I think it is fair to say that the American Government's perception of our need for those bases has changed, and that our willingness to pay for their use has declined. Since the advent of intercontinental missiles and intercontinental bombers, the Spanish bases have been militarily useful but not necessary.

The Philippines is a case where military assistance grows out of a combination of our need to use that base complex and our traditional friendship with the Philippines.

Chairman PROXMIRE. Mr. Hoopes, before I yield to Mr. Brown I want to say you have been an excellent witness, most responsive and frank and helpful as well as knowledgeable.

Mr. Katzenbach, frankly, I won't call this a filibuster, but I have been asking a series of questions in part because Mr. Katzenbach's plane was delayed and he has just arrived, and we hope to have him before us very shortly, but Mr. Brown, if you have a question or two, we would like to wind up.

Representative BROWN. Just one or two.

Mr. Hoopes, you, in fact, were prominent in the negotiations of those bases in Spain, were you not?

Mr. HOOPES. Not really. I can tell you exactly my part. It was in 1968. I led a small American delegation into three sessions with a counterpart, who was a Spanish general officer; the effort resulted in total impasse. We made military aid offers that seemed inadequate from the Spanish point of view. The negotiations then lapsed, and were not resumed until the Nixon administration had taken office.

Representative BROWN. The Chairman has sort of sidled up to the suggestion of a rearmed Japan. At least a Japan more prominent in the perimeter defense of Asia might be one option that would be open to us in the international field, and a Japan perhaps operating in an independent way developing its own foreign policy in this area.

What do you think Red China's reaction might be to that possibility?

Mr. HOOPES. I can't say what the reaction of Red China would be. I assume that both Red China and the Soviet Union anticipate some growth in Japanese military strength.

Representative BROWN. With pleasure.

Mr. HOOPES. Not with pleasure, but perhaps as an inevitable reality.

Representative BROWN. What about the small countries of Asia?

Mr. HOOPES. Well, there is still a lot of residual antipathy to the Japanese enterprises of 1940 and 1941.

Representative BROWN. This is my final question. You also suggested in your testimony that we might develop a little bit more interest in bringing Red China to the outside world. In point of fact hasn't this been done to an extent by the Nixon administration in the last 2 years, specifically by the reduction of trade controls with Red China? We have indicated that Chinese goods brought back by tourists will now be somewhat more acceptable than they were before. And subsidiaries of U.S. companies abroad can now trade with China to some extent, as I understand. We have removed controls on shipping trade with Red China, and in the Presidential message last February the President stated that the Chinese are a great and vital people who should not remain isolated from the international community. As I understand it, there was some effort to approach the idea of press and public officials touring Red China if the Red Chinese would accept that kind of inter-relationship.

Haven't those steps been taken in the last couple of years to move toward what you have suggested in your testimony?

Mr. HOOPES. I am aware of some of them, Mr. Brown, and if they add up to a trend I would certainly applaud and encourage it.

Representative BROWN. Thank you.

Chairman PROXMIRE. Thank you again, Mr. Hoopes, for an excellent job.

Mr. HOOPES. Thank you, Mr. Chairman.

(The following information was subsequently supplied for the record:)

RESPONSE OF TOWNSEND HOOPES TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN PROXMIRE

Question 1. You state "the considerable turbulence and fluctuation in the U.S. military procurement programs . . . create major problems of management, coordination, and adjustment for the military assistance programs." I wonder if you would elaborate on these problems, and cite some examples to illustrate your point.

Answer. U.S. military procurement programs, taken as a whole, are very large, complicated and often interdependent. Orders to move from pilot operations to full production usually depend on evaluations of prototypes or early models. Such evaluations, even when affirmative, are subject to change, and these changes affect ongoing production rates and schedules. Budget availabilities fluctuate from year to year, as do perceptions of the civilian and military leadership with respect to equipment priorities. These factors lead to further changes in production rates and schedules on particular items. These changes are more or less continuous.

Changes affecting procurement for U.S. military services impact on planning for military assistance programs. For example, a squadron of aircraft sold to country X (with a future delivery date) may be affected as to price, specifications, and delivery date by model changes that are subsequently ordered for purely American purposes. Similarly, a decision to give second-hand equipment to country Y may depend upon assurances that the appropriate U.S. military service can provide maintenance, spare parts, and replacement units for a number of years ahead. Even with the best of intentions, however, such assurances are subject to future changes in policy, procedures, and budget availabilities.

Question 2. You indicate that there were similar problems, if not more serious ones, in connection with military sales and you suggest that in effect the U.S. Government was pushing expensive military hardware on underdeveloped countries which did not need it. Would you please elaborate on this point also.

Answer. Foreign military sales, like other exports contribute to the U.S. balance of payments position. Some elements of the Government have accordingly considered it good policy to facilitate such sales. In addition, there has been a tendency on the part of the administrative technicians in charge of the military sales program to promote sales without a full consideration of the economic impact on the recipient or a full appreciation of the foreign policy implications. There is, however, sufficient knowledge and authority at the higher levels of U.S. Government to prohibit or restrain military sales where the net impact is judged to be adverse. In my experience, such authority has been responsibly exercised in the great majority of cases. Congress has also added legislative restraints.

Question 3. The Committee has been led to believe that some of the most serious pressures to enlarge military assistance come from within the State Department, that some of our diplomatic missions consider it their duty to obtain the maximum military assistance for their client countries, and that contrary to popular belief, it is the Pentagon which often resists the efforts to increase spending in this area. Would you comment on this?

Answer. I believe the record makes clear that the Secretary of Defense and his civilian staff consistently pressed for orderly, selective reductions in MAP during the past ten years. It is difficult for an ambassador (or a military advisory group leader) to avoid becoming an advocate for the country to which he is accredited. Almost by definition, his task is to maintain cordial and effective relations with the host government. If the host government places great importance on obtaining U.S. military assistance, the ambassador will be under certain pressure to advocate it, whether or not there is a genuine military need. This kind of pressure applies of course to other forms of American largesse as well—like economic aid, bank loans, technical assistance, etc. This situation points up the need for strong-minded, independent U.S. ambassadors, who can maintain a broad view of the U.S. interest and can avoid the temptations and hazards of "localities."

Chairman PROXMIRE. Our next witness is Mr. Nicholas Katzenbach, vice president, general counsel, and a director of International

Business Machines Corporation. Most of us know him better as the former Under Secretary of State and the former Attorney General. He also served in World War II with the Army Air Force, a graduate of Princeton and a Rhodes scholar.

Mr. Katzenbach, you did not provide us with a prepared statement until just this minute, but it came, as you might say, in the nick of time.

We are very grateful to you for it. It is a concise prepared statement, the hour is late, and you proceed, and if you don't cover your full prepared statement, it will be printed in the record.

STATEMENT OF NICHOLAS deB. KATZENBACH, VICE PRESIDENT AND GENERAL COUNSEL, INTERNATIONAL BUSINESS MACHINE CORP.

Mr. KATZENBACH. I would be happy if you wish just to proceed to questions.

Chairman PROXMIRE. Why don't you summarize your prepared statement?

Mr. KATZENBACH. Basically, the prepared statement says that I have no particular wisdom but a lot of very difficult problems.

I think that there has been an effort to cut down on military assistance, particularly grant assistance, in order that it not impose too great an economic burden on other countries, and I think this trend has been continuing for some time.

I think the difficulty with that is that other policies get in the way, when we get into our security interests and what we regard as our security interests.

I express in the prepared statement some questioning of the Nixon doctrine which I really do not understand, and it has not yet been clarified, and it would be unfair for me to attack it unless I knew exactly what it was and what it involved.

To the extent that it appears to involve or may involve large-scale military assistance in Southeast Asia, an increase in this for the purpose of getting Americans out, it seems to me that it is somewhat faulty in that respect.

I don't really think it would be a stabilizing force, I don't think it can really play the role of containment of China successfully, and I would feel the more we invested there the greater would appear to be our security stake and then the greater the danger of further involvement in Southeast Asia might be.

I think that generally summarizes my prepared statement, Mr. Chairman.

I think that as far as coordination is concerned that the military aid programs are pretty well coordinated in the executive branch. I think there is a tendency in the field, both by the ambassadors as well as by military assistance groups, to rather always urge more than really ought properly to be given. I think we could probably cut down further if we cut down our military presence, just the MAAG groups, and use Salami tactics there to simply squeeze them down, I think that would be helpful.

I think there is a certain lack of order in it which is due to matters

of various forms of aid. is under various different committees of the Congress, and I think it makes it a little more difficult to get a consistent coordinated policy.

(The prepared statement of Mr. Katzenbach follows:)

PREPARED STATEMENT OF NICHOLAS DEB. KATZENBACH

Mr. Chairman: I appreciate your invitation to testify before this subcommittee on the Economic impact of foreign military assistance. It is an extraordinarily difficult subject. I do not come before this subcommittee with any very satisfactory answers to the problems which are posed.

I do not think that there is any question that there is within the Administration a general recognition that foreign military assistance, whether it takes the form of grant aid, sale of excess U.S. equipment, or new commercial production, has to be looked at from the point of view of its impact on the economic development of the recipient country. Thus there has been a general effort to discourage arms transfers from the United States where there would put an unwarranted burden on a country's foreign exchange resources, or create excessive claims on future budgets.

I wish to emphasize this point because I think the record over the past several years does show that genuine efforts to cut down and phase out military assistance programs have taken place. And I think it would only be fair to add that, in addition, there have been genuine efforts to keep the recipient country's military budget as low as possible, and to refuse to sell more sophisticated weapons, partly as a result of Congressional action, but also partly as a result of trying realistically to assess a country's needs. As a part of this program there has also been the effort to shift from grant aid to credit sales. This has the advantage of forcing a more rigid budgetary discipline on the recipient country and making more clear the sacrifices which have to be undertaken to support a military establishment.

I think that in general terms this has been the right policy and that we should continue to follow it. But it has serious difficulties of execution, not the least of which is that other policies of the U.S. Government can get in its way. In addition, we have to recognize that this policy necessarily involves a whole series of political judgments which are by no means easy to make and on which there is almost inevitably differences of opinion.

Let me briefly examine some of these difficulties. But before I do so it is probably important to note that our military assistance, whatever form it takes, has different motivations in different parts of the world. The great bulk of our grant assistance goes to the so-called forward defense countries. Some of these—Vietnam, Laos, Thailand, and today Cambodia—are funded and administered by the Department of Defense and are closely related to support of the Vietnam war effort. The remainder goes to the Republics of Korea and China, and to Turkey and Greece as part of the NATO forces arrangements. All of these have, in the past, been related to the concept of containing Russian or Chinese aggression, and been related to United States treaty obligations and commitments. Today this basis has been supplemented by the Nixon Doctrine, which I confess that as yet I do not wholly understand.

I make this point for the obvious reason that our military assistance programs in Southeast Asia are closely related to what we conceive to be our security interest in that part of the world, to the intent of Red China, and to our own force posture. There can be no question about the fact that the rather large military forces presumably required and supported in these countries require in addition a good deal of U.S. economic support and assistance in one form or another and that large investments in military forces are bound to slow down important economic development. A good deal of economic progress has in fact been made in Korea and in China, but this has required very substantial U.S. assistance over the years.

I can understand and sympathize with the Administration's present dilemma. We have a clear interest in disengagement in that part of the world as far as U.S. forces are concerned, and it seems to me that Mr. Nixon is following that policy. Certainly the policy of Vietnamization is designed to relieve U.S. forces of the need for major combat activities, although it does not seem possible in the near future to avoid the need for logistical and air support. And if I understand the Nixon Doctrine, it is in essence a process of Viet-

namization in other countries. Frankly, I have serious problems with this as a viable policy over the long haul. Admittedly there is appeal—for Americans, at least—in having other countries protect their own security with their own manpower. But there are at least three problems with this: First, I agree with the comments in the Peterson Report which expressed doubts as to the possibility that the recipient nation could become both economically self-reliant and modernize its forces. Certainly one cannot be encouraged by the examples of either the Republic of Korea or the Republic of China in this respect. I am not critical of the efforts made on their own behalf by those two countries, but I do point out that it has involved large expenditures to the United States and that total disengagement has been impossible in both situations.

Second, it seems to me that the logic of large scale military assistance in these countries assumes that the United States has an important security interest. The more we invest, the more important that interest appears to be. If that is true, then I suppose the policy assumes that the United States would itself intervene militarily if the military assistance to the country involved was not adequate in the circumstances. Third, the more we modernize military forces the more we inevitably encourage military solutions to political problems. This is true in Southeast Asia, and I think it is true in other countries as well. It appears to put the United States in the uncomfortable position of supporting military governments and opposed to often needed political change. I think we pay a tremendous price in terms of international politics when we create this image, difficult as it is to avoid in all circumstances.

The problem that I have with large-scale military assistance to Southeast Asia is simply that we cannot, on the one hand, really expect any of these nations to be a substitute for the United States if the purpose is to contain Communist China. On the other hand, both China and Vietnam are likely to continue to aid and assist insurgent movements for a long time to come. If this is true then I have serious doubts that large-scale military assistance is in fact going to result in either U.S. disengagement or in political stability in that part of the world. The more insurgency the more counterinsurgency and repression is almost inevitable.

Let me turn briefly to other parts of the world. There are similar problems, although these exist on a far less dangerous scale. We have phased down considerably our military assistance throughout Latin America, but we are, unfortunately, left with a number of military governments. Here there are two areas of problems: first, there are the efforts of Castro and his colleagues to subvert various governments in Latin America. This has led the United States to involve itself in counterinsurgency programs, again carrying the political penalty which goes with supporting political repression. Again, I have serious doubts that real economic progress can be made in some countries until there is a change in outlook on the part of politically conservative leadership.

Secondly, because the military forces are often important to the very existence of a government, there is strong pressure on the local governments to provide military forces with at least a modicum of modern armament, irrespective of need. The United States can refuse to supply such armaments; it can threaten to cut out economic aid if such armaments are purchased. But if the pressure from the military forces is really great, those arms will be purchased in any event. There are others who are willing to supply them, and we have faced this problem in a number of countries in Latin America. To sum up. Over the past few years, which have aimed at severely limited arms assistance to most of the least developed countries is the right policy. By moving from grant assistance to sales unreasonable armaments expenditures can be discouraged, but they will not, as a political fact, disappear. I think we could further improve this situation by reducing the number of military advisory missions which we have abroad quite sharply, and I think that the Department of State should be given an even clearer mandate to control arms shipments. I do not think that the practices have been badly coordinated, but I do believe that there are a number of instances where the military missions have something of a vested interest in the continuation of the program, and are not as vigorous in recommending cuts as they might be. And the same is often true of Embassies. The closer to the field one gets, the more likely this is to be the case. It is for that reason

that I would recommend reducing the personnel abroad with respect to military assistance.

As I have indicated, I have serious reservations with respect to the Nixon Doctrine. Perhaps my reservations will be allayed when that is spelled out in somewhat greater detail. But as I read Defense Department proposals, I notice that a good deal of emphasis is given to the Nixon Doctrine in justification of increased arms shipments. At base my reservations with respect to this, at least as it applies in Southeast Asia, stem from the fact that I do not believe the United States has the vital security interest that we have postulated in the past or that we can protect it in this way.

In conclusion, I have the impression that we have depended too much on military self-sufficiency through arms assistance, and too little upon our political skills and upon economic development. I think this process, with the exception of Southeast Asia, is under a process of reversal and disengagement. I think that is healthy.

Chairman PROXMIRE. Now, may I ask, Mr. Katzenbach, when you came to the State Department you came in as Under Secretary of State; is that correct?

Mr. KATZENBACH. Yes.

Chairman PROXMIRE. From Attorney General.

Mr. KATZENBACH. Yes; that is true.

Chairman PROXMIRE. What was your relationship to this program, what knowledge did you have of this program, or what responsibility did you have, I should ask first?

Mr. KATZENBACH. Well, the program was run in the political-military group there and they reported to me and to the Secretary so that I had contact with major questions in this respect. In addition to that——

Chairman PROXMIRE. Over what period was this?

Mr. KATZENBACH. From late in 1966 until the 20th of January 1969.

Chairman PROXMIRE. So you had an understanding during this period when the MAP, military assistance program, was being diminished and the service program conducted by the Army, Navy, and Air Force being sharply increased?

Mr. KATZENBACH. Being generally diminished except for the Vietnam-related aspects of it.

Chairman PROXMIRE. Did you feel you had full knowledge and control of the military assistance, I should say full knowledge of the military assistance program during this period?

Mr. KATZENBACH. Not perhaps as much as one would have liked. It is a very complicated program. I think the people in the State Department working daily with it did have knowledge of this but I would find every now and then that I would ask the wrong questions and that there were excess arms, for example, going in rather large numbers than I had thought the military assistance contemplated.

Chairman PROXMIRE. In view of the assertions by every witness we have had and by almost every authority in this area this is a view of our foreign policy and the State Department ought to have direction of it and control of it, did you feel that you, in the State Department, in your position, were able to exercise that control and direction?

Mr. KATZENBACH. Yes; I think that control and direction could

have been exercised with the exception of the arms financed, funded directly as part of the defense budget.

Chairman PROXMIRE. That was the biggest part of it by far?

Mr. KATZENBACH. Which was Vietnam.

Chairman PROXMIRE. It was not Vietnam entirely, it was Vietnam, Thailand, Philippines, Korea and you didn't have——

Mr. KATZENBACH. No; we had control over it so far as Korea was concerned. Thailand we had, I think, control over it. It really was only in Vietnam that we didn't really have control of it.

Chairman PROXMIRE. Were you going to add something with respect to your responsibilities with regard to the foreign military assistance program? Did you want to add anything?

Mr. KATZENBACH. I don't think so, Mr. Chairman.

Let me give you an example of the sorts of difficulties and situations you can get into. One was with respect to Greece when the coup in Greece occurred. We wanted to express severe political disapproval of that. The military at the same time had the problems of the NATO plan and the NATO program so they were constantly pushing to renew military supplies and they were constantly providing military supplies on a fairly low scale even during the period when we presumably cut off military assistance.

Chairman PROXMIRE. Now, you were supposed to coordinate the total program or at least have knowledge of all of the funds going to military assistance from all of the various agencies of the Government, Defense Department, State Department, and Department of Agriculture. Were you familiar with the food for peace earmarking funds for military assistance?

Mr. KATZENBACH. Yes, sir; I was.

Chairman PROXMIRE. Do you feel you were in position to exercise control and direction over that?

Mr. KATZENBACH. I think so. I am not sure that I always did, but I think I was in position to.

Chairman PROXMIRE. Yes, sir; there was some discussion of the separation of policy responsibility from program responsibility between the Defense Department and the State Department. It was pointed out how difficult it is for an agency to fulfill its policy-making responsibilities when almost all of the program funds are handled by another agency. Do you believe that is a serious problem?

Mr. KATZENBACH. Yes; I do believe that is a serious problem. I think it affects the military assistance programs and I think it affects many other programs.

Chairman PROXMIRE. Well, this is unique, though, the fact that a very large proportion, by 1969 it must have been 80 percent of the funds, were under the direction at least in the budget of the Defense Department and directly handled by the Army, Navy, and Air Force.

Mr. KATZENBACH. Yes; it is true also the Treasury, for example, sits on the World Bank and on the various other banks which were providing loans to Latin America and elsewhere and it is their representative there. So here is another problem of somebody else being involved.

It is a mistake to think that the State Department is running all of our foreign policy because it is not.

Chairman PROXMIRE. It is not a matter of running all our foreign policy but it is just something in which the amounts are very great and the impact on our foreign policy is enormous and in which the control does seem to be with the military.

Were you aware of the fact that the military didn't know, didn't have records and still don't have records of the amount that was provided to the Government in Vietnam and in Thailand? They couldn't tell us. Yesterday, the Comptroller General testified that they had no records on hundreds of millions of dollars of American property that was transferred to foreign governments.

Mr. KATZENBACH. No; I was not aware of that, and I am surprised certainly in the case of Thailand. I would have thought in Vietnam, in a wartime situation, accountability becomes more difficult.

Chairman PROXMIRE. More difficult, yes; but this was over a period of years, this was not something that happened in a few months, this was something that happened in 1965, 1966, 1967, 1968, 1969, 1970, and 1971, and they still don't know who is getting the property, how much it is worth; it seems shocking to me.

Mr. KATZENBACH. I was not aware of that.

Chairman PROXMIRE. Don't you think you should have been aware of that in view of your responsibilities as Under Secretary of State? I am not saying you were personally responsible, but something is very grievously wrong if the Under Secretary of State, with responsibilities in this area, was unaware that no records were being kept.

Mr. KATZENBACH. Yes; I suppose that is true. I don't believe—they would not have volunteered the information if no records were being kept.

Chairman PROXMIRE. Why would you? You should be in a position of wondering where all this money was going, how it could be justified. How could you achieve any kind of effective control if you didn't get the basic rudimentary information?

Mr. KATZENBACH. I believe we knew sums of money were going and the nature of the program.

Chairman PROXMIRE. But you didn't know to whom, you didn't know whether it was to Thailand, Vietnam, whether it was for tanks, planes or real property. Enormous amounts of American taxpayers' funds were given away without keeping records on it.

As I say, it continued for a long time and not in the kind of an all-out war we had in World War II, and it seems to me we should have had far better opportunity to keep some kind of overall records.

Mr. KATZENBACH. I agree with you.

Chairman PROXMIRE. In the discussion of the use of excess and surplus property for military assistance, it was pointed out how relatively easy it is for the services to transfer large amounts of equipment or weapons to foreign governments without the control of the congressional authorization and appropriation procedures. It was also suggested that these transfers may not be well coordinated between the State and Defense Departments. For example, I have been informed when the military aid to Greece was cut off following the military takeover in that country, assistance was continued through the transfer of excess and surplus property; so the State Department cuts it off as a matter of morality and conviction and because they

think it is wrong to provide a dictatorial military government with assistance, and yet our own military seems to go ahead without effective control by the State Department and provide substantial amounts. Can you comment on that?

Were you aware that military assistance to Greece was continued in that manner?

Mr. KATZENBACH. I was not aware of it initially but became aware of it and then was able to cut virtually all of it off except stuff——

Chairman PROXMIRE. How long were you unaware of it?

Mr. KATZENBACH. My recollection would be for a month or more, 2 months. Equipment continued to come.

Chairman PROXMIRE. Why weren't there procedures that would continually make you aware of decisions like this? I imagine this was one of the most important decisions to be made in this area of military assistance over the years.

Mr. KATZENBACH. I think it should have been. Probably my own fault for not insuring that it did not occur.

Chairman PROXMIRE. Are there, to the best of your knowledge, means established now so that the responsible officials would be made aware immediately?

Mr. KATZENBACH. I would think so. I don't know. I would have thought so then, and I think probably I should have been aware of it and I really would take, in some respect, the fault myself. I don't think it also should have been done without my being aware of it.

Chairman PROXMIRE. Can you speak of certain knowledge that you were made aware 2 months after the cutoff that the military had been continuing it and within a matter of days you were able to stop it, is that a correct——

Mr. KATZENBACH. Yes; and then we reviewed it in what was then called the Senior Interdepartmental Group and went over exactly what we would continue to supply and what we would not continue to supply.

Chairman PROXMIRE. So even though there was a cutoff announced you did not continue to supply some military equipment of some kind to Greece; is that correct?

Mr. KATZENBACH. Yes; that is correct.

Chairman PROXMIRE. So it was not a cutoff?

Mr. KATZENBACH. There was not.

Chairman PROXMIRE. So you had knowledge of it and it was continued at a lower level.

Mr. KATZENBACH. There was not a complete cutoff because there were things already in place and, actually, I believe, there was one vessel that was in the harbor with some equipment.

Chairman PROXMIRE. I wonder if you would expand on your reservations on the Nixon doctrine. It is such an important doctrine and, as you properly said, it's not been enunciated in great detail, but I think it represents the sentiment of a lot of people. We certainly would like to stop sending our troops into areas where American boys get killed. We would greatly prefer to invest money if that is the alternative. You say that you are not familiar with the details of it and hesitate to criticize it for that reason, but let me ask you this: Even if the short-term costs of implementing it increase couldn't it save money in the long run.

Mr. KATZENBACH. My problem with it is if this means the support of large-scale military forces in a number of rather small countries, then I think that will greatly inhibit their economic development as well as cost us a great deal of additional aid on the economic side.

They are not going to be a substitute for us as far as Red China itself is concerned and I suspect that Red China, North Vietnam, will continue to help insurgent movements in those countries for sometime to come.

I think a level of aid to those countries that did not really involve very large-scale military aid, let's say, of the Korean type, would probably not have the same economic impact and, I think, would induce them to make a political settlement, and I think that would be helpful.

Chairman PROXMIRE. Make a political settlement with whom?

Mr. KATZENBACH. With their own insurgent forces.

I am afraid that large amounts of aid will discourage political settlements, will lead to more repression, which will increase the amount of insurgency, which will lead to more U.S. aid, and the more that we put in there the greater stake we presume to have. We always do this in terms of our national security.

Chairman PROXMIRE. This sounds logical but can you give us any examples of where we have not given assistance, and where subversive forces have developed in any part of the world and where timely military foreign aid might have prevented it? It may be unfair to ask you this just off the top of your head.

Mr. KATZENBACH. I can't think of one because I think we provided fairly large amounts of aid for that very purpose.

Chairman PROXMIRE. Almost everywhere?

Mr. KATZENBACH. Almost everywhere and that makes for some difficulties. I think there is a danger of repeating the Vietnam pattern, and I think the more we put in, the more important it appears to be to our national security, the more U.S. prestige is at stake, the more we continue to get involved and presumably if our national security really is involved——

Chairman PROXMIRE. Let me ask it another way then.

Mr. KATZENBACH (continuing). We will, if necessary, send our own forces.

Chairman PROXMIRE. Take the most crucial and dramatic situation, which is Vietnam. Supposing in Vietnam in 1964 or 1965 instead of stepping up our involvement not only of aid but troops and enormously increasing the buildup in the Vietnam forces, we had withdrawn what we had and forced an accommodation, under those circumstances do you feel that you might have had a more stable and all-over a better situation from the standpoint of American national interests?

Mr. KATZENBACH. I would think in retrospect, yes.

Chairman PROXMIRE. I have some more questions.

Mr. Brown.

Representative BROWN. What kind of a Vietnam would you have had under the circumstances?

Mr. KATZENBACH. I think you probably would have continued to have had two Vietnams for awhile, you might eventually have gotten

a consolidated Vietnam. I think it would have been probably a coalition government initially, it would have been very leftwing. It would more resemble the government in North Vietnam.

Representative BROWN. A Communist government. Is that what you are saying?

Mr. KATZENBACH. It might have resembled Sihanouk's government.

Representative BROWN. What would have happened to Sukarno's government in Indonesia in that event?

Mr. KATZENBACH. Well, I thought Senator Proxmire asked for an example, and we did cut everything to Indonesia and Indonesia did come back.

Chairman PROXMIRE. That is a good example.

Representative BROWN. I am asking what you think would have happened to Indonesia if we had totally withdrawn from Vietnam?

Mr. KATZENBACH. Nothing differently.

Representative BROWN. In other words, you think it would have been a more western-oriented government. Is that what you were saying? You lost me a little on this.

Mr. KATZENBACH. Well, you asked me what would happen to Indonesia if we had pulled out of South Vietnam some years ago, and I am suggesting that I think Indonesia would be just about where it is today. In other words, I don't think it would have had any impact on Indonesia.

Representative BROWN. Well, Indonesia has undergone some reversal in its orientation, hasn't it?

Mr. KATZENBACH. Twice, yes.

Representative BROWN. Maybe we ought to take the example of China. In 1964, if we had applied the Truman doctrine to China, and tried to determine what would have happened to China, too.

Mr. Secretary, or former Attorney General, let me ask this. You were Assistant Attorney General, I think I am correct, during the time the foreign assistance act was originally passed in Congress, 1961. Did you play any part in that legislative effort?

Mr. KATZENBACH. If I did it would have been very minor.

Representative BROWN. Well, this is the basic legislation which authorizes the administration to do what it has been doing in these areas and I just wondered if you had taken any active part in its consideration.

Mr. KATZENBACH. There was one incident towards the end of it, but I don't really recall the facts of it at the moment, where I thought that the President had been mislead by statements that had been made by——

Representative BROWN. Could you elaborate on that at all?

Mr. KATZENBACH. I just don't remember what it was. I think he changed the position right at the end in order to get it through. It had to do with what the act said about longer term funding but I don't remember the details. I am sorry.

Representative BROWN. Then later, I think, in 1967 or 1968 when you were Under Secretary of State, the congressional reaction to military assistance programs caused the separation of the bill for credit military sales. Did you play any part in that consideration at the time?

Mr. KATZENBACH. In the separation?

Representative BROWN. Yes; in the passage of the credit military sales legislation?

Mr. KATZENBACH. There were various congressional prohibitions which were put in there in which I was involved with at the time. It was very difficult, I was sympathetic with the purpose of those. In fact, I think they have not worked badly. It is very hard to run your diplomacy with rigidity. I had a good many discussions at that time about the particular problems with respect to the sale of aircraft to Peru and Brazil which I think the Congress was fairly divided on in terms of how to deal with it.

Representative BROWN. Your role was encouraging the passage of the credit military sales act?

Mr. KATZENBACH. Yes.

Representative BROWN. What was the purpose? What was your rationale?

Mr. KATZENBACH. There were arms that should be purchased rather than given, and where the countries involved were going to need credit in order to do so, and these were legitimate needs. I felt the advantage of going to credit sales is that you at least get more fiscal responsibility in the recipient country if they have something they have to pay for.

Representative BROWN. And you were anxious to see these sales made to Peru? Was that one of the countries?

Mr. KATZENBACH. No; I was not anxious to—let me describe what the situation was, if you will.

Representative BROWN. All right.

Mr. KATZENBACH. Because I think perhaps it illustrates a dilemma and a difficulty. Peru wanted to purchase some jet aircraft. I did not feel, and I don't think anybody else felt, that they had any great need for jet aircraft but they were very determined to purchase jet aircraft and they felt they had that need, and you often get into this kind of a political problem where a government felt that it was going to do this and it was essential to its internal politics that it do this.

The question then was if that judgment was correct what kind of jet aircraft. They would have been satisfied with F–5's. The alternative to F–5's were Mirages. The F–5, as I recollect, is about a 700-, 750-mile-an-hour plane. The Mirage is a 1,600-mile-an-hour plane, the F–5 cost less than what the Mirage cost. The dispute I had with a number of members of Congress, and I think many members were simply divided on this, there were some who said if they insist on buying them, sell them F–5's and at least they will invest less and have a less expensive plane and more useful for their purposes, although they didn't need it in any event, in our judgment. There were others who said we should not be responsible in a country where we are giving large amounts of economic loans and assistance, we shouldn't let them spend their money in this way.

The result of it was that Peru went and got Mirages.

Representative BROWN. What was your side of that argument?

Mr. KATZENBACH. I felt it was preferable to provide them the F–5's.

Representative BROWN. Yesterday, before this committee, Senator

Fulbright said that he didn't see any rationale for giving or selling arms to Latin America. Would you disagree with that viewpoint? I notice in your prepared statement you say——

Mr. KATZENBACH. They are going to buy them anyhow.

Representative BROWN (continuing). "There are the efforts of Castro and his colleagues to subvert various governments in Latin America."

Mr. KATZENBACH. Yes.

Representative BROWN. Do you think that this question of internal security in Latin America is a problem which should be responded to in some way with arms assistance?

Mr. KATZENBACH. We have cut down the arms assistance a great deal. As far as the problem of subversion is concerned, in Latin America, I don't think that that really requires any large amounts of arms.

Representative BROWN. Any arms?

Mr. KATZENBACH. Counter-insurgency, small arms, and it has mainly been communications and radio equipment.

Representative BROWN. If I understand your prepared statement, on the one hand, you feel a need exists to maintain internal security in some countries, which would justify our assistance through the availability of arms. And you have suggested that the Peruvian situation was sort of a unique situation in which you would rather sell them lower level arms than see them spend more money to get more sophisticated arms. Is that correct?

Mr. KATZENBACH. Yes. I think, let me say, it is a mistake to believe that the United States can tell every other government what it ought to do. We cannot, and this is true of Latin American governments, it is true of others.

One of the advantages of being an arms supplier is that it is very expensive to switch suppliers in the arms business, so that your capacity to control military expenditures at a lower level is probably greater if you are the military supplier than if you are not, and so there is some advantage to supplying some arms and trying to keep that depressed as far as possible, when you don't really believe that much is needed, or none is needed. It is perhaps better to keep it depressed by supplying some than it is simply to permit other people to do it, and in Latin America our great difficulty has been with our allies, with the British and the French who are quite prepared to supply whatever arms Latin American countries are willing to buy.

Representative BROWN. Does that give you a little leverage in saying what ought to be done in this or that area to develop what we think are worthwhile social reforms.

Mr. KATZENBACH. Yes; I think it does but it really hasn't worked out very much that way. We have tried in Latin America with some of the military forces that are there to encourage civic action work with the military roadbuilding and this sort of thing, with some success.

Representative BROWN. Some success.

In your prepared statement you state:

I agree with the comment of the Peterson Report which expressed doubts as to the possibility that the recipient nation would become self-reliant and modernize its forces.

This would depend, I suppose, on the economic strength of the nation, wouldn't it?

Mr. KATZENBACH. Yes; and I have no problems with our large arms sales to Europe, to our NATO allies.

I think that is fine.

Representative BROWN. In your prepared statement you state, and I am a little lost as to the alternative:

> The problem that I have with large-scale military assistance to Southeast Asia is simply we cannot, on the one hand, really expect any of these nations to be a substitute for the U.S. if the purpose is to contain Communist China.

Are the choices we face in the world between whether or not we are strong or a perimeter nation is strong? Is that what you are saying here?

Mr. KATZENBACH. Well, that was the theory that we certainly used as far as NATO was concerned.

Representative BROWN. Is it a valid theory?

Mr. KATZENBACH. And I thought it was valid so far as NATO is concerned. I have serious doubts as to whether it is valid where Southeast Asia is concerned because we are dealing with different kinds of countries of much lower economic development and I have serious doubts that it can work there.

Representative BROWN. Do you feel the choice is maintenance of American strength as opposed to maintenance of strength in the foreign countries? Or are you placing the choice between involvement or noninvolvement? That is what I want to know.

Mr. KATZENBACH. As far as——

Representative BROWN. Southeast Asia is an example.

Mr. KATZENBACH (continuing). Southeast Asia is concerned, I do not think there is anything that is likely to happen there which would be a serious blow to the United States and to our national security. I can think of things I would much prefer to happen there than alternatives. So that I would feel that a level of economic assistance and a very low level of military assistance would be a viable policy in that part of the world, and I would concentrate more on the use of economic development in our abilities there, and our ability for national institutions there to attract it.

Representative BROWN. Thank you.

Chairman PROXMIRE. One of the most astonishing statements I have heard in these hearings has been your assertion that 1 month or 2 months after the President of the United States announced that we were cutting off aid to Greece it was still continuing on a substantial scale from the military, and the State Department didn't even know about it and presumably the President of the United States didn't even know about it, is that correct or not?

Mr. KATZENBACH. I said I did not know about it and I had some responsibility in it. I do not know that the State Department did not know it or was not aware of it. I cannot state that.

Chairman PROXMIRE. Well, after all, if you didn't know about it——

Mr. KATZENBACH. I was unaware of it.

Chairman PROXMIRE. And you were, as I understand, one of those principally responsible for this program, how would your superior,

the Secretary of State or your superior, the President of the United States, be likely to know about it? Wouldn't this be your responsibility to keep them informed in this area?

Mr. KATZENBACH. Yes; it would. My point was only, Mr. Chairman, that I was perhaps not kept informed by somebody below me.

Chairman PROXMIRE. You were the head of the coordinating international agency group, is that correct?

Mr. KATZENBACH. Yes.

Chairman PROXMIRE. And you weren't informed about it for 2 months, and then when you tried to cut it off it continued, although the policy of the United States was to cut off aid to this country, it continued?

Mr. KATZENBACH. We had a meeting in which we really put everything out where the stuff was, what was in shipment, what was not to go, what we can hold back, what would be difficult to hold back, and the policy of the United States was to try to express great disapproval of what happened in Greece.

Chairman PROXMIRE. The policy announced was the cutting off of our military assistance to Greece.

Mr. KATZENBACH. Yes; it was.

Chairman PROXMIRE. But that was not what was done. It was continued privately and covertly by the military on a big scale.

Mr. KATZENBACH. I don't know what the scale was. It was continued.

Chairman PROXMIRE. It was so private and secret that even you who had a prime responsibility didn't know about it, let alone the public.

Mr. KATZENBACH. I was unaware of it until, as I say, sometime after I discovered there was still some assistance going to it.

Chairman PROXMIRE. On the basis of your experience why is it so difficult to phase out military assistance in some areas where it is clearly not required for national security reasons?

Mr. KATZENBACH. Basically because the governments there do not share our view of their lack of need for this.

Chairman PROXMIRE. I am talking about once the policy decision has been arrived at why is it so difficult to cut it off. You have the glaring example of Greece where the very top authority in our Government says we are going to cut it out, and it continues.

Mr. KATZENBACH. I think there are a number of reasons. One I have already mentioned is that they have alternative arms suppliers. We have phased out virtually all grant aid so far as Latin America is concerned. There is very, very little going there, so most of what was going was going by way of sale and credit sale.

The difficulty is that there are other arms suppliers who are willing to supply arms. These countries wish to buy arms, they feel they need arms, they do not share our view of it, and simply our refusing to sell or our refusing to extend credit or even in instances, even if we cut off all economic loans, it still is not sufficient pressure to persuade them not to do it.

Chairman PROXMIRE. How do you know, have you tried that?

Mr. KATZENBACH. Yes.

Chairman PROXMIRE. In what case?

Mr. KATZENBACH. We tried that in the case of Peru.

Chairman PROXMIRE. You cut off all economic assistance and they continued to buy?

Mr. KATZENBACH. Yes.

Chairman PROXMIRE. They bought the Mirage anyway?

Mr. KATZENBACH. Yes.

Chairman PROXMIRE. That may be true in the case of Peru but how about in other instances? Was this an isolated example?

Mr. KATZENBACH. It is the only one that I can recollect that got to that point because I think the policy was constantly to keep cutting it down.

Chairman PROXMIRE. I hope that one example will not be used as a standard by which to say, "Well, we might as well continue selling military equipment to these poor countries because if we don't, somebody else will," just because it has been done once.

It seems to me we do have a very heavy responsibility and I think you have indicated much deeper knowledge than I have of the impact this is going to have on the society, the economy, the political stability, of the country if we force unsupportable military aid.

Mr. KATZENBACH. The real difficulty——

Chairman PROXMIRE. Maybe we ought to just cut them off if they insist on impoverishing their economy by buying military equipment they don't need except to engage in aggression against their neighbor.

Mr. KATZENBACH. Well, then what we run into when we do that, and I think it is a dilemma, is the problem if we cut off economic loans and we cut off economic assistance apart from the fact those are always ongoing programs, they are always difficult to terminate, then the people we are really trying to help then don't get help. You increase the capacity for subversion from the Castro people, and so forth.

Now, maybe we ought to take more risks of that kind, I don't know, but it is the reason, I think, why administrations tend always to hedge their bets on this and always to, sincerely trying to, cut the arms down but giving some and working that route rather than taking a more drastic route.

Chairman PROXMIRE. That brings us to the other aspect of this. What is your response to the assertion we have heard from other witnesses that we have such pressure to increase the military assistance flow from the State Department and the diplomatic missions which see it as their duty to increase that and the Defense Department resists and argues in some cases that it doesn't make any military sense, let alone economic and social sense, and yet the diplomatic missions working their influence on the State Department, persuade the State Department to go ahead and provide military assistance.

Mr. KATZENBACH. That does happen. Certainly, I said at the outset I thought you always get more pressure from the people out in the field, whether they are military assistance group people or the ambassadors on this, and the reason is that the other government wants these pieces of equipment, whatever they may be, they desire to have them and so the ambassador uses them as political poker chips or is tempted to do so.

Chairman PROXMIRE. What can we do to counteract that?

Mr. KATZENBACH. I think just to be tougher than we have been. We have been fairly tough. I think one of the difficulties as to what always looks like goodies are your excess military supplies particularly in the smaller countries and this doesn't take a lot to shake some of these loose and the cost seems to be small. Very often you are dealing with programs which have been started in the past and continue to go on, and so you have got a question of our own credibility involved in it.

Chairman PROXMIRE. You were head of the coordinating agency that would oversee the entire military assistance program, is that correct?

Mr. KATZENBACH. Well, the reporting system in the Department of State was that group reported to a Deputy Under Secretary, and then to the Under Secretary.

Chairman PROXMIRE. So in that sense you were——

Mr. KATZENBACH. So I was not in the day-to-day business but the important problems should have come to me, yes.

Chairman PROXMIRE. Well, since the important problems should have come to you while you were in office, what efforts were made to systematically review all the assistance programs, analyze each part, and measure the effectiveness of the benefits of the program?

Mr. KATZENBACH. We did this both to the military and economic programs on a regional basis through a thing called Interregional Groups which reported to the Senior Interdepartmental Group of which I was the chairman.

Chairman PROXMIRE. This was done when?

Mr. KATZENBACH. This was done at the time of the program, before the time of your budget proposals.

Chairman PROXMIRE. What standards did you apply in measuring the benefits?

Mr. KATZENBACH. The most effective way I found of doing it was to give them three different levels, one that was very low, one that they were asking for, and one in the middle and ask them how they would spend it. It was very quick. You could in that way by looking at what they did with the money on the lowest level, you got an idea very quickly of what they thought the priorities were.

Chairman PROXMIRE. Did you pull in the Food for Peace money that was available?

Mr. KATZENBACH. What?

Chairman PROXMIRE. Was the food for peace money that was spent for military assistance, was this tied in with the whole operation?

Mr. KATZENBACH. That was reviewed; yes. It must have been. I was shocked at the figure but it simply must have been.

Chairman PROXMIRE. How about the excess and surplus property?

Mr. KATZENBACH. Only in monetary terms.

Chairman PROXMIRE. Well, then, you weren't in position to evaluate that very completely, were you?

Mr. KATZENBACH. No.

Chairman PROXMIRE. Or at all, and this is a very large part of the military assistance program. Shouldn't you have had that information available to you if you are going to have an effective evaluation of the program?

Mr. KATZENBACH. You had it in dollar terms.

Chairman PROXMIRE. What did it tell you? If you had it in dollar terms, you didn't know whether it was going in tanks, ammunition, guns, planes, what would it really mean?

Mr. KATZENBACH. Well, it wouldn't mean very much on that kind of a review. You got in addition, you got reviews of the particular programs when they came up in a more detailed way.

Chairman PROXMIRE. Did you say you were shocked by the amounts of the food for peace program?

Mr. KATZENBACH. The amounts that I read in the paper yesterday or this morning's paper——

Chairman PROXMIRE. You read it in the paper yesterday.

Mr. KATZENBACH. The testimony before your committee.

Chairman PROXMIRE. Yes; but you didn't know about this when you were in office what the amounts were?

Mr. KATZENBACH. I was surprised at the amount. I had no idea it was that high.

Chairman PROXMIRE. How could you coordinate the program when you didn't know a hundred million dollars was coming into it from the Department of Agriculture? Even if you knew something was coming in, how would the evaluation be worth much if you didn't know how much was coming in?

Mr. KATZENBACH. I don't know that I really can respond to that, Mr. Chairman. The figure that I saw was a cumulative figure that was much larger than I thought.

Chairman PROXMIRE. It was $700 million over 6 years, I say a hundred million dollars a year.

Mr. KATZENBACH. And I don't recollect what it was when I was there and I don't even recollect at this point of time which countries it went to.

Chairman PROXMIRE. This is a reflection on how, when we get into a military program, vast amounts don't seem to matter a great deal. After all this was $700 million over a period of 6 years, and I know no more able man in Government than you have been, Mr. Katzenbach, you are a brilliant man, you have done a fine job, but you didn't know what the amount was?

Mr. KATZENBACH. No; I didn't. I think it is also a commentary on management—the Secretary of State and the Under Secretary of State have tremendous amounts of responsibility and it is very, very difficult to expect either of those individually to dig into this kind of problem to the extent that they should. I know of no place that I have ever worked where my time was so eaten up on really less important matters, which is perhaps the way diplomacy runs to some extent, but the huge amount of time that you have to spend on particular crises, the huge amounts of time that you have to spend on noncrises, ambassadors who want to see you, and very difficult to refuse to see them.

Chairman PROXMIRE. Didn't you have the staff to keep track of this?

Mr. KATZENBACH. And a great deal of time when I was there a tremendous amount of time spent on various aspects of Vietnam, trying to get peace negotiations going.

Yes; you have staff to try to keep track of it.

Chairman PROXMIRE. Couldn't you assign a competent staff man to follow this through all the way?

Mr. KATZENBACH. Yes; but the great difficulty in the Department of State, in my judgment, is that because of the inaccessibility of the very top officials there is a great inclination to sign off, coordinate on a compromise basis at a lower level because of the difficulty of bringing all problems up, and it is one of the things that tends to give us a very gray kind of a hedge, all your better policy, and it is a matter of structural organization, and it is just very difficult to accomplish.

Chairman PROXMIRE. Certainly, at a minimum from now on, the total amount involved in military assistance from all sources, food-for-peace and all sources, it seems to me, should be pulled together and the person responsible for it should have full knowledge of the amount on a month-to-month basis, let alone a year-to-year basis, so that he at least knows how much is going into the program, in what areas and buying what kind of equipment, knowledge we apparently really haven't had over the past 6 years.

Mr. KATZENBACH. Well, I don't know that that knowledge was not available. It may have been available.

Chairman PROXMIRE. It was not available to you and if not available to you, you are the coordinator, I don't see how it is available to any person in our Government.

We have had Mr. Hoopes, who testified he was amazed that there was, or surprised, didn't know there was, food-for-peace money going into this, and Senator Fulbright, who is an extraordinarily well-informed man, as is Mr. Hoopes, and his excellent staff, didn't know food-for-peace money was going into military assistance.

Mr. Brown.

Representative BROWN. I have no further questions.

Chairman PROXMIRE. Thank you very, very much. I don't mean by the line of questioning to imply anything at all about your great capacity.

Let me ask just one last question.

Why not now, under present circumstances, Mr. Hoopes agrees, pull this whole thing back into the State Department, have review of this program by the Foreign Affairs and Foreign Relations Committees, insist on comprehensive records of the amount provided for each country and for what purpose, declassify the amounts of military assistance by country, and, as you have suggested, I take it, phase out grants to the extent that we can and move into credit sales.

Mr. KATZENBACH. That would make very good sense.

Chairman PROXMIRE. You would agree with that all along the line, including declassifying?

Mr. KATZENBACH. I would agree; there would be some areas where declassification would be very difficult.

Chairman PROXMIRE. As Mr. Hoopes pointed out, we have——

Mr. KATZENBACH. I think most of it could be. I don't think those would be large amounts.

Chairman PROXMIRE (continuing). Five hundred million dollars which the President declassifies; of course, it is a special program needed at the time.

Thank you very much.

Mr. KATZENBACH. I was thinking more probably of base rights. I think that would be probably the most difficult area of declassification.

Chairman PROXMIRE. Yes; we are talking about country by country amounts.

Mr. KATZENBACH. I would think that could be done.

Chairman PROXMIRE. Fine.

Thank you, sir.

The subcommittee will stand in recess until 2 o'clock this afternoon when we have three outstanding experts on this matter, Edward Fried, Morton Halperin, and William Whitson in this room.

(Whereupon, at 12:35 p.m., the subcommittee was recessed until 2 p.m. the same day.)

AFTERNOON SESSION

Chairman PROXMIRE. The subcommittee will come to order.

Having read your prepared statements, I think they are excellent and contribute a great deal to our understanding of what has been a badly handled program from any standpoint. It has been suggested that we might start off with Mr. Whitson of the Rand Corp., and then following Mr. Whitson, hear from Mr. Fried, and following Mr. Fried, Mr. Halperin, if that is satisfactory.

Mr. Whitson, we are delighted to have you. Go ahead. The prepared statement is substantial and if you would like to abbreviate it, the entire prepared statement will be printed in full in the record, and that will leave time for questioning.

STATEMENT OF WILLIAM W. WHITSON, THE RAND CORP.

Mr. WHITSON. Thank you, Mr. Chairman.

I would like to add the caveat, which I have found in other prepared statements and failed to put in mine, that these views are obviously my own and do not represent the views of The Rand Corp.

I thought that it might be useful in abbreviating the prepared statement to accent very briefly a little history under the title of proliferating premises and perspectives; that is, to discuss the evolution of about 11 purposes in the conception and administration of the military assistance program.

Since 1940 and our first arms agreement which was made early with England, I think a fundamental premise of all military assistance programs has been the belief that a timely provision of strategic weapons, strategic material—that is any weapons and supplies likely to improve the military capabilities of the recipients—might postpone the day when the United States would have to become itself involved in military action. This purpose had to do with defense against an external threat, and from 1940 until 1945 the threat was the Axis Powers. After 1945 it increasingly became Communist aggression.

Now, the first corollary purpose, I think, of that fundamental theme has been the desire to provide a symbolic if not a real U.S. presence as a deterrent, to stand beside each ally.

The second corollary purpose has been to provide a timely arrival

of such U.S. forces as might ultimately be necessary to reinforce those symbolic forces committed earlier.

A third purpose has been closely related to the second, and that is the need to provide for the security of any bases and infrastructure that were put together both to sustain symbolic forces and ultimately to sustain reinforcements.

All three of these corollary purposes have to do primarily with hardware, infrastructure, technology; but a fourth corollary premise of military assistance really began to inject fairly explicitly the political dimension. In order to optimize opportunities to devote both allied and U.S. resources to any external threat, that essentially political purpose was to consolidate regional and bilateral alliances in all ways necessary to insure that the alliance could respond in a timely manner. This purpose, I think, has been expressed in many ways. It relates directly to the idea and, I think, frequently the fact, that the presence of a military advisory team provides the United States with improved access to host governments.

On the one hand, the original thrust of the alliance premise might to be use nonmilitary means to optimize the response capabilities of the alliance to an external threat. But a less obvious development, particularly in a war-damaged or a less developed country, has been to inject American officials into host governments' internal political processes. Before the 1960's that opportunity and that responsibility were frequently ignored or misunderstood, misused or avoided by American officials both at home and abroad, especially members of MAAG's who could not or would not alter a fundamental professional ideal of political noninvolvement. This was often true despite radically differing circumstances between Europe and Asia.

That premise has remained one rationale for initiating the military assistance program.

Now, a final purpose for the military assistance program in Europe and Latin America first and, later between 1945 and 1950, in Asia, was essentially also nonmilitary and that was to clear out excess U.S. equipment and inventories.

None of these six purposes was really removed from the books or from the minds of military assistance planners in the 1950's or the 1960's. But during the post-Korean war creation of America's Pacific security system, five additional purposes were added. Immediately after the Korean war, and at a time when the focal problem really was improving NATO's capability for handling the external threat from the U.S.S.R., when there was a proliferation of nuclear weapons and an attendant trend toward a balance of terror between the Soviets and the United States, when there was a victory of communism in China and during the post-war emergence of many new Asian and African states, all these events fostered a growing concern in the 1950's with the internal security situation in U.S. client allied countries. So what had begun in wartime and postwar Europe as a program designed to cope with external threats now acquired a new, and for many, a very exciting rationale of nation building.

Among some of the newer arguments then for providing military assistance, one was the idea of precluding either Soviet or Chinese assistance, precluding them from establishing their own clientele,

especially after communism came to Cuba, and socialist regimes began to multiply in Latin America and Africa. Under the rationale of nation building, it then became logical for planners to emphasize the shortage of qualified managerial personnel, particularly in Asian states so that in addition to other purposes of military aid the goal of altering the values and the professional standards, techniques and finally the political perspectives of client military leaders, joined an expanding list of goals and purposes.

Another purpose, which was associated particularly with Asian programs, although it had obviously been characteristic also of our program in NATO, had been the idea of providing allied forces for multilateral collective security uses. One of the major implications of this goal was to foster a mirror imaging of American planning, professional standards, strategy and staff procedures in client countries.

Finally, as the decades of giving began to exact a cost for the United States and her status in the international economy, foreign military sales to improve the American balance of payments joined the ten purposes I have already listed.

The problem for the planner in the fifties and the sixties and today, I think, has been to find choices and priorities among this list, this mixture of purposes for military aid. This isn't to say that there has never been short term agreement among the various agencies involved in military assistance programs; but it is to say that once begun, aid programs have been subjected to the same internal bureaucratic pressures for expansion and survival that afflict all large organizations.

Aside from these bureaucratic pressures, contradictions and frictions, something can be said, I think, on the side of the professional military philosophies, and the perspectives which have been appropriate for designing defenses against an external threat to Europe or Latin America in the 1940's versus essentially internal threats in Asia in the 1950's and 1960's.

It seems clear that the problem of internal security challenged most American military men, and I think their civilian superiors, with issues for which earlier experience and the catalog of equipment and doctrines really provided only stopgap answers. To rather footnote that, we now have a very good capability to design forces and measure their effectiveness to cope with an external threat, particularly a conventional threat. But we have yet to find a single satisfactory model of a counter-insurgency force. We have many programs, many types of forces, but there is no such thing as a standard table of organization and equipment for a counter-insurgency force.

Now, a few people in the 1950's, particularly a handful of men like Gen. Edward Lansdale in the Philippines, had the courage to fight against the conventional wisdom of the majority of professional military men, who were oriented to the external threat problem, much more than the internal threat.

Although this is a criticism of the specialist, of the professional, I would prefer to soft-pedal that criticism because they really didn't have any other criteria. In other words, in the absence of useful criteria for measuring the nonmilitary impact of military assistance,

what I feel happened was that professional military men on the job did the best they could with their own cost-returns criteria to make sense out of contradictory goals and premises which they had inherited from annual military assistance appropriations bills. These men inevitably generated characteristic problems and patterns of administrative style. I would like to go on to that very briefly.

First, I think that, without exception, every MAAG and military group has become directly involved in the domestic political process of the host country. Now, this has been so, I think, in spite of efforts of some governments to preclude such an involvement because MAAG's invariably bring new resources and new ideas to the local political stage. Once available, those ideas and resources can be more or less useful participants in the local political process, and that includes MAAG, to the extent that they can be converted into political levers over friends, neutrals and adversaries. If a local civil or military official could demonstrate his ability to manipulate MAAG officers, resources, and ideas for the benefit of his own faction, then his domestic political power would be enhanced. Conversely, if he acquired a reputation at home of being a tool of the Americans, of catering to American interests without demonstrable returns to his faction or to the country at large, then his power and his domestic reputation would be damaged.

I am not hinting or suggesting corruption. I am simply making the point that MAAG's have been, and are and will continue to be involved in the domestic political life of host countries. As a consequence, first, I would say that most MAAG's developed an administrative style which was derived from an explicit or implicit assumption that they couldn't possibly unravel the complex of host country political affairs and political interests.

This working assumption on the part of most MAAG's, collectively, has derived from several factors. First, I think the American military officer's reluctance to be involved in politics has been a pervasive influence. The reluctance to use a corporate or guild empathy—the relationship between an American military officer and his foreign professional counterpart—for political purposes in a country, even for the purpose of reporting his knowledge to an American intelligence agency, also fostered a great reluctance to step out of the role of a technical adviser.

But many MAAG-counterpart personal relationships which might have developed and provided useful information for better understanding of the domestic political process were often too artificial, partly because of language and cultural barriers that invariably exist between MAAG officers and domestic host country counterparts, and partly because of what has been called the ghetto living arrangements of MAAG, the families isolated from the local community. These factors helped confuse the kind of competent judgments that MAAG officers might have made about local personalities and local political conflict.,

There has been a marginal importance also for MAAG assignment in the long career of a professional officer. Therefore, a policy of rotation meant that, even if one or two officers did acquire some deeper understanding of a domestic political process, usually they

could be sure that they would never come back to the country, they therefore made no effort to carry on that relationship through correspondence. This, I think, is regrettable because there has existed quite an opportunity for Americans individually to foster greater mutual understanding.

Another problem, I think, has been the lack of an institutional memory for each MAAG. That is, as a newcomer to MAAG, whether the chief or one of the officers of MAAG, has rarely had an opportunity to match the perspectives on bilateral relationships and the role of MAAG that counterpart officers have. Even if a MAAG chief were interested in the political history, that is the historical political influence of the MAAG on the host country, most country teams were not usually equipped to enlighten a chief if he wanted to be thoroughly briefed and educated. In general, host governments could assume that a new MAAG officer at any level would be about as ill-informed as his predecessor, and, therefore, about as reluctant to dabble in politics.

Having said this, it seems to me that the 1970's promise a multiplication of sources and alternative weapons systems for former and existing U.S. clients. A key question, I think, is how to rationalize these contradictory goals and administrative practices in order to respond more effectively to the new needs of existing clients and possible future clients. I would make three broad recommendations in answer to that question. The first would be to reorient the concept of military assistance to fit a fundamental purpose in each country which, as I have said before, has been implicit even though often unrecognized or unaccepted MAAG chiefs; namely, to help identify and to enhance constructive bilateral political relations between the host country and the United States.

Some of the implications of that recommendation would be the MAAG mission should be reduced significantly in size and confined to a very few officers who have been highly selected and trained in the language, in the culture and the domestic political history of the host country. The mission of that resident MAAG should then be to focus primarily on analysis of host military perspectives; that is, not the American view of the threat, the American view of desirable social and economic change, but to try to better understand what the host governments perspectives are. I would point out that in spite of the over 300,000 foreign officers who have been trained in this country in the past 25 years under military assistance program budgets, we have never devoted explicit Staff College curriculum time to better understanding most host government military traditions and military doctrines. The notion, reflecting on the idea of mirror-imaging, has been that the American concept must be applied, perhaps with mild compromises, to each of the host governments.

Another implication would be that all technical training for the host military should be conducted by nonresident mobile training teams brought in for an explicit job and then taken out again.

In order to implement some of these recommendations I would see several personnel implications: A single training facility for selection training and assignment of MAAG personnel. To me, an ideal

candidate for this task would be the Military Assistance Institute at Fort Bragg, N.C., which is currently charged with training military advisers.

The second implication would be, in order to familiarize MAAG officers with their future political role, a series of classified histories on the host country; that is, histories on the domestic political impact of a MAAG in the host country might be prepared under the joint sponsorship of perhaps the Advanced Research Projects Agency and the Department of State. This would possibly help substitute for the lack of an institutional memory that MAAG's have had in the past.

Further, I think, that the Military Assistance Institute could assume responsibility for debriefing members of MAAG, something that is not done as a matter of course in the current program. Also, because the Military Assistance Institute is a multiservice facility, I would recommend shifting it from under the Army and putting it under the Assistant Secretary of Defense for International Security Affairs.

My final recommendation would be to have the removal of technical training teams and the technical missions in most MAAG's and their concentration in one area. I think that the savings in overhead costs for American support services such as overseas American schools, post exchanges, and commissaries and family transportation costs and even the duplication of teams would not be accompanied by a reduction in MAAG effectiveness.

The underlying purpose of these recommendations would be to better qualify our field personnel for their inevitable involvement in host country political and economic national development. We should try to make that involvement a more deliberate process in the hands of competent trained political analysts who would function primarily under the control and the sponsorship of the Ambassador.

Thank you.

Chairman PROXMIRE. Thank you very much, Mr. Whitson.

(The prepared statement of Mr. Whitson follows:)

PREPARED STATEMENT OF WILLIAM W. WHITSON

DILEMMAS OF FOREIGN MILITARY ASSISTANCE IN THE 1970'S: PREMISES VERSUS PRACTICE

Introduction

The years since 1940 and the first arms deal with England have witnessed a simultaneous proliferation and confusion of premises and practices in the administration of the military assistance program.

In order to remind readers of a history with which most of them are too familiar, the first section of this paper will briefly review the evolution of the premises and ideals of the military assistance program from the 1940s through the 1960s. This section will be aimed simply at underscoring several of the more notable ambiguities and contradictions of purpose which have resulted from changing political, economic and military priorities among domestic and foreign affairs.

Having reviewed evolving and conflicting program values and perspectives related to the essentially commendable goal of helping others defend themselves, this paper will focus next on some patterns of behavior, managerial problems of "administrative style," principally within Military Assistance Advisory Groups (MAAGs) in the field.

The first two sections will thus underscore a few clear examples of dilemmas

for aid managers posed by multiplying and conflicting ideals of aid. The final section will recommend a rationalization of premises and programs to reflect the experience of the past thirty years and, hopefully, to increase the marginal return on the military assistance dollar during the 1970s.

Proliferating Premises and Perspectives

From the outset of the military assistance program during and immediately following World War II, at least six purposes were related principally to the needs of American allies first in Latin America, then in Europe, and finally in Asia.

The fundamental premise, which has remained an essential argument for some portion of each MAP budget, was the belief that the timely provision of strategic materiel (weapons and supplies likely to improve the military capability of a recipient to shoot, move and communicate) to allies might postpone the day when the United States would have to become involved in military campaigns against a clear and present *external threat.* From 1940 until 1945, that threat was defined as "the Axis." Even after American entry into WWII, this rationale for assistance to allies prevailed. Priority American participation in the European Theater, for example, argued for assistance to Asian allies who, hopefully, might buy time alone—or almost alone until more American resources could be freed from Europe. After 1945, the external threat was "Communist aggression."

In the course of conceiving and implementing the programs of the 1940s, that fundamental purpose combined with a changing self-image of America's role in world affairs to foster four corollary purposes, each destined to complicate and alter the balance of priorities between military and political premises of military assistance.

The first corollary purpose was to provide a symbolic if not a real US deterrent presence beside each ally. Thus, "low profile" US military advisors in Latin America to fend off German and Italian conspirators and competitors were soon reduced to insignificance beside the movement of American armies to Europe to fight, when Pearl Harbor dramatized the fact that Axis adversaries had been provoked (in the sense that it seemed better to attack sooner than later) more than they had been deterred by the implications of America's piecemeal commitment of symbolic military assistance. Thanks to Allied victory in WWII, this premise for rendering military assistance acquired renewed credibility, however. Many senior officials, including the American Secretary of State at the postwar Paris peace talks, believed that the mere presence of small increments of American military power would suffice to deter aggressors from taking undue advantage of the prevalent political chaos. Given domestic American demands for the prompt return of American troops, perhaps the premise was the best rationalization available for a clear domestic political necessity—a situation not unlike the one now confronting proponents of the Nixon Doctrine.

A second corollary purpose was the need to provide for the timely arrival of such US forces as might be necessary to reinforce those symbolic forces already committed. This premise provided (and still provides) the rationale for an American investment in "infrastructure." Thus, it could be argued that a necessary prelude to the movement of any sizable American "contingency forces" must be appropriate service facilities, including ports, rail and motor transport nets, bases, depots and communications systems. Indeed, one of the most appealing aspects of this premise (and all arguments for prepositioning contingency stockpiles, whether for American or allied use) has been the minimal commitment of American combat troops required to translate the ideal into reality. Like the argument for a symbolic American presence, this goal costs little in lives—in the short run, at least—and represents an insurance premium, the political obligations and implications of which could usually be kept vague by employing appropriate diplomatic language in relevant treaties and, more likely, executive agreements.

A third corollary purpose for military assistance, closely related to the second, has been the need to provide for the security of any new bases and other elements of the infrastructure erected for contingent American use. Over the decade between 1940 and 1950, it thus became desirable to begin assigning small detachments of Americans as well as American advisors to assume responsibility for the maintenance and security of key facilities,

especially those demanding an immediate level of technological expertise not available in the host country. It should be noted that this as well as the four other purposes have been directed primarily to the supply of military hardware, a fact which encouraged the technical orientation of most professional specialists (whether military or nonmilitary) and tended to obscure profound political implications, even after their later emergence in the form of crises in US-host country bilateral relations.

However, the fourth corollary premise of military assistance under the general purpose of deterring and fighting against external aggression was the inevitable *political* consequence of those military hardware premises: the desire to consolidate both regional and bilateral alliances in all ways available for insuring that the alliance would be capable of a timely response to contingent external threats. This premise has been expressed in many other ways. It relates directly to the notion (and frequently the fact) that the presence of a military advisory team provides the United States improved access to host government leaders. On the one hand, the original thrust of the alliance premise might have been to employ nonmilitary means to optimize the capability of the alliance to deploy its combined military resources against an *external* threat. On the other hand, a less obvious development, particularly in a war-damaged or a less developed economy and polity, has been to provide American officials with a rationale for involvement in the host government's *internal* political process. Before the 1960s that opportunity (and responsibility) was frequently ignored, misunderstood, misused or avoided by American officials at home and abroad, especially members of MAAGs, who could not or would not alter their professional ideal of political non-involvement despite radically differing circumstances between Europe and Asia. But the premise has remained *one* rationale (among the others) for initiating a military assistance program. It has also provided a rationale for shifting the balance of priorities among these and purposes listed below from an original focus on the external military threat to a growing concern with internal political-military instability.

The final purpose for military assistance programs in Europe, Latin America and, between 1945 and 1950, in Asia was also essentially nonmilitary; that is, to clear out excess US equipment inventories. Related to the foregoing premise, this one has helped sustain the rationale that it is better to give a poor host country materiel "off the shelf" than it would be to saddle the local economy with exorbitant start-up as well as operating and maintenance costs for an indigenous industry. Certainly the argument was persuasive in many instances immediately after WWII when threats seemed to demand a timely response including immediate US hardware support.

None of the foregoing six purposes was removed from the books or the minds of military assistance planners in the 1950s. But the Korean War and the postwar creation of America's Pacific security system brought five additional purposes for extending military assistance. During and immediately after the Korean War, the focal problem of improving NATO's capability for handling the external threat from the USSR, the proliferation of nuclear weapons, the attendant trend toward a "balance of terror" between the US and the USSR on the strategic stage, the victory of communism in China and the postwar emergence of many new Asian and African states all fostered a growing concern by the late 1950s with *internal threats.* What had thus begun in wartime and postwar Europe for the purpose of coping with external threats now acquired a new and exciting rationale—"nation building."

If the premises of the 40s had focussed on military professionalism and hardware, they were gradually reinterpreted and combined with those of the 50s and 60s to accent the political and economic complexity of internal security, insurgency and counterinsurgency; that is, the entire spectrum of dynamic political doctrines and institutions that constitute the fabric of a developing nation-state. The older premises were not abandoned, however. While working out arrangements for aid to Taiwan, Japan, Korea, the Philippines, Viet Nam, Thailand, Pakistan and a growing number of African countries, planners could pick from a lengthening list of corollary goals related to both external and internal security rationales.

Among newer arguments for providing military assistance, the idea of precluding either the Soviets or the Chinese from establishing their own military assistance clientele acquired some credibility, especially after com-

munism came to Cuba and socialist regimes began to multiply in Latin America and Africa. Earlier, in the 1950s, the threat of Soviet penetration of South and Southeast Asia (ultimately expressed in arms aid to India, Indonesia, and North Viet Nam from the Soviets and to Pakistan, North Viet Nam and various African countries from China) provided a persuasive new rationale for establishing and maintaining a mission even if other "purely military" threat arguments might have lost some of their credibility. Indeed, as the post-Korean War period provided diminishing evidence of a conventional Chinese Communist threat to American clients in Asia, it was fortuitous for the growth and survival of the entire post-'49 Asian program that the fact or fiction of "People's War" could be used to paint an ominous picture of threatening Chinese Communist military subversion.

As the concept of nation-building gained popularity among American and client academics and officials, it was logical for planners to emphasize the shortage of qualified managerial talent in new Asian states. Therefore, in addition to all the other purposes of military aid, the goal of altering the values, professional standards and techniques and ultimately the political perspectives of client military leaders thus joined an expanding list of premises and purposes. The problem of training senior and junior military leaders to cope with sophisticated hardware provided from the United States had been a relatively minor issue in the 1940s. But by the 1960s, the training function of the military assistance program had grown to a point where, by 1970, according to one estimate, 14,000 foreign officers and men were being trained annually at a total cost of $36 million with the total manpower trained over the entire history of MAP approaching 320,000.[1] More to the political point of this premise, however, has been the growing number of American military officers who have become professionally competent at the subtle role of providing a channel of negotiation and communication between the American government and powerful military-political figures in client countries, especially in those less developed countries where the prestige and skills of military men have been translatable into domestic political responsibility and power. It is that purpose of military assistance—the subtle alteration of host-country military values and standards—which has probably had the most profound consequences for a host country's domestic and foreign political policies. As we will note later, the fact that such a set of consequences had been largely inadvertent until the 1960s (insofar as American planning and MAAG administration was concerned) constitutes possibly the most regrettable political aspect of the military assistance program .

Another purpose of military assistance associated with both the European and Asian programs has been the notion of providing allied forces for multilateral use (either United Nations or regional collective security arrangements) in response to a common external threat. The professional military implication of this goal has been a strong tendency of American planners to "mirror-image" their own notions of professional standards, whether speaking of staff procedures, force planning or strategy. In Europe, that process of mirror-imaging brought some frictions; but the technological competence and experience of European allies helped minimize political costs. In Asia, however, the belief that our military assistance programs should seek to provide allied forces that might mix readily with American reinforcements, all behaving according to routines propounded by American staff colleges and strategic goals contained in the Joint Chiefs' JSOP (Joint Strategic Operations Plan), has had several adverse consequences:

1. Programmed professional standards have not been uniformly attainable. Where they have been attainable, they were frequently inappropriate for the most likely short-term threat environment as well as the host-country economic mobilization base.

2. Due to short-fall in attaining standards with which they were familiar, American military planners have encountered grave difficulties in estimating the actual effectiveness of allied forces since they could rarely conform to an emerging "conventional wisdom" of American estimates of either threat priorities or requisite military readiness postures.

3. The American and allied effort, nevertheless, to achieve JSOP standards

[1] Statement by Dr. Ernest Lefever at the Military Assistance Institute, Ft. Bragg, North Carolina, on 2 December 1970.

probably rationalized outlays of American materiel, money and energy that were excessive when measured against *political* (and probably even military) goals of the military assistance program.

4. Far from attaining programmed American *military* standards, adverse political results sometimes followed the introduction of advanced military weaponry, military organization and managerial procedures into many less developed countries, thus complicating the process of nation-building. For the professional military ethic and values of American advisors helped create expectations and values among client military leaders that often alienated them from their own political and social system and thus sometimes fostered latent if not actual political instability.

5. In any case, the demands of American military advisors for rapid military modernization have been a force for profound internal social and political changes, often under circumstances where neither an external nor internal *military* threat justified either haste or massive transfers of modern weapons and modern doctrine.

Finally, as the decades of giving began to exact a cost from the United States' status in the international economy, foreign military sales to improve American balance of payments joined the ten other purposes of military assistance. A relative latecomer to the arguments for providing military aid for nonmilitary reasons, this goal may yet become increasingly important as an economic argument for continued American competition with other powers for commercial advantages that may flow from extensive sales of modern weapons.

Choices and priorities among the foregoing purposes of military aid have varied broadly according to the ideological and bureaucratic associations of the observer. This is not to argue that there has never been short-term agreement on reasons for beginning an aid program. But it does suggest that, once begun, aid pograms have been subjected to the same internal bureaucratic pressures for expansion and survival that afflict all large organizations.

Thus, whether at the Washington level of the Office of the Assistant Secretary of Defense for International Security Affairs, the Joint Chiefs of Staff and the three services, at the regional level of the unified commands (Pacific Command for Pacific programs, Southern Command for Latin American programs and Strike Command for all others) or at the local in-country MAAG (MilGroup in Latin America) level, the viewpoint of the technical problem-solving specialist has tended to reinforce and be reinforced by goals that apparently were susceptible to professional judgments about standards mainly of hardware selection, maintenance and employment.

Intra-US bureaucratic conflicts over the relative merits of one weapons system over another, one combat doctrine over another, and one staff procedure over another therefore tended to be transmitted though service representatives to local MAAGs and into the host country's military value system. Likewise, essentially intra-American professional quarrels over budgetary resource allocations tended to be reflected in the contending perspectives of MAP administrators.

Bureaucratic contradictions aside, the professional military philosophies and perspectives which may have been appropriate for designing defenses against an external threat to Europe or Latin America in the 1940s tended to be transferred without much soul-searching to Asia in the 1950s. Yet, by the early 1960s it had become clear that the problem of internal security challenged most American military men with issues for which their earlier experience and their catalogue of equipment and doctrines provided only stop-gap answers. Indeed, partly because it was easier for American advisors to design a force for an external threat, much of the early American effort in Viet Nam, the Philippines and Thailand resolutely ignored the internal security component of threat or treated it as if it were a conventional invasion from an out-of-country Communist sponsor. During the 1950s only a handful of American military men like Major General Edward Lansdale had the vision and courage to fight for internal security programs against the extenal threat-oriented majority who would rationalize conventional doctrine by arguing (irrelevantly) "we won the war, didn't we?"

Despite the efforts of Lansdale and a few others before the early 1960s, however, most professional specialists generally tried to design and administer military aid programs as if the problem were essentially a matter of

matching trained manpower with a more effective, modern weapons mix to defend against an equally technical adversary *outside* the host country; that is, China or the USSR. Since these aid managers rarely received guidance from local Country Teams, regional Unified Commands or Washington-level policymakers (either in the Executive or the Legislative branch) about alternative nonmilitary premises, issues and goals to which their programs should be directed, we should be careful about criticizing them as specialists with narrow interests. Indeed, even the minority of generalists, presumably armed with a broader vision of nation-building purposes and constructive bilateral relationships to which the military assistance program might contribute, have rarely had the courage or the wisdom to provide precise criteria for measuring the *political* or *economic* returns, either to the US or the client, of an extra $10 million of guns, ships, aircraft or training. Therefore, it was hardly surprising to find MAAGs, Unified Commands and the Department of Defense engaging in annual choices among budget-constrained hardware lists to achieve professional military force-goals and performance standards appropriate to the grim world of exaggerated threat estimates and correspondingly exaggeated JSOP readiness goals. In other words, in the absence of any other useful criteria from the State Department, Congress or their chain of command, military professionals have done the best they could with their own cost-returns criteria to make sense out of the contradictory goals and premises which they have inherited from annual military assistance appropriations bills. In so doing, those officials inevitably generated characteristic problems and patterns of administrative style.

Administrative Style

Without exception each MAAG and MilGroup has become directly involved in the domestic political process of its host country. This has been so, in spite of the efforts of several governments to preclude such involvement, because MAAGs have invariably brought new sources of both ideas and money to the local political stage. Once available, those ideas and resources could be more or less useful to participants in the local political process (including the MAAGs!) to the extent that they could be converted into political levers over friends, neutrals and adversaries. If a local civil or military official could demonstrate his ability to manipulate MAAG resources and ideas for the benefit of his own faction, his power would be enhanced. Conversely, if he acquired a reputation for catering to the local and career interests of the Americans, without demonstrable returns to his faction or the country at large, his power and reputation would be damaged.

Cases abound and, generally, should not be discussed in public debate lest they further and unnecessarily embarrass American clients. But it does not harm to cite general examples. Item: the defense minister who employed MAAG levers, standards and techniques to purge his principal professional adversaries in all services on the ground that streamlining staffs through a computer-guided P.P.B.S. (Planning, Programming and Budgeting System) had become an essential quid to the quo of further MAAG help. Item: the relatively obscure general who was catapulted to the top command position shortly after he demonstrated his skill at manipulating Americans, who had given him much face by providing him with a round-the-world inspection tour and several other prestigious rewards for employing his American contacts with wisdom and diplomacy.

It should be understood that we are not discussing or even hinting at corruption. We are simply making the point that MAAGs have been, are and will continue to be more or less involved in the domestic political life of host countries.

Of interest is the administrative style employed by various MAAGs for adapting multiple and often contradictory goals already discussed to that essential fact of local political involvement. Most MAAGs have evolved a style derived from the explicit or implicit assumption that they could not possibly unravel the complex interplay of local political forces in order to assess precisely their own political role. In part, that judgment has reflected the limited political analytical skill and experience of most MAAG officials. In part, it has stemmed from an American military officer's aversion to "politics." Also, it has reflected a reluctance to "use" the corporate or guild empathy between American and host military officers for the purpose of

informing either the MAAG or other American agencies (especially intelligence agencies) about relationships and attitudes which would go far to clarify the political role of the MAAG. However, the essential artificiality of most such relationships (between MAAG officers and "counterparts"), because of language and cultural barriers or because of MAAG "ghetto" living arrangements (the isolation of MAAG officers and families from the local social and cultural scene), has precluded the kind of confident judgments about local personalities and inter-personal relations that would be required for penetrating political analyses. Furthermore, the marginal importance of MAAG assignments to the career progression of most American career officers and the consequent policy of frequent rotation of officers, usually required to serve only one assignment in a MAAG, have insured that any incipient familiarity with the local political scene would soon disappear into memory's haze after the officer moved on to his next assignment. Confident that they would probably never again come back, the vast majority of American officers have made no effort to keep in touch with counterparts, a lamentable loss of America's collective opportunity to foster mutual understanding. It should be added that another adverse result of the policy of rotation and the reluctance to systematically assess their internal political role has been the failure to create any local MAAG "institutional memory." Thus, a newcomer to the MAAG (whether a "chief" or an "indian") has had almost no opportunity to match the long perspectives of foreign counterparts on the history of the bilateral relationship and especially its effect on host country, internal political power distribution. Even if a new MAAG chief were interested in the *political* history of the MAAG, functional compartmentalization within the Embassy and between the Embassy and the MAAG has usually insured that the Country Team would not be equipped to enlighten him. By sheer accident, a scholar like Luigi Einaudi, a colleague with The RAND Corporation, or Alfred Stepan might have completed enough research to produce a book on the historic, economic and political role of the MAAG in a specific country. More likely, however, the host government and its officials at all levels could assume that a new MAAG officer at any level would be about as ill-informed as his predecessor and therefore about as reluctant to deliberately dabble in local politics, preferring to leave such activities to military attaches, CIA and other queer birds from whom the MAAG might best remain relatively isolated.

The chief consequence of the foregoing factors, all conspiring to limit MAAG systematic analysis of either local political dynamics or its own local political role, has been an abiding emphasis on what may be called the "tech-rep syndrome"; that is, a concern for the improvement of local skill in fighting war according to the American model. Until the late 1950s, that model derived its main features from American experience on the north European plain and had been marginally modified by the experience in Korea. It thus had only limited transferability to internal security conditions prevalent all over Southeast Asia, Africa and Latin America.

The American fixation on doctrine and hardware appropriate for conventional warfare on a continental landmass in temperate climate contributed to several ironic consequences:

1. As host military elites attempted to conform to American military standards not only of military organization and deployment but sometimes even of military role in society, their ability to implement their own national military policies or cope with the most likely threat was often *diminished.* The Americanization, for example, of an Asian client army (Taiwan, Viet Nam and Thailand provide instructive examples) could mean an emerging disdain for its legitimate and necessary internal political role, an erosion of its ability to play such a role therefore in a context of insurgency or civil war, and an increasingly artificial preoccupation with issues and threats identified as salient by *American* rather than local perspectives.

2. Local military doctrine, traditions and threat analyses were therefore given little attention by American advisors, whose task, after all, was to "modernize" such backward notions and methods. But modernizing efforts inevitably set in motion internal host-country military-political frictions and factional divisions between the "modernists" on the one hand and "traditionalists" on the other—a process that no American advisor would often wish to initiate deliberately. Yet once initiated, the process would often generate tensions which would prove useful to some advisors for pressing onward with

quasi-missionary zeal. In some instances, tensions could become so acute between the two poles of local "modern" versus "traditional" military ethic and style that younger officers returning from a training assignment in the United States would discover that their professionalism was now suspect; a year or two of penance would be required to prove that they had not sold themselves to the Americans.

3. Modernizing military elites in some host countries thus tended to isolate themselves not only from their fellow officers and military traditions but also from their own cultures and societies in dissatisfaction with their capability for measuring up to the behavior patterns learned at home and abroad from American advisors. Thus, far from helping to cope with real internal security issues, American external threat models of war and relevant hardware sometimes contributed to internal disputes that exacerbated the internal political conflict. Increasingly, MAAGs became identified with those elements of the host armed forces labelled "MAP-supported"; that is, qualified to receive American advisors and resources. By so distinguishing the modernists from "the others," the military assistance program publicly formalized its tendency to divide host armies into at least two poles, two sets of doctrine, two organizations and two sets of leaders.

4. Many of these "young turks" whose imagination had been caught by the vision of military efficiency and modernity preached by MAAGs, by the late 1960s, had learned that they could not afford to be too closely identified with their American mentors lest new nationalists at home pin a "puppet" label on them. Thus, having deliberately or inadvertently fostered a new military elite, impatient with older military leaders and values, MAAGs have frequently been confronted by apparent ingratitude among their best students, men who were already turning to third countries (France, Germany, Israel) for less politically costly assistance.

5. That behavior, in part, could also be ascribed to the historic MAAG tendency to ignore problems of strategic planning, research and development, and command and control within host countries. Since all three of those fields might lure cautious MAAG personnel ever deeper into local political squabbles and since MAAG officers have rarely (if ever) been instructed to help clients select more appropriate weapons from a non-US source, host military leaders in some less developed countries have lacked both information and managerial method for comparing weapons systems (US versus third country).

Yet, the 1970s promise a multiplication of sources and alternative weapons systems for former US military clients and a further flowering of both nationalism and internal security problems among those countries which might be the most deserving recipients of military aid. In what way might the list of contradictory goals and administrative practices be rationalized to respond to those needs?

Recommendations for the 1970s

For a variety of reasons, the strength of American military advisory teams are being reduced around the world. Budgetary constraints, the Nixon Doctine, diminishing host country interest in too-expensive or too-sophisticated weapons, suspicion and confusion of MAAG purposes—all have contributed to both American and allied reassessments of MAAG effectiveness. In spite of all these arguments and causes for reduction in MAAG strength, MAAGs may be expected to become increasingly important channels for communicating and implementing American security policy. They will certainly retain their political character insofar as host country domestic politics is concerned.

My first recommendation would therefore be to re-orient all MAAG personnel and resource selections and allocations to fit their fundamental purpose in each country: to help identify and to enhance constructive bilateral *political* relations between the United States and the host government. Such a focal concept of MAAG role has many implications. Among them, the following may be salient:

1. The MAAG mission should focus on analysis of *host* military perspectives of threat, role in the internal process of social and economic change, security doctrine, military organization and military deployments rather than the American perspectives of each of those complex fields.

2. MAAGs should be self-consciously interested in their ability to assist the host government in all of those fields while minimizing instability in the in-

ternal political process. They should thus attempt to contribute substantively to a dialogue between the Ambassador and his staff, on the one hand, and military hosts on the other, to the end that the total pattern of bilateral relations may reflect mutual *political* interests, not simply military technical values and standards.

3. "Resident MAAGs" should thus be reduced significantly to a small number of middle-grade (Lt. Colonel and Colonel) officers, highly trained in the language, culture, domestic political history and military culture of the host country.

4. All technical training of host military officers and units should be conducted only by non-resident mobile training teams or even US private corporations under the coordination and supervision of the small resident MAAG. In this manner, the American military presence would be low-profile, less embarrassing to hosts but probably more effective in tailoring the American response to real need.

My second recommendation would relate to personnel aspects of the first recommendation:

1. A single training facility should be designated to bear primary responsibility for selection, training and assignment of MAAG personnel. The ideal candidate for such a task would be the Military Assistance Institute (MAI) at Ft. Bragg, North Carolina. Currently charged with training military advisors, MAI has almost no influence over personnel selection or assignments.

2. In order to familiarize selected personnel, including General officers designated as MAAG chiefs, with their primarily political role, a series of classified histories on each MAAG should be commissioned, possibly under the joint sponsorship of the Defense Department's Advanced Research Projects Agency (ARPA), and the Department of State. These histories should aim at a clarification of the historic domestic political and economic role and impact of each MAAG in order to provide future MAAG officers with an "institutional memory."

3. In order to keep the Department of Defense clearly informed about shifts in MAAG-host military relations, one agency, probably the Military Assistance Institute, should assume responsibility for debriefing most if not all MAAG officers upon the termination of their first and each successive tour. In this manner, MAI would have a direct role in obtaining feedback on their training, selection and assignment procedures and their efforts to prepare selected advisors for a difficult political role.

4. Because MAI should be a multi-service facility, consideration should be given to removing it from its subordinate status under the Army and placing it directly under the Office of the Assistant Secretary of Defense for International Security Affairs.

5. The curriculum at MAI should receive intensive investigation and help from qualified academic and government social scientists to foster a new career elan and set of military advisor perspectives. This is not to derogate the current efforts of MAI but to simply note that the existing curriculum is necessarily a compromise among the many premises discussed in the first section of this paper as well as many institutional pressures reflecting traditional MAAG and MAP procedures. Attitudes which might be focal goals for the MAI curriculum might include:

a. A concern for extensive research in the internal political and economic consequences of US military ideas and resources;

b. A consequent reluctance to urge host military leaders to employ American programs unless their own estimates confirm their utility;

c. A corresponding emphasis on techniques of local command and control, research and development and management to breed self-confidence in assessing alternative weapons systems, alternative military doctrines and alternative strategies.

My third recommendation would relate to organizational aspects of the first and second recommendations:

1. The reduction of MAAG strength should be accompanied by the concentration of technical personnel and their families in one regionally central location (Guam or the Philippines for Asian MAAGs, for example). In this way, mobile teams would have an opportunity to compare problems within a region, would not be required, however, to spend the same time in the study of local political issues that would be necessary for the permanent in-country

MAAG and would provide the same services that are now available at a fraction of current MAAG overhead costs now paid for overseas American schools, post exchanges, commissaries, family transportation costs, etc. Furthermore, a single technical support facility of teams, possibly organized as a new type of division, should significantly reduce duplication of training teams now scattered around the Far East and Latin America.

2. Permanent MAAGs should not live in American "ghettos" but should live on the economy in the same status as American Embassy officials. MAAGs should thus be shifted to a status directly subordinate to the Ambassador and no longer subordinate to Unified Commands except for necessary logistical support. Communications between MAAGs and Washington (ISA, State) would thus be direct, whether for purposes of providing assessments of local needs or receiving guidance on shifting American political perspectives and interests.

The underlying purpose of these recommendations should be clear: to insure that the inevitable involvement of MAAG personnel in host country political and economic national development be a conscious, deliberate process in the hands of competent, politically informed military-political analysts, capable of and deeply interested in fostering broadly constructive bilateral relations through sophisticated and sensitive employment of personal contacts, and limited American material, budgetary and technical human resources.

Chairman PROXMIRE. Our next witness is Mr. Edward Fried, senior fellow, the Brookings Institution. Mr. Fried, we are happy to have you proceed.

You have such a fine prepared statement, I hesitate to ask you to do this, but yours is considerably shorter than Mr. Whitson's, but if you would like to abbreviate it, the entire prepared statement will be printed in full in the record.

STATEMENT OF EDWARD R. FRIED, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. FRIED. Thank you, Mr. Chairman. I will try to do that.

This year, the United States will be appropriating something on the order of $7.5 billion for foreign assistance. Of this amount, about $4.5 billion, or more than 60 percent, is for various forms of security assistance, and less than $3 billion for international development assistance. The former has been rising over the past few years, the latter declining.

I would like to talk in these introductory comments on the relationship between the two, and some of the reasons why it may be appropriate over the future to look at them more and more as representing one fund of foreign assistance resources, even as the proportion of each to the whole drastically changes.

I purposely used the broader concept of security assistance, rather than military assistance, as an indication of what we spend for the variety of purposes that a number of witnesses have already outlined to you. But the preponderant proportion of this $4.5 billion total—roughly $2.8 billion—is directly related to the war. This includes approximately $2.3 billion for military equipment and supplies to Vietnam, Laos, and Thailand, funded in the Defense Department budget and administered by that Department, and almost $500 million in economic supporting assistance, funded in the Foreign Assistance Act, administered by AID.

I would like to point out that together these expenditures are somewhat more than 10 percent of peak U.S. expenditures for Viet-

nam, about 25 percent of what the war costs this year, and perhaps 50 percent or more of what the war will cost next year.

This trend follows the logic of Vietnamization, but it raises the question of how to look at this category of expenditures when a settlement is reached in Southeast Asia. They could, of course, be used to help meet urgent domestic priorities, as may be true for the predominant part of the Vietnam war costs as our participation there winds down. I would hope for a different outcome—one in which the U.S. continued to devote these total resources or something like them to foreign assistance but used in the future not to fight a military war but to help in the global war on poverty.

In my prepared statement, Mr. Chairman, I have gone on to describe the other major components of the security assistance program, the military assistance grant programs, the grant distribution of surplus stocks, and the military sales program. In the interest of brevity I will go on to make this point, this generalization, about all of these programs. Apart from the funds used for Vietnam, expenditures for security assistance are concentrated among a relatively few developing countries where we have very specific security interests. But small amounts are spread over a large number of countries where our security interests are more generalized. In size, this year's program of bilateral military grants and credits is larger than the U.S. bilateral program of development lending. And it is a program that has been with us for a long time and shows few signs of coming to an end.

Whether this is wise will depend in the first instance on how we choose to define our security interests over the future. But even if these definitions did not change, it is appropriate to an examination of the direction of these programs over the 1970's to ask three related questions: (1) Are these programs the most effective way of helping countries provide for their own defense; (2) is the United States through these programs encouraging developing countries to support a larger military force than they can afford over the long term; and (3) are these programs effectively related to economic development objectives?

I propose only to sketch out some of the factors bearing on these questions. As you will see, the main theme that emerges from my comments is that we should move in military assistance as we propose to move in development assistance; namely, to place more responsibility on recipient countries for programming and planning and to provide U.S. assistance in ways that do not prejudice their decisions. Indeed, over the longer term it would be in the U.S. interest to phaseout military assistance as such and to provide foreign assistance in such fungible form that the recipient country can use it for whatever purpose—military or economic—that it feels deserves highest priority.

The first factor deals with the question of a nation's priorities. It is, of course, obvious that requirements for economic development compete with requirements for military security as claims against what any country can mobilize out of current production for nonconsumption needs. Your committee has done much to point up the

bite in this competition for even so wealthy a country as the United States; the choices are the more severe in poor countries where the margin over minimum consumption needs is inevitably very narrow.

This competition also exists in the flow of external assistance—more assistance in one form can mean less in the other. Furthermore, the mix as between military and development assistance can affect choices in the developing country as between the two goals. This need not be the case if the form of assistance is neutral in its effects on internal decisions—for then the external resources would be fungible and changes in the proportions between external development and military assistance would be offset by changes in internal resources allocated to the two purposes. But the form of such assistance is in fact not neutral—military assistance is frequently designed to maximize domestic expenditures for defense and economic assistance is designed to maximize domestic expenditures for development. As far as the United States is concerned, this can mean that our military and economic development programs are working at cross purposes.

A related set of problems concerns the effect of military assistance programs on the nature of our relationship with developing countries. As it is now, the United States largely determines the amount and kind of military equipment that the developing country will receive and U.S. military missions do much of the detailed logistical planning and costing for them. In making these decisions, the United States, whether willingly or not, necessarily affects the size of the country's forces and of its defense budget. There is much that is unhealthy in this relationship. First, it tends to insulate local military planning from the full disciplinary effect of the budget process; second, it can encourage military planners to aspire to larger forces than these countries are ever likely to be able to support unaided; third, it tends to place unnecessary responsibility on the U.S. for events in these countries; and fourth, it can make the United States the scapegoat and a source of resentment when because of limited military assistance appropriations the United States opposes plans for force modernization.

The pressures for such modernization are likely to grow over the future. Military operating costs are rising and the problems of obsolescence are likely to become more acute as these countries aspire to more sophisticated weapons. These countries will have to face hard choices regarding the size of their forces and the character of their weapons systems, on the one hand, and the cost to development objectives, on the other. How heavily should the United States become involved in these highly sensitive internal decisions?

If the answer is that direct U.S. involvement should be held to a minimum, as I believe should generally be the case, then the need for U.S. military advisory groups and missions in many countries is open to serious question. In the early days of military assistance programs, these countries were seriously short of military officers with technical and planning skills to use modern equipment. U.S. military advisers were needed to see that U.S. equipment was effectively integrated into local forces. But there have been many years of training in between. I note from Mr. Whitson's prepared statement that our

training program covers roughly 14,000 foreign officials and men a year and that over the history of the MAP program some 320,000 military officers and officials have been trained. By now, there should be enough military officials in these countries with adequate professional competence to do much of their own planning. The rapid removal of separate U.S. military missions and advisory groups in most of these countries could accelerate the necessary process of achieving self-reliance.

There is, in short, Mr. Chairman, a close parallelism between where the United States seeks to go in the field of development assistance and where it should want to go in security assistance. In the former case, the President has already indicated that our assistance policies should be redesigned so that the developing countries stand at the center of the international development effort, establishing their own priorities and securing external assistance in relation to the efforts they choose to make in their own behalf. Much the same reasoning should apply to our security assistance policies. A growing number of developing countries show a determination and a capacity to assume greater responsibility for their own defense and they should be encouraged to do so. Moreover, in today's pluralistic world, these countries, along with all others, face the need to reexamine national priorities and in this light to decide for themselves how much resources they should mobilize for this purpose. Anything the United States can do to encourage this trend could be good politics, good economics, and perhaps most of all, can make for good defense.

There is no easy road to effective self-reliance in defense just as the achievement of self-sustaining economic growth is the culmination of actions in many areas. But one key factor is to make defense decisions in developing countries more fully subject to the discipline of internal budgetary competition for resources. U.S. security assistance policies should contribute to, rather than detract from, the strengthening of this process. I have three proposals in mind.

First, moving military assistance from a grant to a credit basis can serve this purpose. Unlike military grants, credits are more likely to subject military equipment requirements to budgetary review and discipline in the developing country. A shift from grants to credits, moreover, can also fundamentally alter the military aid relationship; instead of determining what arms and equipment a developing country needs and will receive, the United States would much more be responding, to the degree it saw fit, to what that country determined to be its own requirements.

The Foreign Assistance Act now directs the President to shift military assistance in this direction as rapidly as the economic progress of these countries will permit. Such shifts have, in fact, been taking place but the pace could be accelerated.

To do so without jeopardizing the development programs of these countries, however, will require that the United States increasingly view its total foreign assistance program as one fund of resources to be used to advance a common strategy as the composition shifts between security and development assistance. That strategy should emphasize development.

For example, moving from military grants to military credit sales should mean in the first instance that the Congress be prepared to authorize higher ceilings for such credits as they replace grants. But this may not be enough. These credits could involve a serious near-term debt burden for particular countries, which, if not to some degree offset, could restrict economic programs.

This brings me to my second proposal. The relationship between military credits and development highlights the need for the United States to consider military and related economic supporting assistance together in considering security assistance programs. The phasing out of military grant assistance could be combined with wider and more flexible use of economic supporting assistance as a cushioning device. In some countries we have been closing out economic assistance while continuing military grant assistance. As a general rule, the reverse is more likely to encourage goals that are more consistent with the developing country's own priorities, and with the long-term interests of the United States.

Third, the U.S. objective should be to phase out military assistance as rapidly as possible and provide virtually all foreign assistance in a development context. In fact it may be desirable to go further and phase out all forms of security assistance in favor of development assistance. This poses complex issues.

In such circumstances the burden of defense needs in particular countries could well be one of the factors that determined the level of U.S. bilateral economic assistance. Even so, providing U.S. foreign assistance in this form would tend to favor development claims over defense claims in the budgetary competition within developing countries, but the bias is not likely to result in serious distortions, and in any event is one that I would in principle favor. The main point is that such foreign assistance policies would place maximum responsibility on each developing country to determine how much to spend for defense, how much and what kind of foreign military equipment and training are needed, and where to buy them.

One final comment on organization and management. I believe that all security assistance programs should be presented to the Congress in one legislative package—separate from development assistance but reviewed within a foreign policy framework. While administration of military grants and credits should remain with the Department of Defense, the administration of other forms of security assistance and policy responsibility for the program as a whole should be firmly exercised by the Department of State.

Such organizational changes would contribute to the effectiveness of these programs, clarify their relation to foreign policy, and make our objectives and rationale more understandable to the Congress and the American public.

But we should be clear about directions. As the United States moves from war to peace in Vietnam, a rapid change in the mix of the foreign assistance program from military assistance to development assistance would more effectively advance U.S. interests in the world.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Fried.

(The prepared statement of Mr. Fried follows:)

PREPARED STATEMENT OF EDWARD R. FRIED*

Thank you for the opportunity to explore with you this important but complex subject.

This year the United States will be appropriating something on the order of $7.5 billion for foreign assistance. Of this amount, about $4.5 billion, or more than 60%, is for various forms of security assistance, and less than $3 billion for international development assistance. The former has been rising over the past few years, the latter declining. I propose to focus my brief introductory comments on the relationship between these two forms of assistance and on some of the reasons why it may be appropriate over the future to look at them more and more as forming one fund of foreign assistance resources, even as the proportion of each to the whole drastically changes. My colleague at the Brookings Institution, Mr. Halperin, will place more emphasis in his presentation on some of the political issues underlying security assistance and on the degree to which it is related to the size and deployment of U.S. military forces.

I have purposely used the broader concept of security assistance, rather than military assistance, as an indication of what we spend to improve the military capabilities of allies, to substitute for the deployment of US forces abroad, to pay for U.S. base rights, and to deal with crisis situations, and to achieve political gains. The $4.5 billion figure, therefore, includes military and economic assistance in Southeast Asia to fight the war in Vietnam, military assistance grants for other countries, the distribution of surplus military stock, appropriations for the sale of military equipment to developing countries on credit, and a small amount for budget support and other political programs.

The preponderant proportion of this $4.5 billion total—roughly $2.8 billion—is directly related to the war. This includes approximately $2.3 billion for military equipment and supplies to Vietnam, Laos, and Thailand, funded in the Defense Department budget and administered by that Department, and almost $500 million in economic supporting assistance, funded in the Foreign Assistance Act, administered by AID and used largely to finance commodity imports to contain inflationary pressures in Vietnam, and to finance police, pacification, resettlement, and selected reconstruction programs. Together, these expenditures are somewhat more than 10% of peak U.S. expenditures for Vietnam, about 25% of what the war costs this year, and perhaps 50% or more of what the war will cost next year.

This trend follows the logic of Vietnamization, but it raises the question of how to look at this category of expenditures when a settlement is reached in Southeast Asia. They could of course be used to help meet urgent domestic priorities, as may be true for the predominant part of the Vietnam war costs as our participation there winds down. I would hope for a different outcome—one in which the U.S. continued to devote these total resources to foreign assistance, although used in the future not to fight a military war but to help in the global war on poverty.

The military assistance program in its more narrow sense forms a second major category of security assistance expenditures. The program started twenty years ago as part of the effort to promote collective security in Europe. At its height in 1952, the appropriation reached $6 billion, the bulk of which went to NATO Europe.

In 1960 the main emphasis shifted from NATO to what are termed the "forward defense countries" in the Near East and the Far East, that is to countries in those regions where the U.S. has treaty obligations or some other form of specific security interest. The size of the program has declined steadily from about $1.5 billion in 1960 to less than $400 million in 1969. This year the amount will go up to about $700 million because of the supplementary appropriation passed by the Congress at the end of the year. These figures, as you know, exaggerate the actual decline in the military assistance program since recent appropriations no longer include military grants for South Vietnam, Thailand and Laos which, as I indicated earlier, are now funded in the Defense budget. The bulk of this military assistance goes to Korea, Taiwan,

*The author is solely responsible for this statement. It does not purport to represent the views of the Brookings Institution or to speak for the members of the President's Task Force on International Development.

Greece, Turkey, and now Cambodia. A small proportion, less than $100 million in all, is spread over some 40 countries including funds for military training programs.

Excess military stocks are a significant supplement to the military grant program—but require no appropriation. Availabilities have grown rapidly in recent years and probably will reach $500 million this year—valued at acquisition cost. Actual value of course, is considerably less. As the U.S. withdraws from Vietnam, excess stock is likely to continue at high levels—indicating the need to consider these grants more fully as part of security assistance planning.

In addition, the U.S. sells military equipment to developing countries on credit—usually no more than 10 years duration and with interest at the cost of money to the Treasury. The appropriation this year for military credits is about $250 million plus the extraordinary credit of $500 million for Israel. The bulk of these military credits is taken up by Iran, Israel, Taiwan, Singapore, Chile, Brazil and Argentina.

Thus apart from the funds used for Vietnam, expenditures for security assistance are concentrated among a relatively few developing countries where we have fairly specific security interests. But small amounts are spread over a large number of countries where our security interests are more generalized. In size, this year's program of bilateral military grants and credits is larger than the U.S. bilateral program of development lending. And it is a program that has been with us for a long time and shows few signs of coming to an end.

Whether this is wise will depend in the first instance on how we choose to define our security interests over the future. But even if these definitions did not change, it is appropriate to an examination of the direction of these programs over the 1970's to ask three related questions: (1) Are these programs the most effective way of helping countries provide for their own defense; (2) Is the U.S. through these programs encouraging developing countries to support a larger military force than they can afford over the long term; and (3) Are these programs effectively related to economic development objectives?

I propose only to sketch out some of the factors bearing on these questions. As you will see, the main theme that emerges from my comments is that we should move in military assistance as we propose to move in development assistance—namely, to place more responsibility on recipient countries for programming and planning and to provide U.S. assistance in ways that do not prejudice their decisions. Indeed, over the longer term it would be in the U.S. interest to phase out military assistance as such and to provide foreign assistance in such fungible form that the recipient country can use it for whatever purpose—military or economic—that it feels deserves highest priority.

The first factor deals with the question of a nation's priorities. It is of course obvious that requirements for economic development compete with requirements for military security as claims against what any country can mobilize out of current production for non-consumption needs. Your committee has done much to point up the bite in this competition for even so wealthy a country as the United States; the choices are the more severe in poor countries where the margin over minimum consumption needs is inevitably very narrow.

This competition also exists in the flow of external assistance—more assistance in one form can mean less in the other. Furthermore, the mix as between military and development assistance can affect choices in the developing country as between the two goals. This need not be the case if the form of assistance is neutral in its effects on internal decisions—for then the external resources would be fungible and changes in the proportions between external development and military assistance would be offset by changes in internal resources allocated to the two purposes. But the form of such assistance is in fact not neutral—military assistance is frequently designed to maximize domestic expenditures for defense and economic assistance is designed to maximize domestic expenditures for development. As far as the U.S. is concerned, this can mean that our military and economic development programs are working at cross purposes.

A related set of problems concerns the effect of military assistance programs on the nature of our relationship with developing countries. As it is now, the U.S. largely determines the amount and kind of military equipment that the developing country will receive and U.S. military missions do much of the

detailed logistical planning and costing for them. In making these decisions, the U.S. whether willingly or not, necessarily affects the size of the country's forces and of its defense budget. There is much that is unhealthy in this relationship. First, it tends to insulate local military planning from the full disciplinary effect of the budget process; second, it can encourage military planners to aspire to larger forces than these countries are ever likely to be able to support unaided; third, it tends to place unnecessary responsibility on the U.S. for events in these countries; and fourth, it can make the U.S. the scapegoat and a source of resentment when because of limited military assistance appropriations the U.S. opposes plans for force modernization.

The pressures for such modernization are likely to grow over the future and this in itself could be a divisive force between the U.S. and the countries concerned as well as between the competing development and security claimants for resources within the developing country. Military operating costs are rising and the problems of obsolescence are likely to become more acute as these countries aspire to more sophisticated weapons. Hard choices will have to be faced regarding the size of forces and the character of weapons systems, on the one hand, and the cost to development objectives on the other. How heavily should the U.S. become involved in these highly sensitive internal decisions?

If the answer is that direct U.S. involvement should be held to a minimum, as I believe should generally be the case, then the need for U.S. military advisory groups and missions in many countries is open to serious question. In the early days of the military assistance program, these countries were seriously short of military officers with technical and planning skills to use modern equipment. US military advisers were needed to see that US equipment was effectively integrated into local forces. But there have been many years of training in between. By now, there are large numbers of military officials in these countries who have adequate professional competence with modern arms to do their own planning. The rapid removal of separate US military missions and advisory groups in most of these countries could accelerate the necessary process of achieving self-reliance.

There is, in short, Mr. Chairman, a close parallelism between where the US seeks to go in the field of development assistance and where it should want to go in security assistance. In the former case, the President has already indicated that our assistance policies should be redesigned so that the developing countries stand at the center of the international development effort, establishing their own priorities and securing external assistance in relation to the efforts they choose to make in their own behalf. Much the same reasoning should apply to our security assistance policies. A growing number of developing countries show a determination and a capacity to assume greater responsibility for their own defense and they should be encouraged to do so. Moreover, in today's pluralistic world, these countries, along with all others, face the need to re-examine national priorities and in this light to decide for themselves how much resources they should mobilize for this purpose. Anything the US can do to encourage this trend can be good politics, good economics, and perhaps most of all, can make for good defense.

There is no easy road to effective self-reliance in defense just as the achievement of self-sustaining economic growth is the culmination of actions in many areas. But one key factor is to make defense decisions in developing countries more fully subject to the discipline of internal budgetary competition for resources. US security assistance policies should contribute to, rather than detract from, the strengthening of this process. I have three proposals in mind.

First, moving military assistance from a grant to a credit basis can serve this purpose. Unlike military grants, credits are more likely to subject military equipment requirements to budgetary review and discipline in the developing country. A shift from grants to credits, moreover, can also fundamentally alter the military aid relationship; instead of determining what arms and equipment a developing country needs and will receive, the US would much more be responding, to the degree it saw fit, to what that country determined to be its own requirements.

The Foreign Assistance Act now directs the President to shift military assistance in this direction as rapidly as the economic progress of these countries will permit. Such shifts have in fact been taking place but the pace could be accelerated.

To do so without jeopardizing the development programs of these countries, however, will require that the US increasingly view its total foreign assistance program as one fund of resources to be used to advance a common strategy as the composition shifts between security and development assistance.

For example, moving from military grants to military credit sales should mean in the first instance that the Congress be prepared to authorize higher ceilings for such credits as they replace grants. But this may not be enough. These credits could involve a serious near term debt burden for particular countries which, if not to some degree offset, could restrict economic programs.

This brings me to my second proposal. The relationship between military credits and development highlights the need for the US to consider military and related economic supporting assistance together in considering security assistance programs. The phasing out of military grant assistance could be combined with wider and more flexible use of economic supporting assistance as a cushioning device. In some countries we have been closing out economic assistance while continuing military grant assistance. As a general rule, the reverse is more likely to encourage goals that are more consistent with the developing country's own priorities, and with the long term interests of the United States.

Third, the US objective should be to phase out military assistance as rapidly as possible and provide virtually all foreign assistance in a development context. In such circumstances, the burden of defense needs in particular countries could well be one of the factors that determined the level of US bilatral economic assistance. Even so, providing US foreign assistance in this form would tend to favor development claims over defense claims in the budgetary competition within developing countries, but the bias is not likely to result in serious distortions, and in any event is one that I would in principle favor. The main point is that such foreign assistance policies would place maximum responsibility on each developing country to determine how much to spend for defense, how much and what kind of foreign military equipment and training are needed, and where to buy them.

One final comment on organization and management. I believe that all security assistance programs should be presented to the Congress in one legislative package—separate from development assistance but reviewed within a foreign policy framework. While administration of military grants and credits should remain with the Department of Defense, the administration of other forms of security assistance and policy responsibility for the program as a whole should be firmly exercised by the Department of State.

Such organizational changes would contribute to the effectiveness of these programs, clarify their relation to foreign policy and make our objectives and rationale more understandable to the Congress and the American public.

But we should be clear about directions. As the US moves from war to peace in Vietnam, a rapid change in the mix of the foreign assistance program from military assistance to development assistance would more effectively advance US interests in the world.

Chairman PROXMIRE. Mr. Fried, I neglected to point out that you were formerly executive director of the presidential task force on international development and that also, of course, adds to your qualifications.

Mr. Halperin, also of the Brookings Institution, we are delighted to have you, sir, and you may proceed. You also have quite a substantial prepared statement. If you would like to abbreviate the prepared statement we would appreciate it and we will put the entire prepared statement in the record.

STATEMENT OF MORTON H. HALPERIN, THE BROOKINGS INSTITUTION

Mr. HALPERIN. Thank you very much. I will try to abbreviate my prepared statement and not repeat many of the things that have already been said this afternoon and this morning.

Let me begin by identifying what seem to me the six principal questions concerning the military assistance program: First, what military equipment and training the United States should transfer to foreign governments.

Second, how these transfers should be financed.

Third, what advice, if any, should we give to foreign governments about what equipment they need, and how they should use this equipment.

Fourth, in what budget should the major elements of security assistance appear.

Fifth, by what process should the U.S. Government determine the form, level, and mix of these programs.

And finally, six, how should these programs be administered.

Before considering some of the purposes of security assistance and guidelines which should apply in various categories, I propose to present in summary form based on my own experiences in the executive branch with the military assistance program for 1966 to 1969 a list of some of the inadequacies of current programs and then some recommendations as to how they might be corrected.

In my view the present process is inadequate for several reasons. First, it inhibits effective budgetary and resource allocations by the governments of the developing countries. Mr. Fried has already discussed this in some detail.

Second, it fails to engage the overall budgetary processes of these countries.

Third, it tends to encourage and to facilitate the maintenance of defense programs and defense forces which may be unnecessary as well as beyond the resource capability of the recipient country to sustain.

Fourth, it tends to promote a continuing dependent relationship on the United States for logistic planning and support.

Fifth, it fails to provide the Congress and the public with a persuasive rationale for particular levels of funds being requested for various countries.

Sixth, it does not provide effective presidential surveillance of policy and control over the resources to particular countries.

I suggest four proposals that would at least help to deal with these inadequacies.

First, the tool of country program budgeting should be applied as quickly as possible to all countries which receive substantial amounts of security and development assistance, and this should include the development and approval by the President of force goals for these countries.

Second, all other security assistance programs should be viewed as political. No force goals should be developed within the American Government for these countries, and the State Department should have the primary responsibility for determining the shape of these programs and administering them.

Third, all grant assistance programs, both in the military assistance program and in the defense budget should be terminated beginning in the coming fiscal year for all of the nonsecurity countries, and all security assistance thereafter should be provided on a credit sales

basis. With forward defense countries fiscal year 1975 should be established as a phaseout date for all grant programs although many of the countries could be phased out more quickly.

Finally, I believe that all security assistance programs should be brought together under one legislative package with policy responsibility vested in and, in fact, exercised by the State Department.

Let me turn now briefly to the purposes of security assistance. I think these should be seen in three rather distinct categories. First, for some countries the United States has a specific and direct security interest in the combat capabilities of the military forces of these countries. In some cases threats to their security could require the use of American combat forces and in some of these cases there is a direct tradeoff between levels of American military forces and local capabilities. These countries are Korea, Greece, Turkey, Taiwan, Thailand, Vietnam and Laos, and also, I think, increasingly one should think of Israel, Jordan and perhaps Cambodia in this category.

The second category are those countries where we wish to maintain base and operating rights, and which we, in fact, pay for, in effect, by military assistance. These include Spain, Portugal, Libya, the Philippines, and Ethiopia.

And finally, there are a whole range of countries in which we have a general political interest in the orderly political, social and economic development and foreign policies consistent with our own. For these countries we use military assistance, I would argue, with very limited success as a political instrument to pursue foreign policy goals.

Let me turn then more specifically to the security countries. The specific U.S. security interest in the capabilities of these countries is dependent on an appraisal of the external threat of aggression to these countries and upon the U.S. strategy or intentions for using its own forces to deter such aggression and to respond should contingencies arise.

I think, in general, it is clear that the U.S. would prefer that these countries develop their own capability to deal with threats to their security, and the commitment of the United States to intervene, of course, varies a good deal from country to country. For some countries, Laos, Cambodia and Thailand, there are now specific legislative injunctions against the use of American combat forces, and in other countries such as Jordan, and Israel, the United States has no explicit commitment to intervene.

In the case of Korea, Greece, Turkey, and Taiwan, the United States clearly would be involved given our security treaty commitments if there was a threat to their security.

It has generally been argued that changes in the capabilities of combat effectiveness of the forces of these countries could affect inversely the requirements for U.S. force structure and budgetary costs so that there is a tradeoff between U.S. forces and the deployment of U.S. forces and the local forces.

It seems to me this is particularly true, and perhaps uniquely true, in the case of Korea since American forces have been maintained specifically for the defense of Korea, and in fact have been deployed

in Korea. If one looks at the other cases, the situation is much less clear. There are no clearly identified American forces which are maintained for the defense of Thailand, Taiwan, Greece, Turkey, or other forward defense countries, and it is not at all clear that any American forces could or would be disbanded if the capability of these countries increased. And in most of these cases their own forces are not designed or deployed to meet the threat which would call into question our security commitments. Thai forces, for example, seem to me to be designed and deployed primarily to affect political development in Thailand, and to some extent to cope with the problem of insurgency.

Taiwanese forces are designed to help perpetuate the myth of a return to the mainland.

Greek and Turkish forces continue to be deployed and maintained largely against each other rather than against Warsaw Pact forces. Thus it seems to me that only in the case of Korea is there a clear trade-off between American and local forces which permits a saving in American peacetime defense expenditures if local forces are improved.

In the other cases, improved local forces could avoid facing the United States with the choice between intervention or seeing friendly local forces defeated. However, in such cases, I think we need to ask the very hard question of whether U.S. aid is likely to make a critical difference to whether the local forces will be effective and also to ask whether increases in American aid will not increase the American commitment or the bureaucratic momentum which would make American intervention more likely.

As others have indicated, the Joint Chiefs of Staff, in the so called JSOP do develop force goals for a large number of countries including the forward defense countries based largely on the recommendation of the MAAG's and the unified commanders. These recommendations are generally for maintaining or improving forces rather than for reducing them, and these force goals are not in any way approved or even reviewed at higher political, civilian and budgetary levels in the United States or indeed in the recipient country. Rather they become planning recommendations which form guidelines for resource transfers and for determining so called shortfalls in U.S. military assistance programs.

I would argue, Mr. Chairman, that the primary burden in determining what military forces to maintain should rest with the local government. The United States should insist that the local governments develop a plan which relates security expenditures to development and which provides a rationale for the desired military forces in relation to the threat. Every effort must be made to see that this plan is, in fact, indigenously developed. To accomplish this objective, as has already been suggested, American MAAG units should be eliminated in most cases and in all cases greatly reduced.

Moreover to engage the responsible officials of the local government they should be forced to budget for the military forces which they wish to maintain and this means that our aid should be provided on a credit sales rather than a grant basis.

A reduction of the role of American military advisers would, I

think, have the added advantage of reducing the sense of commitment which develops on both sides when such aid is offered and accepted. The record of such advisory efforts in the past makes it difficult to argue that the elimination of such advice would have adverse consequences to the effectiveness of local forces.

Now, when one turns to all other countries, the essential point is that there is no relationship between the size of their forces and the effectiveness of their forces and U.S. security interests or the size of the U.S. defense budget. Therefore, I believe that for such countries no force goal should be established by the Joint Chiefs or by any other part of the executive branch and that the choice of how much aid we should give them should be primarily based on political judgments as to our interests in those countries and, as I say, should be managed by the State Department. We should recognize that these are political programs and political programs, I would argue, with very limited utility.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Halperin and gentlemen. These have been stimulating and fascinating statements and I appreciate the presentations.

(The prepared statement of Mr. Halperin follows:)

PREPARED STATEMENT OF MORTON H. HALPERIN*

Mr. Chairman, it is a great honor and pleasure to testify before this distinguished Committee which has done so much to illuminate the economic issues facing this country.

In discussing military—or what I will call—security-assistance today my aim is to suggest how one should approach the policy issues raised and to examine alternative organizational arrangements to administer the various programs.

SECURITY ASSISTANCE AND DEVELOPMENT

My colleague Edward Fried will be discussing in detail the relationship between security assistance and development. I propose only to make a few general points before turning to a more specific discussion of security assistance *per se*.

1. In countries to which we give both development and security assistance we generally pursue two purposes in common with the recipient governments:

a. Promote "stable" economic growth and political development;

b. Facilitate the maintenance of a military and paramilitary police capability appropriate to meet external threats and maintain internal security.

These purposes compete for limited resources, and each is often furthered at a cost to the other.

2. As with development assistance, the transfer of resources through US security assistance has two major economic effects on the recipient:

a. It increases the total resources available for these two purposes.

b. It may influence the distribution of resources between these purposes and to particular programs within each category.

3. The receipt of these resources from the US enables or compels the receiving government to make other allocational choices, depending upon the form of assistance. The receiving government can use the security aid it receives to increase what it plans to spend on military forces or it can use the resources for planned military forces and reallocate its own funds to development or consumption. These choices are in general made by informal and poorly understood procedures. The United States has leverage only insofar as it can

*The author is responsible for the following statements and interpretations. They do not purport to represent the views of the other staff members, officers, or trustees of the Brookings Institution.

constrain, influence, or direct resource allocation or access to military equipment. If a recipient nation will reallocate its own funds to maintain a desired military spending level in the absence of US aid and can obtain equipment from other sources (e.g., France, U.K., Soviet Union), US military aid, in fact, finances other programs. This inter-relation makes it imperative that the US government plan its development and security assistance programs for major recipient countries in conjunction with each other and all other resource transfers. This planning must include an analysis of the real effects on the recipient nation's budgeting process. Only in this way can sensible decisions be made about US choices between levels of development assistance and security assistance to a particular country. The process for doing such studies is now in existence within the National Security Council system. However, it is difficult to ascertain how widely this system has been used or to judge how effective it has been.

SECURITY ASSISTANCE

I. The issues

The central policy issues of security assistance relate to programs and organization as follows:

1. Programs

a. What military equipment and training should the US transfer to foreign governments.

b. How should these transfers be financed. The existing forms are

1. Grant (MAP) of materiel, either new or from DOD excess stocks.
2. US financed or guaranteed credit sales.
3. Local defense budget supporting assistance.
4. Other short term economic assistance.

The economic costs to the US will vary depending upon the form of security assistance. (See Annex for details.)

c. What device (if any) should be given to foreign governments about what equipment they need and how they should use this equipment.

2. Organizational/legislative

a. In what budget should the major elements of security assistance be.

b. By what process should the US determine the form, level, and mix of these programs in general and for particular countries.

c. How should the programs be administered.

II. Evaluation and recommendation

Before considering the purposes of security assistance and the guidelines which should apply for each category I propose to present in summary form. based on my own experience with the Military Assistance Program from 1966–69, a list of the inadequacies of current procedures and some recommendations.

In my view the present process is inadequate because

1. It inhibits effective budgetary and resource allocations by the governments of developing countries between competing needs for current security and economic stability on the one hand and long term economic growth on the other;

2. It fails effectively to engage the overall budgetary process of the government of the recipient country;

3. It tends to encourage or to facilitate the maintenance of defense programs and defense forces which may be unnecessary as well as beyond the resource capacity of the recipient country effectively to sustain;

4. It tends to promote a continuing dependent relationship upon US logistical planning;

5. It fails to provide the Congress with a persuasive rationale for the particular levels of obligational authority being requested for grant or credit assistance;

6. It does not provide effective civilian (Presidential) surveillance and policy control over the total flows of US military end items to developing countries.

III. To correct some of these inadequacies

I would recommend that:

1. "Country program budgeting" analysis procedures should be applied as quickly as possible to all countries which receive substantial amounts of secu-

rity and development assistance. These generally are the "forward defense" countries, and should therefore also include Presidential-approved force goals and force development for programming support.

2. All other security assistance programs should be viewed as political. No US force goals should exist for these countries. The State Department should determine and administer the programs.

3. All grant assistance programs, now both under MAP and AID, should be terminated beginning FY 71 for all non-forward defense countries, and all security assistance thereafter provided on a credit sales or loan basis. For the forward defense countries, FY 75 should be set as a target phaseout date, although particular countries, such as Greece, may be phased out even sooner.

4. All security assistance programs should be brought under one legislative package with policy responsibility vested in the State Department.

IV. The Purposes of Security Assistance

The United States provides security assistance that supports the national security programs and military forces of certain developing countries for one of three major reasons:

1. It has a specific and direct security interest in the combat capabilities of the military forces of certain countries against specific threats. In some cases threats to their security could require the use of American combat forces and in some of these cases there is a direct trade off between levels of American military forces and local capabilities. Most of the countries in this "security" category are the so-called "*forward defense*" countries to whose defense against external aggression the United States has committed itself either through bilateral or multilateral treaty arrangements. These countries are Korea, Greece, Turkey, and Taiwan, currently funded under the Foreign Assistance Act (FAA), and Thailand, currently funded through the DOD budget. Aid to Vietnam and Laos is now also financed in the DOD budget. Israel, Jordan and Cambodia should also be treated in this category, in that the United States has a direct interest in their capability to meet existing threats, although the US has no treaty commitment to come to their aid.

2. It wishes to enjoy rights to maintain and operate from certain bases as well as to have other privileges such as overflight rights that support its military policies and strategy. Countries in this category include Spain, Portugal, Libya, the Philippines, and Ethiopia, all now funded under the FAA.

3. It has a general political interest in the orderly political, social, and economic development of the developing countries as well as in the stability of the political, economic, and military relationships among them. It therefore uses military assistance, generally with very limited success, as a political instrument to further such ends as: (1) to gain and maintain influence within the military establishments of various countries and to restrain unnecessary defense expenditures; (b) to help provide a military and paramilitary capability for internal security; (c) to maintain a balance of military forces in an area such as the Middle East; (d) to pre-empt other countries from replacing the US as the major influence with the military establishments of certain countries such as in Latin America; (e) to restrain regional arms races; and (f) to further other diplomatic and political objectives. The rationale and the process for determining the levels of military assistance to countries falling within each of these categories for relating them to development assistance differ in certain major respects.

A. The security countries

The specific US security interest in the capabilities of the forces of these countries is dependent upon an appraisal of the threat of external aggression to these countries and upon US strategy for using its own forces to deter such aggression and for responding to contingencies arising from these threats.

In general, the United States would prefer that these countries develop the capability on their own to deal with threats to their security, and commitments or intentions to use American forces vary. For some countries, i.e., Laos, Cambodia and Thailand, there are specific legislative injunctions against the use of American ground combat forces and a Presidential commitment not to introduce such forces, although US air power is used in these countries. In other cases, i.e., Jordan and Israel, the United States has no commitment to intervene but might conceivably do so in certain situations if local forces

face defeat. Threats from abroad to the security of Korea, Taiwan, Greece and Turkey (other than from each other) would clearly involve US treaty commitments and American forces would almost certainly be involved.

Changes in the capabilities and combat effectiveness of the forces of these latter countries could inversely cause changes in the US force structure and its budgetary costs. The military forces of these countries can be "tradeoffs" with US military forces and their deployment. This is particularly true for Korea since certain American forces are maintained specifically for her defense and have been deployed in Korea. In the cases of Thailand, Taiwan, Greece and Turkey the situation is less clear since there are not clearly identified American forces which could be disbanded if the capability of these countries increased, and their own forces are not designed or deployed to defend against the threat which the joint forces would be designed to meet. Thai forces, for example, seem designed primarily to control political developments in Bangkok and secondarily to cope with insurgency; they give little or no attention to the threat of conventional attack. Taiwanese forces are designed to help perpetuate a myth of a return to the mainland. Greek and Turkish forces continue to be deployed against each other rather than against Warsaw Pact forces. Thus, only in the case of Korea is there a clear trade-off between American and local forces which permits a saving in American peace time defense expenditures if local forces are improved.

In other cases improved local forces could avoid facing the United States with a choice between intervention or seeing the "friendly" local forces defeated. However, in such cases we need to ask whether American aid is likely to make a critical difference to the effectiveness of these forces and whether it will increase the American commitment or bureaucratic momentum which would make American intervention more likely.

US military planners, such as the Joint Chiefs of Staff, could, either independently or jointly with similar military planners of these countries, develop and recommend, on the basis of scenarios and military analysis, a force structure for each of these countries which is appropriate to these threats and to various strategies for meeting them. In fact, the Joint Chiefs of Staff do make such recommendations in the form of force goals and force development plans in the annual Joint Strategic Objectives Plan (JSOP). This portion of the JSOP is in turn based largely upon submissions and recommendations from the Military Assistance Advisory Groups (MAAGs) and the Unified Commands to the Joint Chiefs of Staff. These recommendations are generally for maintaining and improving the existing force structure. The force goals of the JSOP as presented are not in any way "approved" by the political and budgetary authorities either of the US or of the recipient country. Rather they are planning recommendations developed within the military bureaucracies of both the United States and the recipient country. The reconciliation of competing demands on total available resources does not take place either in the recipient country or in the US government.

Experience shows that there is a wide divergence in the assessment both of threat and of the required means for dealing with it not only between the United States and the governments of recipient countries, but within the executive and legislative branches of the US government.

Choices between security programs and development programs, common in varying degrees of urgency to all developing countries, are thus from the standpoint of United States assistance most acute in the security countries. The process for making these choices engages political sensibilities in all competing bureaucracies both in the US government and in the recipient. Clearly, threat, strategy, and risk are relevant factors in the calculations. DOD alone cannot develop the complete rationale for any part of the security assistance program. The responsibility for recognizing and accepting "risks" in whatever may be the alleged gap between the perceived present and projected threat and the military capabilities to be provided to meet it is that of the political authorities of both the United States and the recipient government.

The primary burden of determining what military forces to maintain should rest with the local government. The United States should insist that the local government develop a plan which relates security expenditures to development and which provides a rationale for the desired military forces. Every effort must be made to see that this plan is indeed indigeously developed. To ac-

complish this objective American MAAG units should be eliminated or, where necessary, maintained to provide technical training in the use of sophisticated equipment. Moreover, to engage the responsible officials of the local government they should be forced to budget for the military forces which, therefore, should be provided on a credit sales rather than grant aid basis.

The reduction of the role of American military advisers in developing force requirements for local forces will have the added advantage of reducing the sense of commitment which develops on both sides when such aid is proferred and accepted. The record of such advisory efforts in the past makes it difficult to argue that the elimination of such advice would have adverse consequences for the effectiveness of the local forces.

B. All other countries.

What clearly distinguishes the determination of appropriate levels of military assistance to security countries from those to all other countries is that the particular military capabilities and combat effectiveness of the military forces of the latter countries is not of direct security importance to the United States and thus cannot affect US defense budgetary decisions and the size of the US force structure. Unlike the case of the security countries, there is little basis in military analysis for US military planners such as the Joint Chiefs of Staff to develop and recommend a particular force structure and force development plan which is in the security interests of the United States for these countries to maintain. Nonetheless they in fact do so in the JSOP for many other countries besides the security countries.

It could be argued that the cost of the "rent" the US should pay in the form of military assistance to the countries in which its primary interest is in base rights could be computed in terms of the added costs that might accrue to the US defense budget if the US had to alter the pattern of its deployments and operations were these bases denied. Such computations are highly complex and tenuous at best. Even if they could be made, they would in any case probably not serve as the basis for negotiating levels of assistance with recipient governments or for justifying them to Congress.

Choices between security assistance and development assistance for all of the non-forward defense countries are inherently no less political within the processes of the US government and that of the recipient. They are, however, made somewhat easier for the United States by the absence of a more specific and demonstratable military interest in the capabilities of their military forces. Continuing efforts to rationalize and justify levels of assistance to these countries on military grounds are bound to meet with decreasing success, and run the risk of unintentionally generating an implied American commitment. For these countries, the essential political basis for all security assistance should be recognized, as well as the limited utility of such assistance.

V. Grants versus sales.

Section 505c of the FAA directs the President to shift progressively to developing countries more of the burden of their total defense costs as their economies grow. This has in fact been the trend over the past years, and it is right that it continue. A shift to credit sales does not mean however that there no longer is any cost to the United States. Since appropriated budgetary funds are required to finance credit sales directly by the US government or to underwrite commercial credit sales by guarantee, an opportunity cost to the US economy is involved. This cost is the foregone alternative uses of those federal budgetary resources. There is an additional cost to the US if concessional credit terms are given to a developing country. Nonetheless, a shift from grant to US government financed credit sales reduces the US contribution to local defense costs.

Most important, a shift to credit sales tends to force the recipient government to face up to the present and projected total costs of its defense establishment and to improve its own force planning. It clearly makes a difference whether equipment is to be provided free by the US or whether it will have to be financed from locally available foreign exchange.

There has been for too long a tendency through MAP grant planning by MAAGs for the US to decide what countries need to do the detailed logistical planning and costing for them. Perhaps because of earlier prohibitions against joint US-host country forward planning (prohibited to preclude the implicit

commitments of future deliveries of MAP), or perhaps because it is inherent in the present grant aid process, the allocations of MAP dollars were resolved through budgetary battles among the US Army, Navy, and Air Force elements within US MAAGs. Each was an advocate on behalf of the "best interests" of its national service counterpart as it saw them.

Shifting out of grant aid may not automatically bring the local defense budgets under more stringent scrutiny by political and financial authorities and rationalize the defense budget. But it should be a step in that direction. Furthermore, it will move the US away from military assistance which is rationalized as "what the US military say they need" to "what they want to buy and what the President believes we should facilitate their acquiring through US financed credit assistance."

Thus, with the possible exception of Korea and Turkey and the countries of Southeast Asia in the post-Vietnam situation, the US should move immediately out of all further grant aid, both in MAP and supportive assistance. For the excepted countries, a target total phaseout date of 1975 should be established.

VI. Alternative Organizational and Legislative Framework for Security Assistance

Given the President's proposal for a clear distinction between *development assistance* and *security assistance* and for separate processes in their planning and administration, three alternative frameworks for security assistance seem feasible:

A. *Status quo.* Retain grant military assistance and economic assistance in common foreign aid legislation with funds appropriated to the President. Military assistance responsibility can continue to be shared by State and Defense with State having primary policy responsibility and Defense directing program execution. Retain separate foreign military sales legislation with responsibilities shared as for grant MAP.

Variations: (1) Recombine FMS Act with Part II (military assistance) of Foreign Aid Bill. (2) Break out development assistance under separate bank-type development lending agency but retain balance of economic aid (including security assistance) under current reorganizational (i.e., AID) and legislative framework.

B. *New Security Assistance Program.* Separate security and development assistance legislatively and organizationally. Provide authority for military assistance (both MAP and FMS) and economic forms of security assistance with funds appropriated *to the President.* Responsibility for military assistance could be shared by State and Defense as now, while responsibility for economic forms of security assistance can be assigned to the successor to AID. (This assumes some economic aid agency will remain to manage technical assistance and other pieces of current economic aid program not suitable for the development lending agency.) However, some provision for the centralized decision-making on the levels and mix of programs has to be clearly institutionalized. This could be:

(1) *Security Assistance Agency in State.* This agency would provide policy direction to the military assistance program which would be executed by Defense. Economic forms of security assistance (e.g., supporting assistance) would be direct responsibility of the new agency.

(2) *Defense Responsible for all Security Assistance.* Assign Defense responsibility for management and execution of all security assistance programs under the policy direction of State.

(3) *Security Assistance Director in the Executive Office.* Director would provide policy direction for execution of military assistance by Defense and economic assistance by an economic aid agency in State.

C. *Merge Military Assistance with Regular Defense Program.* Combine authority for all forms of military assistance (grant MAP, FMS, MASF) in new military assistance legislation with funds provided in regular defense budget but separate from the military departments' budgets. Military assistance programs would be directed by an Assistant Secretary of Defense for Military Assistance (or other appropriate civilian policy official) under policy guidance of the Secretary of State who would retain his current responsibilities under Sec. 622(c), Foreign Assistance Act.

Variations: (1) Funds could be appropriated to the President. (2) Funds could be dispersed and included in the military departments' budgets and appropriations.

Alternative B(1), a new security assistance program directed by State, seems the one which would hold the most promise for correcting the deficiencies of the present processes.

ANNEX—ELEMENTS OF SECURITY ASSISTANCE TO SUPPORT NATIONAL SECURITY PROGRAMS OF DEVELOPING COUNTRIES

The following current US assistance programs are properly considered a part of security assistance as it has been defined above:

1. Military Assistance

a. *US appropriated funds*—(1) Grant military assistance (MAP) in the form of material, services, training, requiring the expenditure of US funds as authorized under Part II of the Foreign Assistance Act (FAA);

(2) Grant military assistance in the form of excess stocks available from the US military departments at a cost either to MAP or the recipient government of only transportation and handling charges and rehabilitation costs. This source of assistance may become particularly significant in the post-Vietnam period of surplus disposal.

(3) Grant military assistance (MASF) in the form of materials and services requiring the expenditures of funds appropriated to the US military departments in the regular defense budget. This source is now used primarily for Vietnam, Laos, and Thailand, and for Vietnam-related support of the forces of other countries.

(4) Credit sales of military items (FMS) requiring the obligation of US funds authorized under the Foreign Military Sales Act. These funds may be used to provide direct credit or to guarantee privately financed credit.

(5) Other assistance indirectly provided to foreign forces by the US military departments utilizing DOD funds but not funded and accounted for under the MASF program. Examples would be construction of facilities for US forces which may be jointly used but which eventually will pass to the foreign forces.

b. *Non-appropriated funds*—(1) Ship loans of major combatant ships requiring ship loan legislation.

(2) Sales of naval ships (usually at scrap value).

(3) US Government cash sales of military items utilizing the procurement and supply systems of the US military services.

2. Economic Assistance

a. *Appropriated funds*—(1) Supporting assistance administered under AID under Part I of the Foreign Assistance Act to offset the local currency or foreign exchange costs of the recipient's military forces.

(2) PL–480 assistance (administered by AID and Agriculture) used to offset the local currency or foreign exchange costs of the recipient's military forces.

3. Other Assistance

a. *Appropriated Funds*—(1) Grant assistance of materials and services to support para-military or police forces utilizing funds appropriated under Part I of the FAA and administered by AID through its Office of Public Safety.

Chairman PROXMIRE. One of the last points you made, Mr. Halperin, was with respect to the force levels determined by the Joint Chiefs of Staff, which, in turn, as I understand it, are one the guidelines, one of the bases, on which military assistance is determined.

You pointed out that these are not reviewed by civilian authority or budgetary authority in this country or by any budgetary authority in the recipient country. There is no attempt to reconcile this competing demand on the resources of the recipient country anyway.

Mr. HALPERIN. That is right.

Chairman PROXMIRE. And, as a result of this, the determination is really made by military bureaucrats in this country and the recipient country without any effort by any group to try to determine whether

this is in the best overall interest of stability, of social and political stability, of preventing subversion, and indeed in the long run, I suppose, having a country that is strong enough and unified enough to have an effective military force, is that correct?

Mr. HALPERIN. That is right.

Chairman PROXMIRE. Really how important is this force level? This morning we were asking Mr. Katzenbach about this and, as you know, he was Undersecretary of State and had some responsibility in this area, considerable responsibility, and I got the impression from him that this was something that was used as a guide but on the basis of that it was not followed very closely.

Mr. HALPERIN. I think, Mr. Chairman, that that is true for that portion of security assistance——

Chairman PROXMIRE. Mr. Hoopes, I guess, I beg your pardon, Mr. Hoopes.

Mr. HALPERIN (continuing). Which is in the Foreign Assistance Act and is called the military assistance program. There the Joint Chiefs force goals do provide a basis but there is then political bargaining between State and Defense and the Budget Bureau and the White House to determine the amount of money which will be given to various countries. However, within that sum what equipment is actually transferred is largely determined by JSOP. But where I think it is much more important is in the other forms of resource transfer, the use of surplus equipment and long supply equipment, which has been transferred by the military, as I gather Senator Fulbright talked about yesterday, with really no checks from either the Congress or indeed from the executive branch in Washington. The basis for the military determination as to what of surplus or long supply equipment should be transfered to other countries was, in fact, the JSOP. As you know, Congress every year is informed of shortfalls difference between what we are supplying and what we think we ought to supply. The "we" in there is not the executive branch as a whole, but the JCS determined JSOP force levels. So I think they have been much more important than most people have realized in determining equipment that the military have transferred and in determining the sense in other countries that we owed them more equipment than we were giving them because we had these acknowledged shortfalls between the JSOP force goals and the equipment that we were supplying.

Chairman PROXMIRE. So when you look at this overall we have at least a substantial amount of military assistance determined to a considerable degree by military people in our government and the other government without adequate budgetary civilian control. But then you also have, and you gentlemen, I think, unanimously suggest that this program would be improved if it were put on a sales basis or a credit basis or at least phased in that direction, you have varying views as to how soon that can happen or how completely it can be effectuated right away and that, of course, would exercise discipline, would it not? That would mean the host country would have to determine whether or not it was that important to get it, and then in addition to that you very seriously question the use of our military advisers, whether they are effective, whether they are competent to

provide the kind of advice that would be helpful, and indeed, Mr. Whitson, your analysis would suggest to me that it is just about impossible for us to develop military advisers that would be able to do the job. Your prescription is that the adviser should so closely identify himself with the host country that he puts out of his mind the security interests of the United States of America. He would have to be quite an unusual person, and I am not sure that we could justify sending that kind of an American, at least be able to convince our colleagues in the Congress that it would be in the best interests of America to send that kind of American, to the country from our standpoint. Wouldn't you agree with that?

Mr. WHITSON. I think what we are talking about is an adviser who, in effect, does for the military side what our Foreign Service and what our State Department officials try to do on the broader political or economic side, that is to find compromises between United States and host country interests.

I completely agree with my colleagues who have said that the JSOP tends to determine a great many of the force levels that we are striving for. That is one extreme of American interests and perspectives without benefit of not only nonmilitary comments and perspectives but even without benefit of host country perspectives. The other extreme would be what I think you have just suggested; that is, an American adviser who would take completely the host country perspective on threat, military-political development, et cetera, without any regard for mutual interests. I am suggesting that we should try to train men, on the one hand, to have an appreciation of local problems. But at the same time he should be concerned with American interests in the situation. The major administrative issue is how conflicts of interest should be decided? How should such conflicts be processed? My position is that they must be based primarily on judgments made in the field. You must have people who go out for brief trips to collect data. But I think their judgments on many host country issues will be considerably less valid than that of people in the field.

Chairman PROXMIRE. Well, then, Mr. Fried suggests that one way we can get this reconciliation, in addition to credit assistance instead of grant assistance, as I understand it, is to provide the assistance we do provide in a lump sum, so the economic and military assistance would be together, it would be kind of a bloc grant that they can use for the recipient country to make up its mind as to how to use it; is that correct?

Mr. FRIED. May I comment?

Chairman PROXMIRE. Yes.

Mr. FRIED. Yes; but on the basis, Mr. Chairman, that we think more and more of providing our assistance as development assistance.

Clearly, security assistance, including assistance to help countries meet a defense burden, and assistance to help countries invest in economic development, both represent assistance from the outside. It is a flow of resources that can serve both purposes.

Chairman PROXMIRE. You see here is what I am getting at. This is the difficult problem that I think none of our witnesses, including you three gentlemen, none of our witnesses hit on the head. That is,

if you provide assistance in this way you can't get it through the Congress. The fact is that the foreign aid bill was pulled through the Congress for years because it had military assistance teeth. You can sell military aid to the American public on the grounds that you don't want American boys to die in foreign lands, we are providing funds so that the foreigners, foreign friends of ours, can fight their own battles with their own troops. But, if what you are going to do is give them something in a package that is called general assistance for these countries, then because the foreigner doesn't vote in this country and foreign aid has no constituency it is weak in the Congress and it is hard to fund that kind of a program adequately.

Mr. FRIED. I think this is a question that the Congress has to face. It is not enough simply to say that one form or another of security assistance is not effectively enough used. If the choice is between that assistance or none at all in certain countries, it might be better to have that assistance rather than to put the entire defense burden on a developing country with the net effect of restricting and impairing its development program.

Mr. HALPERIN. May I comment on that?

Chairman PROXMIRE. Yes.

Mr. HALPERIN. I think that where there is, in fact, a situation where the increase in the effectiveness of local forces could mean that American boys might not be sent to fight where otherwise they would have to be, it does make sense to say if we can't get the money for development assistance we should give it through security assistance. But that seems to me a very small number of countries. The notion that military aid to Greece or Turkey, for example, would make the difference between American intervention or not seems to me to be absurd. First of all, it is very difficult to imagine a Soviet invasion of either Greece or Turkey, but it is also the case that no matter how much military aid we gave to those two countries they can not get themselves into a position where they can alone deal with a Soviet military threat.

So that given our treaty commitments to them we would have to be involved in that kind of a situation no matter how much aid we gave them. I think we have to recognize that they don't use the military aid that we give them to improve their capability against the Soviet Union. They are much more concerned with, in fact, their military balance between the two countries.

In the case of Taiwan, military capability is far larger than necessary to defend Taiwan, as I gathered Mr. Hoopes was mentioning this morning. So that substantial reduction in our military aid to Taiwan would not mean that it would be more likely that American forces would be involved, and so on.

It seems to me the only countries for which this is valid are, first, the Southeast Asian countries to the degree that we feel a commitment to them.

Second, Israel, and third, Korea. The Koreans are already in a position where they can defend themselves against the enemy.

Chairman PROXMIRE. You made a very rational and convincing argument, I think. But it is not the way we operate in the Congress.

Mr. HALPERIN. No, but what I am suggesting is——

Chairman PROXMIRE. What I am saying if you package something like this as military assistance, something that is going to make the difference in defending the free world against communism militarily, maybe I stressed too much the shedding of American blood, but defend the free world against the encroachment of communism, then I think you can make a fairly strong argument with Members of Congress that we ought to spend hundreds of millions of dollars. I am not saying this is right but I am saying this is the kind of argument you can make.

On the other hand, when you put it in terms of economic development, of course, on the other side the argument is "Well, we need economic development in Milwaukee, Wis., or in Pennsylvania or in Ohio and we need it badly. We have poor people, we have hungry people, we have people who urgently need assistance, why should we give it to some foreign country," and unless we can argue that this is defending the free world militarily in some way it is extraordinarily difficult to get this through. This is irrational, it is hard to justify or explain but I think there is that problem.

Mr. HALPERIN. But my proposal, Mr. Chairman, would be not to give the aid if that was the choice for most countries. I don't think we get anywhere in encouraging them to have larger military establishments than they need and giving aid and justifying it on those grounds creates the sense of commitment which is what has gotten us involved in countries where we do not intend to get involved. So if that is the choice I would say for most countries I would say then let's just give them less aid.

Mr. FRIED. The problem in what Mr. Halperin is saying, as he says himself, is that most of our aid goes to a relatively few countries, and most of it goes to the few countries that he says he would continue to give it to.

The large number of countries, where he and I would say we should move as fast as possible to a sales basis, or in other terms, to let the test of what these countries want to be determined essentially by the market because they have to buy these goods rather than receive them free, represents relatively a small amount of U.S. military assistance funds. So I think, Mr. Chairman, you have pointed to the central problem, which is how, in the longer term, will the U.S. view its long-term interests.

I would argue that over the longer term it is in our interest to move more and more in the development field, in the field of promoting, enhancing, encouraging development in these areas of the world.

The best example we are talking about is Korea. The most important element, in my view, of the improvement in Korea's capacity to defend itself is that it has achieved as a society a growth rate of 10 to 12 percent a year. That makes it a different kind of society, a much more healthy society, and a society that is able and will be increasingly able in the long run to use assistance effectively and to defend itself.

Chairman PROXMIRE. My time is up.

Mr. Brown.

Representative BROWN. Well, perhaps the same thing might be

said of Vietnam. The question is, To what extent can some of these countries that seem to be significant in perimeter defense go in and pay for their own military needs? This applies whether their military needs are as they see them or as we see them or a compromise between the two. What is your feeling on that? How many of the countries you mention in your list are soon likely to be able to convert to paying for their assistance?

Mr. FRIED. If I may, I would leave out in my comments consideration of the great bulk of security assistance funds—those financed in the Defense Department budget and which are part of the Vietnam war. For how long we will need to provide them and what will be the situation in a post-Vietnam period depends essentially on the settlement there.

If you are talking about the MAP proper, of the $400 million or so that now goes into these countries, the bulk is for Korea, Turkey, Taiwan, and Greece. That is where roughly three-fourths of these funds go. They are significant in Korea most of all, in Turkey to a lesser degree. For the most part Taiwan has now reached the point where it is financing the major part of its own defense and, again, in part, this is made possible because Taiwan has reached a point of rapid growth and rapid development.

Representative BROWN. These things tend to change, however, not necessarily with the seasons, but certainly from decade to decade or from administration to administration. The significance of military buildup in Taiwan in 1960 was somewhat different than is the case today. Would you agree?

Mr. FRIED. I would say the big change today is the economic situation in Taiwan.

Representative BROWN. And also the military pressure being placed on Taiwan by the Mainland Chinese. There was a military pressure of sorts on Taiwan 10 years ago. Isn't that correct?

Mr. FRIED. Yes. But what about the size of the Army?

Mr. HALPERIN. The answer to that is no.

Representative BROWN. There was no military pressure being placed on Taiwan 10 years ago?

Mr. HALPERIN. Mr. Whitson is our expert.

Mr. WHITSON. I think relative to its current situation I would say, yes; but if you are measuring it against, you know, some other standard, a larger standard program——

Representative BROWN. You mean like the war in Vietnam if an invasion occurred?

Mr. WHITSON. Yes.

Representative BROWN. We know the invasion did not occur. But the question relates to our objective 10 years ago versus our objective today and, in that area of the world, the same thing might be said of Vietnam in reverse. What was our objective in Vietnam 10 years ago as opposed to our objective in Vietnam today? Those things tend to change just as the situation in the Middle East changes.

Mr. WHITSON. If I may comment, it seems to me that the subjective appreciation and evaluation of a threat stands in a cause-effect relationship with our Defense Department's ability to convince Congress to allocate funds. In certain cases, a shift in fund ceilings causes

a shift in the priorities of threat perspectives, and vice versa. Whether or not a threat actually existed 10 years ago may have been less important than the fact that the Joint Chiefs, the Taiwanese and others needed to convince Congress—and themselves— that there really was a threat.

I am not sure that we have given adequate attention to the point that one of the rationales which warp the volume and design of military assistance is the need to convince Congress that a particular program ought to exist. In a sense, that requirement to "sell" a program to Congress—which Chairman Proxmire has emphasized—tends to force planners to think in terms of threats and programs that are most salable.

Representative BROWN. Well, I think the point well made is that the significance of military assistance to Taiwan at this point is considerably less than it was 10 years ago. And it is considerably less than the threat to, say, Israel in the Middle East today. But the question I have is how can you set up a flat rule of thumb for suggesting that the grant-in-aid approach be set aside in favor of the military sales approach? I am not sure that one can come to that conclusion on the basis of the varying threats that have existed in recent history or even current history.

Mr. HALPERIN. One can separate the question of how much support we should give to a country with whether it ought to be in the form of grant or credit sales, which could be concessional. The point that we are all making in different forms is that when we give grant aid what we give is determined largely by our military. It does not engage the political process of the host country, it does not engage their budget planners, their economic development planners or indeed in many cases their cabinet. It is simply a question of a bilateral negotiation between our military and theirs which then sets up a military force in their country which draws skilled manpower, which then has to be supported with budget funds to pay the operating cost and so on. Our military should not be the ones to determine what size military force another country has. This distorts their priorities, it gives us a larger commitment than we want to have, it gives us an obligation to bail them out if having taken our advice the thing then goes badly. Whatever the level of threat and whatever the economic gap between what they can afford and what they need, it is better to have them develop a plan for what kind of military forces they think they need, to have that plan argued out and compete for resources internally with economic development and other funds, then have them come to us and say, "This is what we as a country through our normal processes of making these decisions have determined we need, here are the military forces that we think we need." Then if we think that makes sense then we can look to the process of assisting them in getting it through credit sales or by defense budget support or other mechanisms which nevertheless force them to engage their own budgetary process.

Representative BROWN. You suggested, I believe, that the predominant influence in that area be given to the State Department. Is that correct?

Mr. HALPERIN. I think the judgment for the security countries

should be the judgment of the President based on recommendations by the Defense and State Departments.

Representative BROWN. I think you suggested that the predominant influence come from State. If it is a military matter then the judgment of the State Department may be just as questionable as the judgment of the Defense Department if brought into the question with reference to economic and social effects in each country.

Mr. HALPERIN. Or vice versa.

Representative BROWN. That is what I am saying. In other words, State may not be conditioned to judge the military circumstance and Defense may not be conditioned to judge the social and economic circumstances.

Mr. HALPERIN. I was suggesting that maybe the reverse was true. That the Defense may not be in good position to judge the military.

Representative BROWN. If we assume that we ought not to be in business in any event.

Mr. HALPERIN. But the point I wanted to make that for countries where we don't have a security commitment, the predominant influence should be in the State Department because the level of aid is primarily a political judgment about whether we can buy various kinds of influence in those countries by various levels of military aid. It is for those countries that I said the great bulk of the burden should be shifted to the State Department.

Representative BROWN. Mr. Fried, I want to go back to your suggestion. I wouldn't call it a block grant. I think I would call it an international revenue sharing plan. I think there is some question. I am willing to help out Milwaukee as long as Milwaukee helps itself. But referring to the Chairman's suggestion, do you really think that you could sell a free-wheeling approach such as "here is the money, take it and use it as you see fit"? We are having difficulty selling domestic revenue-sharing to those watchdogs, the Treasury and the Congress. This international approach strikes me as a reasonably difficult political proposition.

Mr. FRIED. I wasn't talking about revenue sharing.

Representative BROWN. Maybe that would be the next move. In other words, the quid pro quo, if it isn't going to be military effort in behalf of the United States, maybe a return of some of our financial assistance in taxes. Maybe we could help out the U.N.

Mr. FRIED. Yes, a number of things. I would argue again, that judging from our experience so far, the best way in the longer term—and I wouldn't put the term too far out—for getting good defense efforts in the few countries we are talking about has been through rapid growth rates and effective development. These very countries, as you know, are prime examples.

Now, all I was suggesting was that the United States, as a government, is committing a certain volume of resources for foreign assistance. The question is where do we get better results, from putting more in development assistance and less in military assistance or more in military assistance and less in development assistance. I am arguing essentially that the more we move in the direction of development assistance rather than military assistance, for the same volume of resources, the better off we will be for all of our purposes. That is all I am saying.

Now, if you are asking the further question of what is the best way to use development assistance that raises a different set of questions. I was not saying we give it to them as a blank check and, "You decide what you need." We look at criteria. I would say we should put more and more of our assistance resources through international lending institutions, that we should rely more and more on the World Bank and other development institutions to set the framework under which our own bilateral aid would be given. It is not a blank check. It is based essentially on effective performance.

Representative BROWN. I think that explanation in your prepared statement is a considerable improvement.

Mr. FRIED. Well, that is what I meant and if it came through differently I apologize.

Representative BROWN. Very good. My time is up.

Chairman PROXMIRE. Mr. Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

Mr. Halperin, I want to ask first a point of clarification. In your prepared statement you have a paragraph in which you say, "All grant assistance programs." Is that all grant security and development or are you just talking about security grant assistance?

Mr. HALPERIN. Well, I am talking about all the things that are for security, that is defense budget support as well as what is called military assistance not——

Representative MOORHEAD. Not development.

Mr. HALPERIN. Not development but everything other than development.

Representative MOORHEAD. Other than development. I wasn't just sure about that.

I think, Mr. Halperin, in your prepared statement you put a proposition that all three of you agree with that the reconciliation of demands between security and development aid under the present at least bilateral system, it's made in neither country. This is the essential problem that all of you, I gather, would agree to?

Mr. HALPERIN. That's right.

Representative MOORHEAD. The way you would determine that as far as the United States is concerned on the first basis would be to have all U.S. aid put in one legislative package and all U.S. aid determined on a policy basis by the Department of State, am I correct in saying that? No, I gather that I am not correct in that as far as you are concerned, Mr. Fried.

Mr. HALPERIN. We are saying all security assistance should be in one package and development assistance should be in a separate package.

Representative MOORHEAD. I see. Then there would not be at least so far as the Congress is concerned, there would not be a committee making a determination as to how much should be in one package, how the package would be divided up, is that correct? Yes.

Mr. FRIED. That doesn't have to be the case. My own feeling would be, as I indicated in my statement, that there should be two separate packages just so that the Congress and the public know what it is we are appropriating, but that both be examined in a foreign policy framework within the Congress. For example, you still could main-

tain the two pieces of legislation going through the same committees that they go through now—the Foreign Relations and Foreign Affairs Committees. This is true with the Foreign Assistance Act which incorporates both the military assistance program and bilateral development lending as well. Does that help?

Representative MOORHEAD. Yes. So it doesn't matter to you whether they are two little packages in one legislative bill or separate legislative bills, is that correct, as long as it goes through the same committee?

Mr. FRIED. My feeling is they both should be considered within a foreign policy framework.

Representative MOORHEAD. I think it has got to be in one legislative package, as the Chairman has said. It may be title 1 is security and title 2 is development, but they had better be in the same package because at least for a long time ahead as in the past, I think that the security will be the force that drags, the political force that drags the other through. If we separate them we may lose the other but that is more political.

I noticed a very strong statement by Mr. Fried that to the extent possible development assistance should be routed through multilateral agencies. I wonder if Mr. Halperin and Mr. Whitson agree with that proposition.

Mr. HALPERIN. I do.

Mr. WHITSON. Yes; I do.

Representative MOORHEAD. You mentioned the World Bank. Do you think that the World Bank and IDA are sufficient or do you favor the so-called regional financial institutions? Yes, Mr. Fried.

Mr. FRIED. I think there is a place for both, Mr. Moorhead. I think the system that is evolving is essentially a good system.

I think the important need at the present time is to move more and more to have the World Bank provide a common framework of assessment and analysis of what countries need and for the Bank to be the primary agent in working with countries. That kind of assessment and analysis could be the framework through which bilateral donors and international lending institutions would work—whether the United States, the Inter-American Development Bank, the Asian Development Bank, and so forth.

The way this is moving at the present time is essentially healthy. The World Bank is doing more in this field, and the regional banks are participating along with UNDP, in the assessment of particular countries in their region. This is all to the good.

Representative MOORHEAD. Do you think there is any chance of an African Development Bank joined with the rich capital countries, as the Asian Development Bank has done?

Mr. FRIED. I think it would be a very useful development if the United States and the European countries could arrange satisfactory conditions under which they could contribute capital to the African Development Bank. This would be another piece in this kind of international development system we should want to see developed.

Representative MOORHEAD. What about a Middle Eastern Development Bank?

Mr. FRIED. It seems a bit far-fetched now, but it is entirely logical.

As a matter of fact, if we are not going too far afield, in the Middle East, there are obvious reasons why it could be workable. The countries in the region include capital lending countries as well as capital receiving countries which could make the proposition that much more feasible.

Representative MOORHEAD. And at least one country with the technical know-how to put theirs and other Middle Eastern countries' capital to work in the capital poor countries of the area.

Mr. FRIED. Right.

Representative MOORHEAD. I hope you gentlemen will suggest ideas like this when the appropriate time comes. Thank you, Mr. Chairman.

Representative BROWN. May I speak to one point you raised?

Representative MOORHEAD. I yield to you, sure.

Representative BROWN. You talk about the political advantage of combining general economic development and military development in the same package as far as the Congress is concerned.

It seems to me that our objective is to provide some system for American protection and for the maintenance of peace in the world which will, through either economic or military development in other nations, leave us out of direct involvement in a war-time situation.

Now, your proposal to bring military and economic development programs in a single package and economic development, unrelated to military, in two separate packages, seems to me to raise these questions for debate on each package: who should get how much and how much money totally be put in, what are the military priorities and what are the priorities in the foreign aid area of economic development. But if you put them in a single package, you also bring about a debate on the whole question of whether it ought to be economic aid or military aid. Would that better serve your suggested purpose of trying to move from military aid as quickly as possible into the economic aid area.

Mr. FRIED. Shall I comment on that?

Representative BROWN. Yes.

Mr. FRIED. I see the logic of what you say. I think the problem is that, contrary to Mr. Moorhead, we may well have reached the point where it is necessary to clarify both for the Congress and the American people, what it is we are about and what we are trying to do. Separation would do this better.

I know that in the discussions of the Peterson Group, the President's Task Force on International Development, we had a number of roundtable discussions around the country, and there was a great deal, almost unanimous, sentiment on the need to separate these two parts of our assistance program, that there was confusion as to what we were trying to do in development and what we were trying to do in the military field and that there would be a preference, contrary to what has been the conventional wisdom, for judging this on its merits. I am sure you have been right, Mr. Moorhead, that certainly in the Congress there has been the feeling it was necessary to tie the two parts together as one security package simply because security had more chance of gaining support for the appropriations in the Congress than development did.

We may have reached the point now where we can face up to these

questions as separate issues, defend what we want to provide as security assistance as security assistance, and defend development assistance as such. Now that would mean, and this is one of the reasons I would personally hope that both considerations remain within the foreign policy framework, the Congress and the American people have the opportunity to begin to consider whether it might not be preferable to move more in one direction rather than the other, recognizing that our interests would be better served that way.

Chairman PROXMIRE. Thank you very much, Mr. Fried.

I would like to ask Mr. Whitson, in your prepared statement you put a lot of emphasis in your historical analysis where you discuss the adverse experience that we have had in trying to apply our doctrine of external aggression to a situation in which the principal problem has been or may well be in some cases, many cases, internal subversion. You say, and I quote:

> The Americanization, for example, of an Asian client army (Taiwan, Viet Nam and Thailand provide instructive examples) could mean an emerging disdain for its legitimate and necessary internal political role, an erosion of its ability to play such a role therefore in a context of insurgency or civil war, and an increasingly artificial preoccupation with issues and threats identified as salient by American rather than local perspectives.

Then later you say:

> Far from helping to cope with real internal security issues, American external threat models of war and relevant hardware sometimes contributed to internal disputes that exacerbated the internal political conflict.

So as I get it you argue these are counterproductive, that we should be in a position to be alert, much more alert than we have been to internal subversion, and you indicate, I think rightly, that there is a problem of defining internal insurgency or subversion. Now presumably if we are going to combat this, someone would make the determination that there is a threat of insurgency in a foreign country sufficiently to require U.S. intervention in the form of military assistance. Who in the Federal Government would make this critical decision? How would an insurgency situation be distinguished from general dissent or even civil war and would it become our policy to maintain the government in power no matter how oppressive and wouldn't we be aiding a government to repress their own people?

Mr. WHITSON. Each one of those questions, Mr. Chairman, is a $64 question, but it seems to me that in my recommendations, the procedure for making such judgments must begin at the other end of the bureaucratic chain from that discussed by Mr. Fried; that is, the field country team. I am personally less concerned with the packaging of budgets in Washington and more concerned with fostering more accurate field assessments of the questions you have raised; namely, the degree to which insurgency or internal security versus external threat really is the issue. We must have people on the scene who are not wedded primarily to the joint strategic operations plan, to American values and standards and so forth.

To cite a case of what I am talking about, we referred a moment ago to Taiwan, and emphasized what we have given over the years to its defense against an external threat. We have very much played down and tried to avoid any notion of internal insurgency or threat

to Taiwan. Yet this is something which has concerned some students of the island because, as the years go by, as the United Nations' issue comes around next year, there is likely to be a crisis point on Taiwan. I would dare say that the ability of MAP-supported forces designed to cope essentially with an external threat, would be less effective for coping with an internal security situation.

Chairman PROXMIRE. But you see what I am getting at is under these circumstances I can see why we would hold down our conventional military assistance, our pouring in equipment and so forth that puts a burden on the government and maintains the status quo situation and it prevents adaptability. But I can't see that we would do anything else except reduce that. I don't see how we would move in with anything else. Why should we assume that we are, why should we play God under these circumstances? It is true if the subversion is something in South America that we have good reason to suspect comes from Castro or if there is subversion that we think with good reason comes from Mainland China operating on Formosa that is one thing. But except for that kind of a situation, we ought to get out.

Mr. WHITSON. Exactly, a determination must be made. My point is if we have a military assistance team——

Chairman PROXMIRE. Determination by whom?

Mr. WHITSON. By both the hot government and our Government; that is, MAAG and country team representatives of our Government.

Chairman PROXMIRE. Military representatives of their government and military representatives of our Government should determine whether there is subversion?

Mr. WHITSON. It should not be solely military.

Chairman PROXMIRE. Our ambassadors on the basis of what we got this morning are a little more likely to be friendly to any kind of incumbent government than the military is. The military is, in our view, from what we heard this morning, I would judge has a better track record on this. The military has a better record of not trying to maintain every kind of a status quo government than the embassy.

Mr. HALPERIN. It's close.

Chairman PROXMIRE. What?

Mr. HALPERIN. I say it is close.

Chairman PROXMIRE. Pretty close. [Laughter.]

Mr. WHITSON. You know, I think the structure we have now has not coordinated the political analysis with the professional military analysis very effectively. My recommendation would be to alter first the military organizational structure as well as the military personnel input to give our military a better handle on this question.

Now as to how we want to respond to MAAG-country team-host government judgments becomes another matter. I think this returns the question to Washington, the intraregional security question of marginal return on the American dollar of security assistance.

Chairman PROXMIRE. Mr. Halperin.

Mr. HALPERIN. May I add to that?

I think there is a real danger that over the last few years insurgency has simply become a code word that will sell military as-

sistance back in Washington. We have gone to governments and our MAAG's and our ambassadors have gone to governments and said, "Look, you have to say there is insurgency, you have to come up with a counterinsurgency plan, you have to establish a counterinsurgency threat because that is what gets money out of Washington these days," and that is something we have not guarded against and we need to guard against.

Representative BROWN. How?

Chairman PROXMIRE. The question is how.

Mr. HALPERIN. There is a procedure in existence that the National Security Council should determine if a country has an insurgency threat and if the local country is moving adquately to deal with it, the United States would be involved only if the President determined that there is a threat, that the local government is moving upon responsibly to deal with it, and it is an insurgency threat that affects our interests.

Chairman PROXMIRE. Does the Congress have any role in that?

Mr. HALPERIN. I don't know how that procedure is being used. It does exist on paper. I think Congress should insist on knowing what countries there are in the world that the President thinks have insurgency, that it is in the American interest to help suppress. The President's representatives, the Secretary of State particularly, should be asked to explain to the Congress why it is we think suppressing insurgency in a particular country is in our interest.

Chairman PROXMIRE. Do you think insurgency can be fully understood by Congress in view of many people not being willing to discuss it with Congress?

Mr. HALPERIN. I think you reach many situations where the only people who don't know are the American people and the American Congress. If we are giving aid for counterinsurgency to countries, the people in that country know about it, the insurgents know about it, whatever external governments are supporting it know about it. I think the case of Laos as it came out in the Symington committee hearings illustrates this. Everybody in the world except the American Congress knew what was going on in Laos, and to say you can't tell Congress because it is a secret just seems to me quite silly.

Chairman PROXMIRE. May I ask you, Mr. Fried, in my opinion the major goal we should pursue with military assistance programs is to help countries move toward a greater degree of self-reliance in the area of security, yet it is estimated that about three-quarters of grant assistance given by the United States is to finance the cost of operating and maintaining equipment and weapons already provided. Isn't this a sure way to maintain the status quo with respect to the effectiveness of these countries and prevent their becoming self-reliant?

Mr. FRIED. Yet, it is, Mr. Chairman, and I think the answer is that the decision that has to be made in those few countries where the bulk of this assistance goes, is the choice between having larger forces that are poorly equipped or smaller forces that can be better equipped and that is a choice that they are more likely to make if they are faced more with the budgetary process and the budgetary implications of those decisions.

Chairman PROXMIRE. You do that by credit sales and by——

Mr. FRIED. Yes, sir.

Chairman PROXMIRE. Short of that, if they didn't have the funds to afford to buy, at least require that this be submitted through some kind of budgetary consultation?

Mr. FRIED. Yes; I would.

Chairman PROXMIRE. To have some options.

You raise the question that the United States may be encouraging developing countries to support a larger military force than they themselves can afford through military assistance programs. How widespread is that problem and can you give us some specifics?

Mr. FRIED. Again the problem is that military assistance of this kind is a free good. It is in addition to what the military in these countries can get from domestic budgetary appropriations. It is very easy and very understandable to argue that additional equipment or equipment from the United States since it does not require a domestic budgetary appropriation——

Chairman PROXMIRE. Can you give us a specific country in which this has been the case?

Mr. FRIED. I think Taiwan is one case where one might argue that there should be fewer divisions. Turkey is another.

Chairman PROXMIRE. Mr. Halperin, you enumerate six reasons why current procedures in the military assistance program are inadequate. This is a pretty serious indictment of the entire program, I think. I wonder if you would explain how a major program could have gotten in this condition? We are especially interested in your observation that the present system does not provide effective civilian surveillance and policy control over the flow of military assistance.

Mr. HALPERIN. Well, as to how it got there, I doubt whether this program is much worse than many others. I think one has to go through a whole explanation of the American Government.

Chairman PROXMIRE. It is pretty bad. At least in the others they can tell us where the money went, how much and into what countries and for what purpose. They can't tell us that in any of this.

Mr. HALPERIN. I think part of the reason is it began with a very large program to Europe and the dollar flows were very large and the major objective is to get the equipment out and you just have never had any systematic attempt to bring the program under control. It is partly that some of the transfers are in the field. Equipment is declared surplus in Vietnam and it is shipped to Taiwan, and nobody every sees it back home and nobody ever gets a grip on it.

I think part of it, though, is that nobody has been interested, I think, in the Congress as well as the executive branch until 2 or 3 years ago with this problem. That there was a general attitude of we should give other countries as much military aid as we could. If we had surplus equipment what was wrong with transferring it? It is only in the past few years that we have begun to see the serious economic and political consequences of this policy.

Chairman PROXMIRE. Are we getting the civilian surveillance in your view now?

Mr. HALPERIN. Well, we were beginning to get it at the end of the Johnson Administration. I just don't have a good judgment as to whether these efforts have continued.

Chairman PROXMIRE. You don't know.

Mr. HALPERIN. Well, the problem I think partly is that the legislation is very clear that the Secretary of State has the responsibility for this program. The problem is to make him exercise that responsibility. I think for that purpose he needs more staff than he now has, and he also needs a determination that he wants to do it and that he will do it. I think that is really what has been lacking.

Chairman PROXMIRE. In your statement you are very critical of the military efforts of the governments of Thailand and Taiwan. You conclude that U.S. military assistance has contributed to the misdirected efforts of these countries as well as Greece and Turkey.

Mr. HALPERIN. I think the problem has been that there is a difference between what they want to spend their money on for military forces and what we have wanted them to spend it on; we have chosen to close our eyes and to just proceed as if we agreed on how to spend the money. We have just given them aid as if they were using it in the way we thought it was sensible to use it rather than saying, "We are going to look at how they in fact spend their money and decide whether those programs are worth supporting." We go on pretending that Greece and Turkey are arming against the Soviet threat. I doubt very much whether that is a major motive of the Greek or Turkish military program. I don't say that as a criticism of them. It seems to me it is up to them to decide how they want to spend this money but it is up to us to decide, given the way they are spending their money for defense, if we want to support them, so I would say——

Chairman PROXMIRE. Did you conclude they are primarily arming against each other?

Mr. HALPERIN. Apart from the fact that the military wants forces just for their own sake insofar as there is any purpose to the development of forces, an external purpose, I think it has clearly been over the past 6 years against each other.

Chairman PROXMIRE. It is pretty fantastic that they should be arming to prepare for invasion against the Soviet Union, either one.

Mr. HALPERIN. They are incapable of it. Neither has the economic or physical resources to deal with that threat. Neither of them takes that threat seriously. The Thais don't take the threat of the Chinese seriously. Their forces are not deployed for that purpose. I don't mean that as a criticism of them. I mean that as a criticism of the process by which we close our eyes to this and continue to give aid.

Chairman PROXMIRE. One other point, you recommend, as other witnesses have that the United States move immediately out of any further military grant aid, yet we seem to be headed in the opposite direction. As I understand the Nixon Doctrine and current administration policy the executive branch intends to greatly enlarge military assistance grants, and, in fact, has already taken a major step in that direction. Do you believe the Government is heading in the wrong direction?

Mr. HALPERIN. Well, I think one has to separate two issues. One is how much military assistance should we transfer to other countries, and, second, the means. I would say it is certainly moving in the wrong direction, in my judgment, in continuing to put large

funds into grant aid programs, and that whatever the amount of aid we are going to give to Korea or even to Vietnam or to Cambodia we ought to give in the form of credit sales, if necessary concessional terms, and budget support but not in the form of grant aid. So I would certainly criticize that.

As to the transfer I think that some of them are more questionable than others. I think large scale aid to Cambodia in my view is misconceived. I think some increase in aid to Korea, if it is accompanied by substantial American withdrawals, makes sense but I would think that aid to Korea ought to engage their budget process and ought not to be our transferring equipment to them again with lack of responsibility to Korea.

Chairman PROXMIRE. Mr. Brown.

Representative BROWN. I want to read something, gentlemen, and see if you would concur that this may synthesize some of the problem and be an approach to it. Omitting the style differences, I would appreciate your comment on the substance of it.

Major obstacle to the implementation of a consistent coherent foreign policy is the multitude of U.S. agencies and programs involved in activities in any one country or region. In the past it's been difficult for the President or the National Security Council to obtain a picture of the totality of our effort in any one country. Yet a rational foreign policy must start with such a comprehensive view.

To overcome this difficulty we need a series of country program analyses which will examine all U.S. programs in these countries and regions and their interrelationships. The study should put every U.S. program into one budget framework. The basic tool for this analysis is the program budget which allocates all our expenditures in a country on the basis of the purposes served. It permits us to make decisions or set guidelines for all of our programs simultaneously. In the past they were examined largely agency by agency in isolation to one another. The result of the country analysis studies should be presented to the National Security Council in the form of integrated policy and program options based on alternative statement of interest. threats, and U.S. foreign policy objectives. After the NSC has considered these options, a decision can be made about the course of action to follow over the next several years.

Do you concur in that recommendation?

Mr. FRIED. I certainly do.

Representative BROWN. Is this the thrust of your testimony?

Mr. FRIED. No; I think this is one of the problems. I think that Mr. Halperin mentioned the need to move more into National Security Council studies of country programs, which is essentially the kind of program I described.

Representative BROWN. And to try to balance those programs between military and economic aid and the like.

Mr. HALPERIN. That recommendation was adopted, I don't know what you are reading from but that program exists, the procedures exist but the problem has been that not enough attention has been given to it, and, as I understand it, very few country studies have, in fact, been completed. But one of the major initiatives in the NSC system was to do exactly this but it has not been implemented.

Representative BROWN. Any comment?

Mr. WHITSON. No.

Representative BROWN. It is the President's statement last February out of his foreign policy initiatives for the 1970's. It would

seem to be the objective which he seeks, which you seek, and, I guess, we all seek in trying to get this thing done. The question is the implementation of it through the various agencies which have responsibility. Once again it seems to me that the oversight responsibility of the Congress and the oversight interest of the American people might best be exercised if we put these appropriations into a single package. I think the suggestion that these be in two separate packages, where they are visible, is desirable. But I am not so sure that we don't need a full scale debate on the relative desirability of military aid over economic aid in each country where both are to be part of our program, and in country A over country B, and so forth, down the line. That seems to me the only way that you can get a full public interest expressed in this. And Mr. Fulbright can express his view on the Foreign Relations Committee and presumably it is a game that anyone can play in this country, editorialists and candidates for office trying to unhorse incumbents and so forth and so on.

Chairman PROXMIRE. Will the gentleman yield on the point?

First, you have to declassify country by country. If the administration would do that, we could go a long way toward doing that. I think it is an excellent suggestion.

Representative BROWN. It is the only way to get public attention in the problem. The question then is whether you have lost by declassification whatever the nature of secrecy and impact, whatever impact it may have by the nature of its secrecy. And I wonder at the advantage of that. We have treaties, presumably debated publicly, and hopefully as to all of their impacts and ramifications. If the members of the Congress are not wise enough, the members of the Senate I should say because, as I indicated earlier, the House does not have that responsibility, if the members of the Senate are not wise enough to secure for public disclosure all of the ramifications of those treaties or resolutions, perhaps all of us have to be stuck with that result. But I don't know any better system for bringing it out into the open.

The same thing would apply then to the expenditure of public money. If we do, in fact, want to go into a bloc grant system or revenue-sharing system with other nations in our interest, the system calls for some public debate of that approach as opposed to a military decision where you are shifting resources from Vietnam to Taiwain without anybody knowing about it.

I am a little bit concerned about the cadre of specialists that are going to be making this decision. It seems to me that you have got a little problem in any country where you have the embassy making one recommendation and the MAAG, the military group, making another recommendation. I don't know whether that is helped or hindered by having a cadre of specialists who have the interest of that country first, only in general relationship to the American interest, making yet a third recommendation. You know, it gets up for grabs pretty much when it gets back to wherever the decision is going to be made. And it gets worse, I think, if that decision is made without public disclosure, without some kind of public debate and in the form that includes the American people, at least as an audience if not as participants.

Mr. HALPERIN. May I make one comment?

Representative BROWN. Yes.

Mr. HALPERIN. I agree with that. I think Congress ought to insist that the numbers be made public. I think there is no reason to keep it secret.

There is one change in the process that none of us have mentioned that I think the committee ought to be aware of, and that is the recommendations go from the MAAG chief through the CINC, that is the commander in chief of the area, and on then to the Joint Chiefs. The CINC has authority to change the recommendations of the MAAG in any way he wants to and this has had the effect of making it more oriented toward conventional war and the role of refighting World War II because the CINC sense of responsibilities is not for insurgency or political development in any country, but for general security of the region in light of U.S. treaties and so on. I think this has been a very unfortunate influence on the recommendations that have reached Washington. There is a strong case to be made for getting the CINC's out of the process.

Representative BROWN. It seems to me one thing we have demonstrated so far in these hearings is that the civilian control people, at least the two people testifying this morning, have been either uninformed because of errors existing in their own departments or uninformed because of errors in the system of some of the decisions that have been made in an administrative or executive sense. I think anything that encourages that kind of lack of information or exercise of responsibility certainly is open to some question. Regarding any failure on the part of this body, the Congress, in determining long-range policy, if it is because the matter is put through the Armed Services Committee because the Armed Services Committee does not ask questions, as opposed to the Foreign Affairs Committee which does ask questions, it seems to me there is a real argument to be made for getting those two committees together on the subject. Thus, all the questions can be raised at the same time.

I think sometimes the functions of Government can be reorganized more efficiently in the executive branch of Government than they can in the Congress itself.

But your suggestions, I think, are very interesting with reference to bringing this to visibility so that it can be passed in single programs. It seems to me in a democracy that is one of the objectives. Debate on all of the directions of all of these public policies, and the decisionmaking process is certainly significant enough when we have to have quick response, but when we are thinking in terms of long-range programs and policies to deny this kind of information to the American people is, I think, unwholesome.

Thank you.

Chairman PROXMIRE. May I ask, do all of you gentlemen agree we should declassify military assistance programs, should we disclose the country which would receive military assistance and the amount which would be going to that country? Is there any dissent from the view that we should do that. Mr. Fried, do you agree with that?

Mr. FRIED. I agree.

Mr. HALPERIN. I agree with that.

Chairman PROXMIRE. Mr. Whitson.

Mr. WHITSON. Yes.

Chairman PROXMIRE. Do you see any arguments against doing this? The argument that I have heard from time to time as a member of the Appropriations Committee is that these countries then would be, they would say now, you are giving this much to Peru or you are giving this much to Argentina, you are giving this much to Israel or something and, therefore, you have got to give us something. They know anyway, don't they.

Mr. HALPERIN. I think they know, Let them say this. We just say, "It is our judgment that our interests suggest that we should give more to one than the other." We do that with economic aid.

Chairman PROXMIRE. Certainly any competent embassy is going to be able to find that out without any trouble.

Representative BROWN. They won't find out from Congress. [Laughter.]

Chairman PROXMIRE. I am sure they won't. That's right.

Well, gentlemen, thank you very much. You did an excellent job. It is most useful and we are very grateful to you for giving us your time and this very helpful information.

The subcommittee will stand in recess until tomorrow morning at 10 o'clock. We will hear Deputy Assistant Secretary of Defense Selden and General Warren, Deputy Assistant Secretary of Defense.

(Whereupon, at 4:05 p.m., the subcommittee was recessed until 10 a.m., Wednesday, January 6, 1971.)

ECONOMIC ISSUES IN MILITARY ASSISTANCE

WEDNESDAY, JANUARY 6, 1971

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to notice, at 10:10 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire and Representative Brown.

Also present: John R. Stark, executive director; Richard F. Kaufman, economist; and George D. Krumbhaar, Walter B. Laessig, and Leslie J. Barr, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

Most of us in Washington have seen a lot of mismanagement in Government programs. But military assistance is the first program I have come across that appears to be characterized by unmanagement. The problem here seems to be that no one is in charge. In some respects the United States has been transformed from the "arsenal of Democracy" to a gigantic discount supermarket with no checkout counters, no cash registers, no store manager; only clerks who blithely deliver to foreign governments of practically any political persuasion whatever they happen to see and like. For most of the stuff there is no charge and no return.

So far in these hearings we have heard from witnesses who, despite their present or former responsibilities for military assistance, have been unable to agree on the total annual costs of the program, and have been shocked to discover that hundreds of millions of dollars of Food for Peace funds have been used to purchase arms for foreign governments, that the Defense Department cannot account for hundreds of millions and perhaps billions of dollars worth of so-called excess and surplus materials and military construction given away to our allies, and that have expressed their own disappointment and frustration with the present state of affairs.

The hidden costs of military assistance—the fact that about $4 billion is spent on this program annually rather than the few hundred million dollars advertised in official Government statistics—is perhaps the most revealing commentary on what happens to taxpayers' money in Washington.

Hopefully, this morning's witnesses will enlighten us on some of

these matters. Armistead I. Selden is a former Member of Congress and a distinguished Member of Congress who served for 16 years in the House of Representatives, a very able man. He is presently the Deputy Assistant Secretary of Defense for International Security Affairs. He is accompained by Lt. Gen. Robert H. Warren of the U.S. Air Force, Deputy Assistant Secretary of Defense for Military Assistance and Sales.

Gentlemen, you may proceed in any way you wish. I presume that perhaps Mr. Selden would go first and then General Warren.

STATEMENT OF ARMISTEAD I. SELDEN, JR., DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS, ACCOMPANIED BY LT. GEN. ROBERT H. WARREN, U.S. AIR FORCE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY ASSISTANCE AND SALES

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

On behalf of the Department of Defense, I am appearing today to discuss the roles of the Military Assistance Program and Foreign Military Sales in support of the foreign policy objectives of the United States. Both the President and the Secretary of Defense have repeatedly stressed the crucial importance of these two instruments of foreign policy because of their unique and fundamental contribution to the implementation of the Nixon Doctrine.

Mr. Chairman, with your indulgence, I shall restrict my opening remarks to the overall policy considerations of these activities and, in compliance with your request, provide a more comprehensive prepared statement for inclusion in the record.

There are, as you know, a number of U.S. programs that may, in a somewhat indirect manner, contribute to the defense efforts of foreign nations. Virtually any type of assistance designed to develop the economy or industrial base of a foreign country will eventually permit that country to devote more of its resources to the improvement of its defensive posture. Economic aid to Western Europe under the Marshall plan following World War II is a good example of the enhancement of military capabilities as an eventual by-product of actions taken, and funded, to achieve a different objective. Because of these many and varied forms of indirect assistance impacting beneficially upon military capabilities, it is extremely difficult, indeed, if not altogether impossible, to place a dollar value on the total of all U.S. military assistance, within the broadest definition of that somewhat imprecise term.

Accordingly, I propose to limit my discussion this morning primarily to those two specific forms of direct military assistance which the Department of Defense is responsible for administering—the Military Assistance Program (MAP) under the authority conferred by the Foreign Assistance Act and Foreign Military Sales (FMS) under the Foreign Military Sales Act.

In the 21 years since their inception in fiscal year 1950:

Grant aid under MAP totaling $34.9 billion has been provided to 78 different countries;

Material excess to DOD mobilization requirements totaling $3.9 billion, and this is the acquisition cost, has been provided foreign countries under MAP without reimbursement to the Department of Defense;

Foreign Military Sales have totaled $13 billion—$11.1 billion on a cash basis and $1.9 billion on a credit basis.

In order that these figures may be fully meaningful, there are several clarifying points to be emphasized:

First, these amounts represent programs—or orders—rather than actual deliveries.

Second, the actual or utility value of the excess material provided is considerably less than acquisition cost. For the most part, excess equipment used in this way has served the original purpose for which it was procured by the United States and is obsolescent by U.S. standards—but, at the same time, it is extremely valuable in meeting valid needs of foreign countries whose requirements and standards differ from those of the United States.

Third, it should be noted that Foreign Military Sales data do not include direct transactions between U.S. industry and foreign governments, which do not involve participation by the Department of Defense.

Fourth, all sales under current legislation—whether cash or credit—are paid for by the foreign country in U.S. dollars; and, in the case of credit sales, payments are made with interest.

Fifth, with but few exceptions and then only when found to be in the best interest of the United States, the total of grant aid and sales represent dollars spent in the United States for articles and services. Funds are not disbursed to the foreign government but, instead, and with the rare exceptions noted, are disbursed by the Department of Defense for procurement here in the United States.

There is one final point that warrants separate and special mention in any evaluation of military assistance accomplishments. I refer to the training provided as grant aid to foreign military personnel. Since the end of World War II, we have trained some 320,000 officers and enlisted men from over 70 countries—220,000 of them here in the United States and 100,000 overseas. The Military Assistance Training Program is especially important to the attainment of U.S. foreign policy objectives because it affords many foreign military men—a number of whom are destined to become influential in their countries' future courses of action—an exposure to all that is inherent in what we think of as the American Way, and to the separate roles of civilian and military authority we consider appropriate in a democratic society.

The executive branch firmly believes, Mr. Chairman, that military assistance and foreign military sales have been instrumental throughout the 1950's and the 1960's in solidifying and bolstering the will and ability of the free world to deter the encroachments and resist the aggressions of Communist nations. These programs will continue to be absolutely essential if the United States is to continue its adherence to the principles of the Nixon Doctrine. Because they engage the entire structure of U.S. relations with individual foreign countries, each of which presents a unique array of political, economic

60-050—71——13

and military considerations, their benefits to the United States cannot be measured by any single set of rigid standards or criteria. We can, however, judge their effectiveness through a process of continual review of programs for each individual country.

For military assistance and credit sales, the annual review process—a joint undertaking participated in by the Departments of State and Defense—is initiated well in advance of program development by re-examination of U.S. objectives in each foreign country involved. Simultaneously, the threat and resultant military requirements are reviewed. From this process, planning guidelines are developed.

Based on these State-Defense planning guidelines, and in accordance with procedures that have been carefully developed over the years, U.S. representatives in the field work with the host government in accumulating and evaluating detailed data with respect to the foreign country's military plans, programs and resources, as well as information as to its economic and financial situation. These data and recommendations are forwarded to Washington, together with proposals for U.S. assistance in the form of either grant aid or credit for military purchases—or both, as the case may be.

In Washington, data and proposals from the field are studied by a variety of agencies to determine the extent to which U.S. assistance is warranted on the basis of what the country is trying to do, how this effort coincides with U.S. interests, what it has accomplished, and what the country should be able to do for itself. These proposals are also reviewed to insure that all military assistance programs are both complementary to and compete directly for funds with all other activities of the Department of Defense.

Among the agencies involved in this detailed and meticulous review are the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Agency for International Development, the State Department and the Office of Management and Budget—and, frequently, the National Security Council. The product of their consultation is agreement on a proposed program—or budget—which is then recommended to the President. After budget decisions are made by the President in the context of national resources and the needs for other U.S. programs at home and abroad, programs are revised, if necessary, on the basis of relative priority—again in consultation with other interested agencies—and the process of Congressional presentation commences.

This lengthy process involves extended hearings by the authorizing and appropriations committees of both Houses. During the hearings, executive branch witnesses present prepared statements which set forth in considerable detail the justification for the administration's annual budget request. They also respond to many incisive questions put to them by members of the four committees and, following the hearings, literally hundreds of inserts for the record are submitted which provide even more specific information and statistical data responsive to the interests of the various members. All of these data are taken into consideration by the committees and reflected in their reports to their respective Houses. They are also the basis for much of the discussion which ensues during the course of

floor debate which precedes House-Senate conference and final passage of the authorization and appropriations bills.

I believe it is self-evident, Mr. Chairman, that in such a process the Congress is afforded the appropriate opportunity to make known its views and to incorporate its intent in the final legislation.

When legislative action is completed, a final review is required to effect any congressionally directed adjustments before program implementation is initiated.

The process I have described is the essence of the system by which we measure needs and benefits, judge economic impact and assure coordination. We are aware, of course, that conditions change continuously and that even the best designed programs must be adjusted promptly in response to changing situations. To stay abreast of events, we are in daily contact with our field representatives, the Joint Staff and the Department of State on an endless variety of intelligence reports, inquiries and issues resulting from our mutual objective of minimizing costs to the United States and getting the most for each dollar spent.

These efforts are bolstered by independent inspections and audits carried out in the field by the Defense staff, the Defense Audit Agency, the State Department Inspector General and the General Accounting Office. Based on information acquired from these activities, all programs are updated weekly through an automatic data processing network that keeps all appropriate Defense agencies informed and insures that necessary action is taken promptly. Any savings—or "recoupments" as we call them—which result from such program changes are applied to highest priority requirements outstanding worldwide.

As I mention earlier, Mr. Chairman, the procedures I have been outlining are those followed in administering grant aid provided through MAP. Similar procedures govern military credit sales; but, because sales are dependent to a greater extent on the wishes of the foreign country concerned, they are conducted through country-to-country negotiations over which the United States does not, of course, have unilateral control.

At this point, I should like to mention several trends and developments that are important to a complete understanding of both the Military Assistance Program and Foreign Military Sales and what they have accomplished.

U.S. military assistance in the earlier years was predominantly in the form of grant aid and was concentrated primarily in the countries of Western Europe. Appropriations for the period fiscal years 1950–1959 totaled $26.8 billion with the high point of $5.7 billion reached in fiscal year 1952. Toward the end of the decade, the decade of 1950 to 1960, grant aid to Western Europe began to decline as European economies improved and the countries of that area began to purchase their military equipment, relying to a considerable extent on credit provided under the Foreign Assistance Act.

The shift from grant aid to sales continued in the 1960's as economies improved and more and more countries throughout the world achieved the ability to purchase at least a portion of their needs, again relying initially on credit. At the same time, many countries,

such as those of Western Europe, began shifting from credit purchases to cash purchases. Grant aid appropriations continued to decline from $1.5 billion in fiscal year 1959 to an all-time low of $350 million in fiscal year 1970, exclusive of Vietnam-related assistance.

The decline in grant aid in the late 1960's was not, however, matched by a corresponding increase in the abilities of all foreign countries to meet their defense needs from their own resources. For example, defense capabilities in such critical areas as South Korea and Turkey began to deteriorate with a resulting tendency to rely more heavily on intervention by U.S. armed forces in the event of external aggression in those and other geographical areas.

In July 1969, at Guam, the President first outlined the Nixon doctrine which, in effect, calls for a reversal of the trend toward reliance on U.S. forces to maintain security within the free world. Successful implementation of that doctrine requires at least a temporary increase in grant aid. I should note, however, that such increase will be more than offset by reductions in deployment of U.S. forces abroad. We have, as you know, already taken the initial steps in this direction.

As an example of this offset—or trade-off—between foreign and U.S. forces under the Nixon doctrine, we are proposing substantial increases in programs of grant aid to the Republic of Korea over the next several years. This increased military assistance will enable Korea to modernize its forces sufficiently to preclude a diminuation of overall defense capabilities as U.S. forces are withdrawn. Such withdrawal of U.S. forces will, however, permit reductions in the U.S. defense budget.

Before concluding my statement, Mr. Chairman, I want to touch briefly on two other Department of Defense programs which do not come under either the Foreign Assistance Act or the Foreign Military Sales Act but, nevertheless, constitute significant and direct military assistance to foreign nations. The first of these is service-funded military assistance to foreign forces, other than those of Cambodia, operating in Southeast Asia against the Viet Cong and North Vietnamese forces. Beginning with fiscal year 1966, when increased North Vietnamese intervention in South Vietnam required greater United States and allied support for the Republic of Vietnam, it was decided to program all military supply activity in South Vietnam through the military services and to charge such activity against the respective service budgets. The following year, for similar reasons, military assistance to Laos and Thailand was transferred from MAP to the regular Defense budget.

This transfer gave the services the flexibility required for an active combat situation, for which the established MAP procedures would have been too cumbersome to administer and too slow in responding to changing requirements. It also provided a direct competition among requirements for U.S. and foreign forces and permitted trade-offs on a cost/benefit basis.

Such service-funded assistance to South Vietnam, Laos and Thailand has totaled $8 billion for the period from fiscal year 1966 to fiscal year 1970, and it is estimated at $2.2 billion for fiscal year 1971. These figures reflect the substantial cost of "Vietnamization"

of the Southeast Asia conflict but, by facilitating the withdrawal of U.S. forces, are more than offset by reductions in other parts of the U.S. defense budget.

The other Defense program I would mention is that under which we loan or lease U.S. Navy ships to foreign governments. These loans and leases are made under authority granted by title 10 U.S. Code 7307 for loan of combatant ships such as battleships, aircraft carriers, cruisers, destroyers and submarines, and title 10 U.S. Code 2667 for noncombatant ships such as amphibious ships and service ships. Under this program, 86 combatant ships and 147 noncombatant ships have been loaned or leased to foreign governments. Significant features of this program include:

Each loan of a combatant ship requires specific Congressional authorization.

Loaned and leased ships are not excess to U.S. Navy requirements, but are not needed for the active fleet.

Costs such as repair and rehabilitation associated with the loan or lease are either paid by the foreign government or programed as military assistance under the Foreign Assistance Act.

By loaning or leasing such ships, the United States is saved substantial costs related to maintaining an inactive fleet.

Loans and leases, I might add, are for a period of 5 years, but the United States may recall the ship at any time if it is needed. It should be noted that these loans are renewable on a 5-year basis through legislation.

In summary, Mr. Chairman, I have identified four ways in which the Department of Defense provides defense articles and services to foreign governments for the sole purpose of assisting them in the development, maintenance and operation of armed forces needed to achieve security objectives consistent with U.S. foreign policy. I have described briefly the processes through which these programs are developed, coordinated, revised to reflect changing conditions, and measured as to effectiveness.

Most important of all, however, is the philosophy that underlies each decision to provide defense articles or services to a foreign country in any of the ways I have described in that we do not knowingly ask any country to acquire, either by grant or sale, anything that it does not need, cannot afford, or cannot put to effective use in its self-defense; nor do we ask that it acquire from the United States anything that it can obtain on better terms from some other source.

Mr. Chairman, this concludes my remarks. I am providing for the record, however, the more comprehensive prepared statement you requested.

Chairman PROXMIRE. Thank you very much, Mr. Selden.

(The comprehensive prepared statement of Mr. Selden follows:)

COMPREHENSIVE PREPARED STATEMENT OF ARMISTEAD I. SELDEN, JR.

MILITARY ASSISTANCE AND FOREIGN MILITARY SALES

As has been emphasized repeatedly by the President, the Secretary of State and the Secretary of Defense, the Military Assistance Program and Foreign Military Sales play an essential role in the security of the United States

and its foreign policy. Today, because of a major change in the direction of our national policy these twin instruments of security and foreign policy are more important and have a greater potential than ever before. In his February 18. 1970 Report to the Congress on Foreign Policy, President Nixon cited the following three principles as major elements of that change:

"The United States will keep all its treaty commitments.

"We shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or of a nation whose survival we consider vital to our security of the region as a whole.

"In cases involving other types of aggression, we shall furnish military and economic assistance when requested and as appropriate. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."

In his State of the Union Message, the President also stated:

"The nations of each part of the world should assume the primary responsibility for their own well being; and they themselves should determine the terms of that well being."

These principles have become known as the Nixon Doctrine and this Doctrine places the Military Assistance Program and Foreign Military Sales in a special position in our foreign policy. It is now more important than ever that these two instruments of U.S. policy be put to optimum use in helping to reduce both the monetary and manpower burden we now carry in honoring international obligations. We believe that the best hope in reducing our overseas involvements and expenditures lies in getting allied and friendly nations to do even more than they are now doing in their own defense. To realize that hope, however, requires that we must continue, if requested, to give or sell them the tools they need for this bigger load we are urging them to assume. That is why, in the interest of maintaining an adequate defense posture at minimum cost, the growing use of credit-assisted sales of military equipment, as well as increased military grant assistance, seem clearly indicated for the immediate future. I should note, however, that such increase will be more than offset by reductions in deployment of U.S. forces abroad. We have, as you know, already taken the initial steps in this direction.

In its broader sense, the term "military assistance" could be defined as any expenditure of U.S. resources that contributes in any way to enabling a foreign country to establish and maintain its security. Under this definition, a large number of programs would to some extent, either directly or indirectly, constitute military assistance but this would not be their basic purpose. In other words, the military benefit would be a by-product and, in most cases, it would be difficult if not impossible to measure with any accuracy.

For example, we assist many countries, both unilaterally and through international organizations, to develop their economies and their industrial bases. Such assistance has unquestionably aided these countries, although indirectly and perhaps in a manner not susceptible to exact measurement, eventually to devote more of their resources to the strengthening of their defensive posture. The best example of such indirect assistance is probably the economic aid provided to Western Europe through the Marshall Plan after World War II. Similarly, the stationing of U.S. military forces in Europe, Japan, South Korea and elsewhere obviously represents an important form of military assistance—past, present, and future. Moreover, when we station troops abroad, it usually is necessary that we construct various fixed facilities such as air bases, cantonments, warehouses, communications sites, roads, utilities, and so on. In accordance with appropriate government-to-government agreements covering U.S. troops stationed abroad, these facilities normally are turned over to the foreign government without charge when U.S. units are withdrawn or the facilities otherwise have served their purpose to the U.S. These facilities then are certainly of considerable value to the foreign government (and possibly but not necessarily its armed forces), but we do not classify this as military assistance because the purpose of the expenditure was to support U.S. forces and military activities rather than those of the foreign government.

As a final example, the U.S. participates in certain international military organizations, such as NATO, and contributes a portion of the funds needed to support their activities. Again, we do not look upon these expenditures as military assistance to foreign countries, but rather as part of the cost of U.S. participation in multilateral collective security arrangements.

I have cited several examples of U.S. programs that could be seen in some fashion as making a contribution, even though indirectly, to the defense efforts of foreign countries. There are others, some even more indirect, from which we possibly could trace some military benefit. The principal point I seek to make is that these benefits would be extremely difficult—if not impossible—to measure and, in any event, we do not look upon them as military assistance since they are secondary results of actions taken to achieve entirely different purposes.

Within the Department of Defense, we are responsible for and administer two specific forms of military assistance which are directly and solely related to the provision of defense articles and services needed by foreign countries for military purposes consistent with U.S. foreign policy objectives. These are the Military Assistance Program—MAP—which is carried out under the authority of the Foreign Assistance Act, and Foreign Military Sales—FMS—which come under the authority of the Foreign Military Sales Act. The remainder of my presentation will focus primarily on these two operations, the results of which can be measured with some precision.

Military assistance and foreign military sales carried out under the two Acts I have cited, and predecessor legislation, have been part of our total defense effort since fiscal year 1950. In the twenty-one ensuing years from FY 1950 through FY 1970:

—Grant aid under MAP totaling $34.9 billion has been provided to 78 different countries;

—Materiel excess to DOD mobilization requirements totaling $3.9 billion at acquisition cost has been provided foreign countries under MAP without reimbursement to the Department of Defense for the value of the materiel;

—Foreign Military Sales have totaled $13 billion—$11.1 billion on a cash basis and $1.9 billion on a credit basis.

In order that these figures may be fully meaningful, there are several clarifying points I would emphasize:

—First, the amounts represent programs—or orders—not deliveries, which would be slightly less.

—Second, the actual or utility value of the excess materiel provided is considerably less than acquisition cost. For the most part, excess equipment used in this way has served the original purpose for which it was procured by the United States and is obsolescent by U.S. standards. Much of it is not economically repairable—again by U.S. standards—but extremely valuable in meeting valid needs of foreign countries whose requirements and standards differ from those of the United States.

—Third, it should be noted that Foreign Military Sales data do not include direct transactions between U.S. industry and foreign governments which do not involve direct participation by the Department of Defense.

—Fourth, all sales under current legislation—whether cash or credit—are paid for by the foreign country in U.S. dollars; and, in the case of credit sales, payments are made with interest.

—Fifth, with but few exceptions which are approved on a case-by-case basis when found to be in the best interest of the United States, the total of grant aid and sales represents dollars spent in the United States for articles and services. Funds are not disbursed to the foreign government but, instead, and with the rare exceptions noted, are disbursed by the Department of Defense for procurement in the United States.

There is one final point I believe warrants separate and special mention in any evaluation of military assistance accomplishments. I refer to the training provided as grant aid to foreign military personnel. Since the end of World War II, we have trained some 320,000 officers and enlisted men from over 70 countries—220,000 of them in the United States and 100,000 overseas.

In addition to the obvious and tangible results it produces, the Military Assistance Training Program is especially important to the attainment of U.S. foreign policy objectives because it affords many foreign military men—a number of whom are destined to become influential in their countries' future courses of action—an exposure to all that is inherent in what we think of as the American Way, and to the separate roles of civilian and military authority we consider appropriate in a democratic society.

Many foreign countries purchase training from the U.S., particularly in connection with their purchase of new types of equipment and to acquire

skills in a quantity that would not warrant establishment of a training facility in the foreign country. As a matter of fact, the U.S. is unwilling to sell equipment unless it is satisfied that the foreign country has or is taking necessary steps to acquire the skills needed to operate and maintain it properly.

The Executive Branch firmly believes that military assistance and foreign military sales have been instrumental throughout the 1950's and the 1960's in solidifying and bolstering the will and ability of the free world to deter the encroachments and resist the aggressions of Communist nations. They have already proved effective as instruments of U.S. policy, and will continue to be essential if the United States is to continue its adherence to the principles of the Nixon Doctrine. Because they engage the entire structure of U.S. relations with individual foreign countries, each of which presents a unique array of political, economic and military considerations, their benefits to the United States cannot be measured by any single set of rigid standards or criteria. We can, however, judge their effectiveness through a process of continual review of the programs in each individual country.

In my office, that of the Deputy Assistant Secretary of Defense for International Security Affairs, we have a Deputy Assistant Secretary for Military Assistance and Sales. In his organization, there is a staff officer assigned responsibility for continuous monitorship of military assistance programs, credit arrangements, and all sales transactions for each foreign country. On a daily basis, these staff officers evaluate programs, program changes, and purchase requests, to insure that they are consistent with U.S. objectives and policy, as well as the foreign country's military needs and capabilities. They are responsible for insuring that military assistance programs and sales transactions are fully coordinated within Defense and with State—as well as other agencies when appropriate—before approval and, thereafter, are kept up-to-date in relation to changing conditions.

MILITARY ASSISTANCE ADVISORY GROUPS (MAAG'S)

The term MAAG (Military Assistance Advisory Group) is used to identify the organization in a foreign country that represents the Secretary of Defense on all military assistance (MAP) and foreign military sales (FMS) matters. In this usage, it is a generic term that includes various types of organizations such as military missions, military groups, equipment delivery teams, liaison teams, defense representatives, as well as those actually entitled "MAAG". There currently are 44 MAAGs and, in addition, there are four Defense Attache offices augmented by MAP-funded personnel to carry out MAP and FMS functions.

Each MAAG is under the command of the U.S. Unified Command responsible for the particular area. Defense Attaches assigned MAP and FMS functions also discharge these responsibilities through the appropriate Unified Command. This structure constitutes the field organization through which military assistance programs are planned, developed, and continuously monitored to insure that they are continuously in gear with U.S. objectives and the foreign country's capabities. As a part of the U.S. Country Team under the supervision of the Chief of the U.S. Diplomatic Mission in the foreign country, the MAAG is required to coordinate its MAP and FMS plans, programs, and proposals with the U.S. Ambassador and such other U.S. agencies in-country as the Ambassador may require. Any unresolved difference between the MAAG Chief and the Ambassador is referred to Washington for resolution.

MAAGs vary considerably in size dependent upon requirements in the particular country; i.e., the amount of MAP and FMS activity, the extent to which military advice is needed and provided. Strengths currently range from 2 (1 U.S. personnel, one foreign national) in Libya to 1,244 (895 U.S., 349 foreign nationals) in Korea.

Program management

For grant aid and credit sales we employ a formal annual review process, a joint undertaking participated in by the Departments of State and Defense. It is initiated well in advance of program development by reexamination of U.S. objectives in each foreign country involved. Simultaneously, the threat and resultant military requirements are reviewed. From this process, planning guidelines are developed.

Based on these State-Defense planning guidelines, and in accordance with procedures that have been carefully developed over the years, U.S. representatives in the field work with the host government in accumulating and evaluating detailed data with respect to the foreign country's military plans, programs and resources, as well as information as to its economic and financial situation. These data and recommendations are forwarded to Washington, together with proposals for U.S. assistance in the form of either grant aid or credit for military purchases—or both, as the case may be.

In Washington, data and proposals from the field are studied by a variety of agencies to determine the extent to which U.S. assistance is warranted on the basis of what the country is trying to do, how this effort coincides with U.S. interests, what it has accomplished, and what the country should be able to do for itself. These proposals are also reviewed to insure that all military assistance programs are both complementary to and compete directly for funds with all other activities of the Department of Defense.

Among the agencies involved in this detailed and meticulous review are the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Agency for International Development, the State Department and the Office of Management and Budget—and, frequently, the National Security Council. The product of their consultation is agreement on a proposed program—or budget—which is then recommended to the President. After budget decisions are made by the President in the context of national resources and the needs for other U.S. programs at home and abroad, programs are revised, if necessary, on the basis of relative priority—again in consultation with other interested agencies—and the process of Congressional presentation commences. When legislative action is completed, a final review is conducted to effect any required adjustments and program implementation is initiated.

The process I have described is the backbone of the system through which we measure needs and benefits, judge economic impact and assure coordination. We are aware, of course, that conditions change continuously and that even the best designed programs must be adjusted promptly in response to changing situations. To stay abreast of events, we are in daily contact with our field representatives, the Joint Staff and the Department of State on an endless variety of intelligence reports, inquiries and issues resulting from our mutual objective of minimizing costs to the United States and getting the most for each dollar spent.

Based on information acquired from these activities, all programs are updated weekly through an automatic data processing network that keeps all appropriate Defense agencies informed and insures that necessary action is taken promptly. Any savings—or "recoupments" as we call them—which result from such program changes are applied to highest priority requirements outstanding worldwide.

EXCESS MATERIAL

At the beginning of this statement, I noted that in the past 21 years, excess material having an acquisition cost of $3.9 billion had been provided to foreign countries without reimbursement to the Department of Defense. This part of the Military Assistance Program deserves special note because of its significance and ever-increasing importance.

The Foreign Assistance Act and its predecessor legislation provides that, when material excess to Department of Defense mobilization reserve requirements is furnished to a foreign country as grant aid, there will be no reimbursement to Defense accounts from MAP funds for the value of the material. This source of supply has already been important in meeting the established military assistance requirements that otherwise would have to be purchased. In the past few years, it has been of increasing significance because of scarce MAP funds and the increasing availability of excess material that matches foreign country needs.

Excess material is always generated by large-scale military activities but, as these activities are scaled down, it becomes available in rapidly increasing quantities. This is a natural result of retrenchment because U.S. requirements are diminished, storage becomes uneconomical, and the cost of retention prohibitive. Better equipment—the newest and least used—is, of course, retained for U.S. requirements. Thus, excess equipment available to foreign countries is largely well-used, obsolescent by U.S. standards and often uneconomically re-

pairable—again by U.S. standards. If not used to meet MAP requirements, it generally must be sold on the open market as scrap.

To the foreign country where material is scarce and relatively expensive but labor is relatively plentiful and inexpensive, and where the military requirement does not demand the latest and the best, this excess equipment is most valuable. It is generally offered to them on an "as is, where is" basis—that is. the foreign country assumes the cost of transportation and any needed repair. In some cases, the equipment is provided without charge, but the foreign country purchases repair and transportation from the U.S. under the Foreign Military Sales Act.

Excess material is provided as grant aid only to meet requirements that have been established, validated, and approved through the system described earlier. While these requirements are known, however, the availability of excess material to meet them is difficult to forecast. Thus, except for a few major items, we are unable to "program" excess as we can items that are to be purchased by MAP. Thus, as excess items are identified, we must match them against unfilled requirements and, to do this, special devices and procedures are employed.

The principal devices are dollar ceilings by country—in some cases, such as Latin America, by region—and a Control Group that allocates equipment and monitors the ceilings. Since each country's requirements are unique and availabilities are unpredictable, country and regional ceilings are adjusted from time-to-time within an agreed worldwide total to make best possible use of available assets. The Control Group includes representation from the Department of State as well as the Joint Chiefs of Staff and appropriate elements of the Office of the Secretary of Defense.

Excess material is identified by the Military Departments in accordance with uniform standards and criteria established and monitored by the Assistant Secretary of Defense, Installations and Logistics. It is important to note that the material is declared excess only after it has been deermined as not needed by any Department of Defense agency and not just the Military Department that holds it. Having been declared excess, it is supplied to foreign countries under three special procedural systems.

Major items are managed through the "MIMEX" system. Under this system. the items are first used to fill existing sales orders and then to fulfill requirements currently programmed and funded under MAP. If not needed for these requirements, they are reported to the Control Group for allocation. The Control Group allocates on the basis of requirements maintained in an automated data bank that is kept current to reflect all changes, including allocations. If there is any doubt as to the requirement or the item's acceptability to the foreign country (e.g., type, condition, location), the Control Group consults the appropriate Defense representative in the field before making the allocation. Ammunition is handled as a major item.

Secondary items such as spare parts are handled under the "SIMEX" system. In this case, the Military Department advises DoD field representatives as to items available and, within stockage levels approved by Defense, the foreign country is permitted to submit requisitions. The value of items issued to each country is reported quarterly to the Control Group to permit management within established ceilings.

A third system, "MAPEX", operates in the Pacific Command area to make use of excesses generated in Southeast Asia. Under this system, the excess material is moved into disposal yards where it is "requested" by representatives of the foreign government as matching an established requirement. The request is forwarded through U.S. channels to the Commander-in-Chief, Pacific, (CINCPAC) where up-to-date requirements data also is maintained. If CINCPAC concurs in the "match", he releases the material to the foreign government and enters appropriate data into the reporting system for management control within established ceilings. If there is any doubt as to the propriety of the release, the request is referred to OSD for decision.

As a final point on excess materials, it should be noted that this source cannot be relied upon to fill all MAP requirements or, for that matter, any specific requirement. Further, of the total excesses available, only a small part can be used to fulfill bona fide MAP needs. Thus, there is a continuing need for substantial MAP funds to carry out a balanced and effective military assistance program.

FOREIGN MILITARY SALES

All our Foreign Military Sales activities are rigidly controlled to insure that they are fully consistent with U.S. foreign policy interests. As you may know, the Foreign Military Sales Act was enacted as a result of concern expressed in Congress regarding U.S. arms policies. The Act gives a clear definition of purposes and provides for close Presidential and Congressional control. The purposes of this Act are well summarized in one sentence of Section 1:

"It is the sense of the Congress that all such sales be approved only when they are consistent with the foreign policy interests of the United States, the purposes of the foreign assistance program . . . the extent and character of the military requirement, and the economic and financial capability of the recipient country, with particular regard being given, where appropriate, to proper balance among such sales, grant military assistance, and economic assistance as well as the impact of the sales on programs of social and economic development and on existing or incipient arms races."

Two years of experience indicates, that the Act was well drafted and well conceived.

In exercising our controls over foreign military sales, we are guided by two basic principles. First, we respond to the foreign country's initiatives; and our sales offers are made in answer to the prospective purchaser's inquiry or request. Secondly, we want to sell only what we are firmly convinced the foreign country really needs and can afford.

These principles stem from the will of the Congress as embodied in the Act and are incorporated in various orders and directives promulgated by the Executive Branch to insure that all sales approved and consummated are fully consistent with both the law and our national interest.

Some of the specific restraints and controls are:

—Ceilings on grant aid and sales combined; Latin America, $75 million excluding training; Africa, $40 million excluding trainng.

—President must determine that sales to a country will strengthen U.S. security and promote world peace.

—Purchasing country must agree not to transfer purchased items without prior U.S. consent. Prompt report to Congress when such consent given.

—Sales may be made only for internal security, self-defense, civic action, regional or collective arrangements consistent with U.N. charter.

—Sales, cash and credit, made only for U.S. dollars.

—Off-shore procurement requires Presidential determination.

—Provisions of Atomic Energy Act and 10 U.S.C. 7307 (requiring separate legislation for ship loans and sales) not in any way changed by Act.

—Munitions Control licensing requirements (Sec. 414 of Mutual Security Act of 1954) continues in force.

—President must establish standards and criteria for credit and credit guaranties.

—Reporting requirements (to Congress):

—Semi-annual reports of past credits and credit guaranties to less developed countries.

—Semi-annual forecasts of credits and credit guaranties to less developed countries.

—Annual reports of dollar value, cash and credit, of all FMS orders, commitments to order, estimated orders, and estimated commercial orders and commitments to order.

—Credit to be repaid in ten years from delivery.

—Export-Import Bank financing of military sales to economically less developed countries is prohibited.

—Credit sales to any less developed country will be cut off when the President finds that the country is diverting its resources or U.S. development assistance to unnecessary military expenditures.

In addition to these above cited restraints and controls which govern Foreign Sales activities, there are financial standards and criteria which govern foreign military credit sales transactions. These standards and criteria for credit sales are embodied in Sections 23 and 24 of the FMS Act. Each credit or guarantee transaction, like other transactions under the Act, will be in accordance with the national security and financial policies of the United States. Specific financial standards and criteria are as follows:

—Credit or guaranty assistance should be extended only for sales to countries which have a demonstrable financial need for credit assistance, for example, foreign exchange or budgetary needs.

—There should be a reasonable expectation of repayment in dollars by the country acquiring the defense articles or services.

—Private or Export-Import Bank financing facilities will be relied upon to the maximum extent possible for sales to economically developed countries.

—Defense Department credit assistance and guaranties offered under the Act will normally be utilized only for economically less developed countries and will take into account US military and economic assistance which such countries may be receiving. Private financing facilities will be relied upon to the extent feasible.

—Guaranties against political and credit risks of non-payment may be issued to any juridical entity doing business in the United States but excluding US Government entities.

—Credit sales will be executed on terms of repayment in US dollars to the US Government of not less than the value thereof within a period not to exceed ten years after delivery.

—When only Defense Department credit is involved in a transaction, it will carry interest rates not less than the cost of money to the US Government.

—Credit extended through private sources using Department of Defense guarantees will carry rates, terms, and conditions determined by negotiation with private lenders, subject to Treasury concurrence. Fees of not less than one-fourth of one percent shall be charged for such guarantees.

—Guarantees shall be backed by a 25 percent reserve.

—A repayment obligation will not be created which would place an undesirable burden on a purchasing country's foreign exchange resources, create excessive claims on future budgets, or otherwise materially interfere with its development.

SERVICE FUNDED GRANT AID

Before concluding my statement, I want to touch briefly on two other Department of Defense Programs which do not come under either the Foreign Assistance Act or the Foreign Military Sales Act, but nevertheless, constitute significant and direct military assistance to foreign nations. The first of these is Service-funded military assistance to foreign forces other than those of Cambodia, operating in Southeast Asia against the Viet Cong and North Vietnamese. Beginning with FY 1966, when increased North Vietnamese intervention in South Vietnam required greater U.S. and allied support for the Republic of Vietnam, it was decided to program all military supply activity in South Vietnam through the Military Services and to charge such activity against the respective service budgets. The following year, for similar reasons, military assistance to Laos and Thailand was transferred out of MAP to the regular Defense budget.

Those reasons, more specifically, were that such transfer gave the services the flexibility required for an active combat situation, for which the established MAP procedures would have been too cumbersome to administer and too slow in responding to changing requirements. It also provided a direct competition among requirements for U.S. and foreign forces and permitted trade-offs on a cost/benefit basis.

Such service-funded assistance to South Vietnam, Laos and Thailand has totaled $8 billion for the period from FY 1966–1970, and it is estimated at $2.2 billion for FY 1971. These figures reflect the substantial cost of "Vietnamization" of the Southeast Asia conflict but, by facilitating the withdrawal of U.S. forces, are far more than offset by reductions in other parts of the U.S. defense budget.

SHIP LOANS, LEASES AND SALES

The other Defense program I would mention is that under which we loan, lease, and sell U.S. Navy ships to foreign governments. Since 1951, the loan of major combatant ships has required authorizing legislation. The law, Title 10 U.S. Code 7307, reflects Congressional concern over the transfer of major combatant warships to several South American countries, under provisions of

the Mutual Defense Assistance Act of 1949 as amended, but without Congressional knowledge. It applies to the sale, transfer or other disposal of battleships, aircraft carriers, cruisers, destroyers, and submarines that have not been stricken from the U.S. Navy Vessel Register. Destroyer escorts were added by Defense to keep within the intent of the legislation. The U.S. Navy is the executive agent for the Department of Defense and prepares the ship loan bills as necessary to provide for new loans or extension of ships already loaned.

Salient features of the loan agreements, which are negotiated by the Secretary of State, are: (a) five-year period, (b) ships can be recalled at any time if needed in the defense of the United States, (c) the Secretary of Defense, in consultation with the Joint Chiefs of Staff, must determine that the loans are in the best interest of the United States, and (d) the Department of Defense must keep the House and Senate Committees of the Armed Services informed periodically of loan agreements completed under authorizing legislation.

PL 90–224, signed 26 December 1967, included—for the first time—provisions that any new loan or loan extension, under that law, shall be made on the condition that the agreement *may* be terminated by the President, if he finds that the armed forces of the borrowing country have engaged subsequently in acts of warfare against any country which is a party to a mutual defense treaty ratified by the U.S.; and, on the condition that the agreement will be *immediately* terminated upon a finding by the President that the country with which such agreement was made has seized any U.S. fishing vessel because of its fishing activities in international waters, except in any case governed by international agreement to which the U.S. is a party.

Fourteen ship loan laws have been enacted since 1951. Of the 86 warships loaned, 74 are still on loan to 17 countries. With the exception of the loan of a helicopter carrier to Spain, all of the ships presently on loan under this authority are destroyer escorts, destroyers and submarines.

The U.S. Navy has for some years, under authority of Title 10 US Code 2667, leased on a navy-to-navy lease, non-combatant ships to foreign navies. The authority provides that the Secretary of the Navy may lease non-excess property—including non-excess ships not restricted by Title 10 U.S. Code 7307 discussed above. These leased ships consist mainly of amphibious ships and service ships. At present, there are about 147 leased ships on active duty with foreign countries.

Salient features of the U.S. Navy leases are: (a) no Congressional legislation is required, (b) five-year term renewable by mutual consent, and (c) lease may be revoked by the Secretary of the Navy during a national emergency declared by the President.

The ships loaned or leased under this program are part of the U.S. Navy mobilization fleet. However, by combining our resources— ships which would normally lie idle in the Reserve Fleet—with the competent manpower and strategic location of the recipient country—we can make a substantial contribution to worldwide mutual defense at a minimum cost. The U.S. also is saved the cost of maintaining these ships in an inactive fleet.

Authority for the sale of ships that have been stricken from the U.S. Navy Vessel Register has existed for a long time in Title 10 U.S. Code 7305. This law authorizes the Secretary of the Navy to appraise each ship stricken from the Navy Register under Title 10 Code 7304 and sell or otherwise dispose of it in a manner most advantageous to the government. This authority, normally used to dispose of ships as scrap, was also used in the sale of auxiliary type ships. Not until recently, December 1968, have suitable combatant ships become available for sale to friendly foreign countries. Ships recently retired from the U.S. Navy and stricken from the U.S. Navy Vessel Register are in reasonably good condition. Although no longer suitable for further U.S. Navy service, given the slower tempo of operations, these ships are a valuable asset in modernizing friendly foreign navies at a time when MAP funds are less and less available. By timing the transfer of these ships to their scheduled inactivation date, a turnover can be accomplished wherein the foreign crew comes aboard as the U.S. crew leaves. The recipient country accepts the ship "where is, as is" paying a nominal price for the ship and also paying for any repairs and other expenses associated with the transfer of the ship.

Since March 1951, 150 ships and craft have been sold to friendly foreign countries under this authority. Among these 150 ships, and since December 1968, one submarine and eleven destroyers have been sold to friendly foreign countries, representing the first combatant ships sold since March 1951.

The recipients of these ships (loaned, leased or sold) are determined from known specific requirements determined in accordance with the processes discussed earlier. The final decision to loan a ship is subject not only to the approval of the country team and unified commander involved, but also to the approval of the Department of Defense and the Department of State.

Developments and trends

Following World War II, U.S. attention was concentrated in Europe and the creation of a viable North Atlantic Treaty Organization. To this end, grant military assistance was provided to our European allies. As they became economically self-sufficient, sales of equipment replaced outright grants. Following the Korean War, the Communist nations shifted emphasis and in many areas sought to attain their objectives through subversion—wars of national liberation—rather than through outright aggression.

Attention was therefore given by the U.S. to the provision of arms and training most useful in internal security. The course of events in Southeast Asia has meant that the usual procedures used in administering grant aid could not be employed because of the scope of operations and the involvement of large numbers of U.S. troops. For this reason, resources are now provided for this area under service budgetary procedures.

As the economic development of recipient nations progresses, often, with extensive U.S. economic aid, the recipients of grant military assistance assume an increasing share of the costs associated with their own defense. As the level of technological expertise in a recipient nation increases, the maintenance of military equipment and production of less complicated military end items become the recipient's responsibility. This "weaning" process is complicated and lengthy. Some recipients have developed a mendicant psychology and must be convinced that they can do for themselves. Experience has proven that projects undertaken by the host country with its own facilities and funds are generally done less expensively and result in the growth of pride and self-reliance.

Thus, it can be seen that military assistance and sales have adapted to changing world conditions, fulfilling a real need in relation to foreign policy objectives.

The effectiveness of military assistance and sales has been graphically demonstrated in a number of cases and has aided materially, and on occasion decisively, in the achievement of U.S. foreign policy objectives.

In Europe the prompt provision of military assistance by President Truman in the late 1940's enabled the Greeks to defeat the threatened takeover of the country by the Communists. Subsequently, U.S. grant aid, and later sales, have fostered the growth of the military forces of our NATO allies, providing a visible deterrent to Soviet aggression. Grant aid remains important in the maintenance of the NATO forces of Turkey and Greece.

In the Middle East, military assistance and sales have assisted in keeping a balance, however precarious, between contending forces. The Israelis have met a major part of the defense requirements through cash and credit purchases of arms from the United States, balancing arms provided Arab nations by the Soviet Union. In addition, sales and grants of arms to certain moderate governments have enabled them to maintain a pro-western stance.

Arms aid enabled Iran to preserve its independence and western orientation while it developed economically. Now Iran no longer needs large amounts of grant aid, but rather is able to purchase for cash and credit the necessary weapons to maintain its armed forces.

In the Far East, since the Korean War, military assistance has created South Korean armed forces capable of deterring North Korea from attempting to unify the peninsula by force. These armed forces have coped with increased North Korean capability in harrassment, infiltration, and terrorism so dramatically demonstrated during the abortive raid on the Pesidential Palace and an attempted large-scale guerrilla operation which took place at about the time of the Pueblo incident.

On Taiwan, economic progress has taken place protected by forces equipped through grant aid, and the point has now been reached where the Government of the Republic of China no longer requires U.S. economic aid and is meeting a significant portion of its defense needs through cash and credit purchases.

In Indonesia, substantial numbers of members of the present government received training in U.S. military and civilian schools under the MAP program.

U.S. military assistance was a major factor in containing the Huk insurgency in the Philippines in the early 1950's. In Thailand, it has assisted in providing the government with the means to combat a potentially serious insurgency in the more isolated reaches of the country.

In Latin America and in Africa, military assistance has furnished resources and training to assist in the development of internal security forces necessary to provide the stability required for economic and social progress. In these areas especially, it has served as a catalyst in developing civic action programs beneficial to the people. Latin America now purchases most of its needs.

In several parts of the world, military assistance has helped create a cooperative atmosphere wherein our allies have willingly provided overflight rights and access to bases important to our strategy of collective security.

U.S. military assistance has also been important in underdeveloped areas by offering emerging nations an alternative to exclusive dependence upon Communist states for their minimum needs in military equipment and training.

Difficult to quantify is the contribution these programs have made to nation building. In some underdeveloped nations the military establishment each year returns to civilian life recruits who have been indoctrinated with a sense of nationality and whose horizons have been broadened through military service. Burgeoning infant industries in such nations often depend upon recruiting trained managers and technicians from the armed services. In some nations, the armed forces represent the only cohesive and disciplined group capable of analyzing the problems facing the nation, mobilizing forces to solve the problems and moving the nation toward development of a viable economy and a responsive, representative form of government.

In summary, I have identified those programs through which the Department of Defense provides defense articles and services to foreign governments for the sole purpose of assisting them in the development, maintenance and operation of armed forces needed to achieve security objectives consistent with U.S. foreign policy. I have described briefly the processes through which these programs are developed, coordinated, revised to reflect changing conditions, and measured as to effectiveness.

Most important of all, however, is the philosophy that underlies each decision to provide defense articles or services to a foreign country in any of the ways I have described. It is that we do not knowingly ask any country to acquire, either by grant or sale, anything that it does not need, cannot afford, or cannot put to effective use in its self-defense; nor do we ask that it acquire from the United States anything that it can obtain on better terms some other source.

Chairman PROXMIRE. Mr. Selden, will you identify the other gentlemen who are at the table with you in addition to General Warren.

Mr. SELDEN. Mr. Peter Knaur who is in my office; Mr. Ben Forman who is the assistant general counsel; and Mr. Walter Ligon who is with our MAP program.

Chairman PROXMIRE. I want to begin by saying, Mr. Selden, that I am a little astonished by the rosy picture that your statement presents. We have had 2 days of testimony documenting the serious problems in this area, the lack of accountability, the distorted use of the food-for-peace program and general mismanagement. Do you acknowledge any of these problems or are you just going to insist that all is well?

Mr. SELDEN. I think, Mr. Chairman, that some of these problems could be cleared up, or at least a different light could be thrown on them, by an explanation. Would you like me to address the food-for-peace program?

Chairman PROXMIRE. Let me get to that in a moment. I wondered if, in general, you acknowledged there were any mistakes or there was any lack of accountability at all, if you would acknowledge there were any shortcomings in this program, and, if so, what were they?

Mr. SELDEN. We are certainly not trying to cover up any MAP and FMS figures. They are all available and, if you would like for us to go into the budget, we would be very happy to do so.

As a matter of fact, I noted that the press indicated there was a difference of opinion among the witnesses who presented figures. I think that the figures presented by Senator Fulbright are in line with the figures we have to present, and also with those presented by Mr. Staats. The only difference is that one set is for 1 year and one is for another year.

Mr. Staats' figures were for fiscal year 1970. Senator Fulbright's figures were for fiscal year 1971.

Chairman PROXMIRE. Senator Fulbright didn't even include food-for-peace. He understated it to that extent. He didn't even know about it, so there was no inclusion of almost $700 million, including military sales, in food-for-peace.

Mr. SELDEN. The figures included were correct figures as far as they went. Each one has included figures that we do not necessarily think would fall into the category of foreign military assistance, but the figures that they gave were correct figures as far as items that they listed were concerned.

Chairman PROXMIRE. All right. Let me go down the line. First, you say it may be impossible to place a dollar value on the total of all U.S. military assistance. Then you go on, in my view, to grossly understate the full cost of the program. Why shouldn't the public be entitled to know precisely how much of its tax dollars are being used to render military assistance to foreign countries. We are not talking about indirect assistance, impacting beneficially on military expenditures which, I guess, is your phrase. Under that definition the anti-poverty program can be construed as part of the U.S. defense program. We are talking about direct military assistance, grants of funds, transfer of materials, equipment and arms, subsidy payments for military purposes, and paramilitary purposes, and loans of major weapons systems.

Why can't we get an exact annual dollar cost for military assistance out of the Department of Defense?

Mr. SELDEN. Mr. Chairman, you can get that information.

Chairman PROXMIRE. What is it?

Mr. SELDEN. And we are perfectly willing to give you that information.

Chairman PROXMIRE. Well, Comptroller General Staats just told us that we can't because the figures are not available. Is he wrong?

Mr. SELDEN. He was correct in stating that the figures were not available on one certain item, because these figures are available only in the field. You wrote me a letter which I received yesterday asking that I obtain this information. I immediately contacted Mr. Shillito, who is Assistant Secretary of Defense for Installations and Logistics. I have a memorandum here which, if you would like, I will read into the record, indicating that he was sending to the field and, as soon as these figures were obtained, he would make them available for the record.

Chairman PROXMIRE. All right. Submit that for the record.

Mr. SELDEN. Would you like for me to read it, sir?

Chairman PROXMIRE. How long a statement is it?

Mr. SELDEN. Very short. It is a memorandum to me. It says:

In accordance with your request, I have undertaken a further review of the data on transfers of real and personal property requested by Senator Proxmire in his letter of December 29, 1970, and have taken action to obtain the data requested as soon as possible. I expect to have by Friday, January 8, 1971, at least some of the data requested, and, for all of the data, a reasonably firm estimate of the date it can be made available.

I think, sir, that is the only information that Mr. Staats did not have available and it does have to be gotten from the field.

Chairman PROXMIRE. All right, let me be specific. As you can appreciate, we are very concerned about the lack of full accounting in military assistance programs, the accounting that is offered in your statement includes the following: MAP grants, military sales and credit sales, distribution of excess materials, service-funded military assistance, and the ship loan program. Is that correct?

Mr. SELDEN. That is correct, sir.

Chairman PROXMIRE. What is the cost, exclusive of military sales and credit sales, of this list for fiscal year 1970?

Mr. SELDEN. The total for grant assistance, and that includes——

Chairman PROXMIRE. Will you give us the total for those four categories: MAP grants, military sales and credit sales, distribution of excess materials, service-funded military assistance, and ship loan program.

Mr. SELDEN. If I may break it down and then total it up, yes, sir.

Chairman PROXMIRE. All right.

Mr. SELDEN. For fiscal year 1970, the categories and figures are: MAP, military assistance service funded and related programs, $2,852,500,000; added to that are: supporting assistance including public safety, $518,100,000; additional public safety programs, $7,800,000; food for peace funds for common defense purposes, $108,000,000; and then there are: military export sales which includes cash and credit sales both governmental and commercial, $1,409,800,000; and there are also——

Chairman PROXMIRE. What does that total?

Mr. SELDEN. We also have the figures available for 1971 if you would like those, sir.

Chairman PROXMIRE. I want to come back to this in a minute. While he is totaling that up let me ask you—I would like you to submit the 1971 figures for the record, if you can.

Mr. SELDEN. All right. They are available and will be submitted for the record.

(The following information was subsequently supplied for the record:)

The fiscal year 1971 figures for the same categories given for fiscal year 1970 are as follows:

MAP, MASF, and related programs	$3, 226, 900, 000
Supporting assistance including public safety	600, 000, 000
Additional public safety programs	7, 000, 000
Food for Peace funds for Common Defense Purposes	143, 800, 000
Military Export Sales including cash and commercial sales	2, 339, 500, 000
Total	6, 317, 200, 000

The following table portrays all figures for all categories whether previously listed or not from fiscal year 1965 through fiscal year 1971:

MILITARY ASSISTANCE AND RELATED PROGRAMS

[In millions of dollars]

	1965	1966	1967	1968	1969	1970	1971
I. Administered by the Department of Defense:							
(a) Grant aid charged to appropriations in budget year:							
(1) Military assistance program (MAP)	1,005.0	1,098.7	905.2	615.8	460.0	409.0	775.0
(2) Military assistance service funded (MASF)	34.1	835.5	1,496.0	1,591.7	1,965.6	2,174.4	2,177.3
(b) Grant aid not charged to appropriations in budget year:							
(1) Acquisition cost of long supply and excess	230.3	142.2	79.1	192.5	320.4	224.2	300.0
(2) Acquisition cost of vessels in ship loans:							
(a) Combatant ships	3.8	9.9	23.2	56.8	10.6	0	110.9
(b) Noncombatant vessels	2.2	5.7	3.5	1.0	0	23.8	55.2
(c) Foreign military credit sales (FMS)	110.6	317.7	323.1	263.7	280.8	70.0	750.0
(d) International military activities: [1]							
(1) International military headquarters	18.9	20.1	21.1	22.8	22.0	55.6	57.3
(2) NATO infrastructure	23.0	43.6	81.8	37.5	47.0	50.0	50.0
(3) Pay and allowances, MAAG and Mil group personnel	72.5	91.2	110.6	141.8	147.2	163.5	167.3
(e) Residual or depreciated value of transferred real and personal property: [2] [3]							
(1) Real property							
(2) Personal property							
II. Administered by the Agency for International Development (AID):							
(a) Supporting assistance	438.7	702.7	718.4	594.5	464.4	518.1	600.0
(b) Public safety	10.0	15.3	7.8	7.1	6.7	7.8	7.0
(c) Food for peace (Public Law 480)	101.2	135.8	105.0	150.3	92.8	108.0	143.8
III. Cash sales—Government and commercial: [4]							
(a) DOD cash sales	1,080.0	1,467.4	805.2	848.3	1,317.1	772.6	1,173.4
(b) Commercial cash sales	274.4	312.3	344.5	334.8	328.9	567.2	416.1

[1] Represents costs associated with the support of our own forces overseas and which are not, therefore, expended for the primary purpose of military assistance to foreign countires.

[2] The real and personal properties transferred under this category were acquired or constructed for the use and support of U.S. forces within a foreign country. Consequently, such property was never intended, or considered to be, military assistance within the commonly accepted meaning of the term. Although the personal property is almost always beneficial to the recipient country, the real property may or may not be an asset, i.e., an airbase with paved roads, runways, and parking aprons is not suitable for conversion to farming land, etc. This category represents property left behind after withdrawal of U.S. forces from the foreign country.

[3] To be provided from the field.

[4] Sales transactions for cash, whether purchased by the foreign country from the U.S. Government or Department of Defense or directly from a U.S. private corporation or other commercial source, do not constitute a cost to the American taxpayer and, therefore, should not be included as a "cost of U.S. military assistance to other nations."

Chairman PROXMIRE. Why can't we have a country-by-country breakdown of the entire military assistance program including MAP?

Mr. SELDEN. We do have that information available but some of it is classified.

Chairman PROXMIRE. I mean unclassified, declassified.

Mr. SELDEN. Perhaps, General Warren, you can answer that.

Chairman PROXMIRE. Why does it have to be classified?

Mr. SELDEN. General Warren, please address that question.

Chairman PROXMIRE. Every witness we have had, to the best of my knowledge, has said they can see no reason why they can't be declassified and we have had people with previous executive department responsibility for this program.

General WARREN. Sir, there are two main reasons. We classify the current 1971 program until the 1972 program is delivered to the Congress because if we released figures to the public before we went to the Congress, it could be embarrassing to the Defense Department. Second, from a military——

Chairman PROXMIRE. Why would it be embarrassing to the Defense Department because we are giving so much to certain countries?

General WARREN. I think we would be accused of preempting the Congress, so we never release them until——

Chairman PROXMIRE. That is an astonishing statement, General. Every other Department comes down and tells us in public what they are going to ask for their own operation. Why would it embarrass the Congress for the Congress and the public to be told? The fact is, when you classify these, that the great majority of Members of Congress never find them out.

General WARREN. Well, sir, all of our past programs are declassified except——

Chairman PROXMIRE. That is history and that is also only MAP, that is only MAP, that is not service-funded.

General WARREN. That is correct; yes, sir.

Chairman PROXMIRE. You still classify where the large part of the money is.

General WARREN. The service-funded figures are also available, sir, and they are releasable except for individual country programs which are classified.

Chairman PROXMIRE. Well, that's right, and we would like to get those figures. They are very important to us if we are going to make any kind of evaluation of this.

Mr. SELDEN. Mr. Chairman, may I state that the classification of programs is established by the State Department and not the Defense Department. We simply carry out their classification directives.

Chairman PROXMIRE. Let me ask, Would you have any objection to declassification by the State Department?

Mr. SELDEN. I could see at least one objection. If the money levels are declassified, the program contents would probably have to be disclosed; and this would give a potential adversary an accurate assessment of an allied country's military capability.

Chairman PROXMIRE. Let's be specific. We have had people like Nicholas Katzenbach and Townsend Hoopes and other distinguished

men who have testified, three experts yesterday afternoon, none of them could see any reason at all for keeping this secret from the American public and, in effect, from the Congress although we can find it out if we dig.

Mr. SELDEN. The only thing I can say is that they didn't declassify the figures when they had that responsibility, sir.

Chairman PROXMIRE. That may well be but, after all they have objectivity now.

Mr. SELDEN. I imagine Mr. Katzenbach, as Under Secretary of State, could have declassified the figures since it is State's responsibility; but it has not been done. Since it has not been done, I assume State must have some good reason. Perhaps Secretary Irwin would like to address this subject when he appears for the Department of State.

Chairman PROXMIRE. Mr. Selden, you are telling us you think they may have some good reason for keeping this secret. They must have had good reason in the past. It is important to make these public, if we are going to have any discussion we should know what these figures are publicly, get them out on the table so we can analyze them, and we can't do that if they are classified secret.

Mr. SELDEN. They can be discussed in those committees to which they are provided on a classified basis.

Chairman PROXMIRE. They may be discussed in the committee, that is possible, but, of course, a great deal of this money doesn't go to an authorizing committee, it goes to the Appropriations Committee and it goes in a great big appropriation bill, more than $70 billion, and to break anything out under those circumstances for analysis is extremely difficult, even in the House where they are much more meticulous than they are in the Senate.

Mr. SELDEN. The MAP and FMS proposals always go before the authorizing committees. As a matter of fact, I think, we spent at least 5 or 6 weeks each year on the House Foreign Affairs Committee on some of these programs. We did go into great detail, and I sat on the House Foreign Affairs Committee for 14 years.

Chairman PROXMIRE. Let me go into this again. Have you totaled the figures, have you tabulated that? How much is it?

Mr. SELDEN. $7,339 million; that is not right.

Chairman PROXMIRE. It is an interesting figure, that is exclusive of sales.

Mr. SELDEN. No; that is not correct.

Chairman PROXMIRE. Of course, it is astonishing this has never been added up by the Defense Department before.

Mr. SELDEN. It has been added, sir, and I am sorry I did not have the addition of the figures you are requesting in front of me. We have the whole budget here, however; and it is simply a matter of adding the total of those programs on which the committee is interested.

Chairman PROXMIRE. All right. What is your total?

Mr. SELDEN. Total, $4,896,200,000 for those categories I listed previously.

Chairman PROXMIRE. That is exclusive of sales?

Mr. SELDEN. That includes sales.

Chairman PROXMIRE. That is close to the figures we have had from the other two men and it is an enormous amount of resources and it is a large proportion of our military budget.

Let me ask you, When did you first learn Food for Peace funds had been used for military purposes?

Mr. SELDEN. I voted for Public Law 480 through the years, and I have known through the years that this was done. I was rather amazed when I looked into it, however, to find the amount was so low.

Chairman PROXMIRE. The amount was so low.

Mr. SELDEN. So low. It is only 9 percent of the total.

Chairman PROXMIRE. You mean that only $700 million of Food for Peace has gone——

Mr. SELDEN. That is correct.

Chairman PROXMIRE (continuing). For military purposes shocks you, it should have been more?

Mr. SELDEN. Of the total amount of $7,742 million generated in local currencies under Public Law 480 in the 6 years from 1965 to 1970, $693 million, or only 9 percent of that total, has been allocated for common defense purposes, including internal security.

I might point out further, Mr. Chairman, that of that total, only $2.8 million, an infinitesimal amount when you take into consideration the total, was allocated to, and administered by, the Department of Defense. The remainder was administered by AID.

I might also point out that under section 104(c) of the law, local currencies accruing to the United States may be returned to the local government for "common defense" purposes if both parties agree.

It has never been possible, however, to purchase military equipment from the United States with local currencies accruing from Public Law 480. In past years funds accrued and applied under section 104(c) have been used by the countries involved to pay expenses of civic action type projects for local construction purposes such as barracks and roads and camps, and in some instances by AID for direct support to local defense budgets in order to assist in meeting pay and other local expenses.

The Congress evidently felt so strongly about this provision that in the 1966 foreign assistance authorization bill they wrote into the act that "From and after the sixtieth day after the day of enactment of the Foreign Assistance Act of 1966, no assistance shall be provided under this chapter,"—this is MAP—"to any country to which sales are made under Title 1 of the Agricultural Trade Development Assistance Act of 1954 until such country has entered into agreement to permit the use of foreign currencies accruing to the United States under such Title I to procure equipment, materials, facilities and services for the common defense including internal security in accordance with the provisions of Section 104(c) of such Title I." So not only has this been in Public Law 480 since its inception—and that was in 1954, and this law has been passed and repassed—but written into the Foreign Assistance Act in 1966 is the requirement that each country must agree to use at least some of these funds for "common defense purposes." Otherwise, they are not eligible for any MAP assistance.

Chairman PROXMIRE. Well, my time is up. Let me just say that

very few people knew about this. To the chairman of the Foreign Relations Committee it was completely news to him. Townsend Hoopes who had the responsibility in the Defense Department didn't know about it, it was news to him. With this secrecy we just have not been able to get it under the kind of control we should, and, frankly, it is shocking to this Senator, and I am sure, to many others, that the Food for Peace program has gone for this purpose.

My time is up.

Mr. SELDEN. Mr. Chairman, may I add that this legislation, the Foreign Assistance Act of 1966, was passed by Senator Fulbright's committee.

Representative BROWN. Maybe we are more meticulous in the House.

Chairman PROXMIRE. The funds were not authorized by his committee.

Mr. SELDEN. Foreign assistance funds were authorized by his committee. They were not appropriated by his committee. This amendment, relative to so-called Food for Peace funds was written into the authorization act in 1966.

Chairman PROXMIRE. On Food for Peace?

Mr. SELDEN. No, it is the Foreign Assistance Act that includes a provision requiring that Food for Peace funds be used for this purpose before MAP funds are made available.

Chairman PROXMIRE. But the Agriculture Committee handles Food for Peace.

Mr. SELDEN. But the amendment to which I have referred was written into the Foreign Assistance Act which was considered by Senator Fulbright's committee.

Chairman PROXMIRE. Mr. Brown.

Representative BROWN. Let me go back to your testimony, Mr. Selden, and see if I can correct something in it.

You indicate that the programs and the administration officials respond to many incisive questions put to them by members of the four committees. Now to what four committees do you have reference? I assume you mean both the House and Senate and I can assume the Foreign Affairs Committee, the Armed Services Committee, and the Appropriations Committee, is that correct?

Mr. SELDEN. Well, for military assistance and credit sales, it would be the House Foreign Affairs Committee, the Senate Foreign Relations Committee, the House Appropriations Committee, and the Senate Appropriations Committee.

Representative BROWN. What about the Armed Services Committee?

Mr. SELDEN. They authorize funds for the defense budget.

Representative BROWN. The MAP funds are authorized by the House Foreign Affairs Committee and the Senate Foreign Relations Committee, is that correct?

Mr. SELDEN. That is correct, sir.

Representative BROWN. And in the appropriating process, the subcommittee of the Appropriations Committee that deals with such matters?

Mr. SELDEN. That is correct, sir.

Representative BROWN. And the Military Assistance Service program, funded by the various branches of the armed services?

Mr. SELDEN. That is authorized by the House Armed Services Committee and the Senate Armed Services Committee.

Representative BROWN. You see, we have had a shift in these figures from the military assistance programs for grant in aid during the Johnson administration to the military assistance service funded which is also, in effect, a grant or gift from the Foreign Affairs and Foreign Relations Committees to the Armed Services Committees.

Mr. SELDEN. That is correct.

Representative BROWN. But are all those Military Assistance Service funded programs authorized?

Mr. SELDEN. They are authorized by the House Armed Services Committee and the Senate Armed Services Committee.

Representative BROWN. And then they are reviewed by the appropriations committees?

Mr. SELDEN. That is correct. They also are reviewed by four committees.

Representative BROWN. There has been some expression of concern in regard to the International Freedom Fighter aircraft. From your experience at the Defense Department, do you have any understanding of how the concept for the International Freedom Fighter was developed?

Mr. SELDEN. Yes. The International Freedom Fighter recently contracted out for development was originally proposed by the Congress, not by the Defense Department.

Representative BROWN. Now wait a minute.

The concern was expressed the other day that this was something that the administration had forced on the Congress. As I understand it, this is the plane that has no use in our defense establishment but has been developed for use by the small countries abroad that may want to have a different kind of plane than what we would use.

Mr. SELDEN. That is correct. As a matter of fact, this has been done before. The Defense Department developed what was known as the F–5 Freedom Fighter for MAP, to be used by our allies who could not afford the type planes that we were using or needed in our U.S. inventory. This is an improved F–5. It is an F–5–21.

Representative BROWN. Now wait a minute, you said the Congress had had the input on this program or that the Congress had developed this.

Now the Congress doesn't have a part of this developmental procedure here that you talked about with regard to the foreign countries and our development of what they need in their security programs—at least I didn't see the Congress listed in here. How did the Congress get into the act?

Mr. SELDEN. I will tell you exactly how it happened, sir. During the hearings before the House Armed Services Committee in May 1969, committee members strongly expressed the need for the United States to develop a relatively inexpensive, easily maintained modern fighter interceptor for the free world forces as a followup to the F–5 I just mentioned a few moments ago. The Congress then put $28 million in the fiscal year 1970 budget to initiate the program.

Representative BROWN. This amount had not been requested by the Defense Department?

Mr. SELDEN. That is correct, it was not requested; $18 million more was approved by the Congress for fiscal year 1971—so this program was initiated by the Congress and not by the Defense Department.

Representative BROWN. Well, it is very interesting.

What was the rationale or authority? Or knowledge of the need, do you suppose that developed?

Mr. SELDEN. As I understand it, there are about 600 obsolete aircraft in the hands of our military allies overseas. There is a need for a plane that will update the F–5. The Defense Department had no opposition to it.

Representative BROWN. Are you suggesting that the foreign countries lobbied the Members of Congress?

Mr. SELDEN. No; I am not suggesting that. I think that Members of Congress who follow these programs very carefully are aware when there is a need for new equipment. I don't think there is any question that there is a need for a fighter that will update the F–5 which has been in operation for some time.

Representative BROWN. Let me switch into another area.

The morning paper made a good deal of the Joint Strategic Operating Plan, this Annex J, which is the desired level of military development of other foreign nations, and what its purpose is. I think the headline was that it is a ludicrous effort by the Joint Chiefs of Staff to force excessive development of our military assistance program. What is the utilization of this and is it still being utilized?

Mr. SELDEN. Annex J—now designated book VII, volume II, in JSOP 73–80—is being utilized because it is the position of the Joint Chiefs of Staff. They present the maximum military capability that they would like to see in the free world countries for the maintenance of their security and our security. These forces are designed to counter the maximum military threat to the area.

The Defense Department does take into account Annex J. Also taken into account are the resources of the country affected and the resources that MAP is able to devote to that particular country, and then——

Representative BROWN. Wait a minute, you say the Defense Department takes into account the resources of the country affected. We had criticism yesterday by some of the members here or some of the people who testified from the Rand Corp., Brookings Institution, and the privately funded parts of the Government. Those testifying suggested that there is not too much rationale, for instance, for our military assistance to areas like Turkey due to the inability of Turkey and Greece to adequately respond by themselves to an attack, for example, by Soviet Russia.

Now, when you say that this program is a maximum, I suppose you mean a maximum parameter of what that country ought to have in the way of defense facilities and equipment. But when you say that support of the program falls within the level of the country, I am not sure I know what you mean.

Mr. SELDEN. Well, I mean that what the Joint Chiefs of Staff present in Annex J—book VII—is the maximum military capability

that they believe is necessary for the maintenance of security in those countries.

Representative BROWN. In that part of the world in a military sense?

Mr. SELDEN. Yes; in a military sense.

Representative BROWN. For an external threat.

Mr. SELDEN. We have NATO agreed force levels for Greece and Turkey. It is not just the United States, it is a NATO agreed force level for that particular area.

Representative BROWN. But is that in accordance with Annex J or is it something less than Annex J?

Mr. SELDEN. No; it would be different. As I said, this Annex J contains the maximum military capability that the JCS would like to see. The Defense Department and the State Department have to take into account the resources of the country involved, and the resources that MAP is able to devote to a particular country. Then, by putting all these together, they come out with a more realistic force level which provides the minimum required to deter a threat.

Representative BROWN. So Annex J is a maximum parameter. However, even though it is a maximum parameter it includes a consideration of what the country can maintain and logically support; is that right?

Mr. SELDEN. That is partially correct. Annex J contains the maximum.

Representative BROWN. My time is up.

Chairman PROXMIRE. Mr. Selden, the General Accounting Office has reported to us in these hearings that the Pentagon is unable to state how much of its excess and surplus material and equipment, that is surplus material and equipment, has been transferred to the government of South Vietnam during any of the past 6 years. Hundreds of millions, if not billions of dollars are involved, yet they cannot be properly accounted for. Why is this?

Mr. SELDEN. As I pointed out earlier, Mr. Chairman, I tried to obtain these figures for you in order to present them today. I have read into the record Mr. Shillito's memorandum in which he says he has sent out to the field to get those figures.

Chairman PROXMIRE. We shouldn't have to wait 6 years for those.

Mr. SELDEN. I was notified at 11 o'clock yesterday that you wanted those figures, Mr. Chairman.

Chairman PROXMIRE. Yes; my question is not prospective, my question is why you haven't done this in the past. This seems to me to be a serious failure on the part of the Defense Department. They are spending all this money and they can't account for it to themselves let alone the Congress and the public.

Mr. SELDEN. These figures are available in the field. They can be gotten, and they will be gotten and provided.

Chairman PROXMIRE. Why shouldn't the figures be gathered if the figures are available in the field 6 or 10 thousand miles from here? We have modern communications. We have radio and planes that fly back and forth every day.

Mr. SELDEN. As I said, we hope to have this information for you by Friday.

Chairman PROXMIRE. By Friday.

Mr. SELDEN. We expect some of the data requested to be ready Friday, as well as a reasonably firm estimate of the date when the rest of it can be made available.

Chairman PROXMIRE. In view of the fact you can't give me that data, I take it the $4.8 billion you told me about earlier does not include the surplus materials and equipment that have been transferred to the Government of South Vietnam; is that right?

Mr. SELDEN. No; it does not.

Chairman PROXMIRE. So this is $4.8 billion plus the amount that has been given to Vietnam which is, I presume, a very considerable amount, and plus, of course, the military sales, that is what we are talking about when we talk about the impact of this program; is that right?

Mr. SELDEN. Military sales are included in the $4.8 billion figure.

Chairman PROXMIRE. Now, the same lack of records and accountability exists with respect to real property, military construction projects turned over free of charge to Thailand, Vietnam, and other foreign countries. Can you state at this time what the figures are in this category for fiscal year 1970 and each of the previous 5 years?

Mr. SELDEN. Mr. Chairman, as I pointed out, the information on real and personal property requested by you will be furnished.

Chairman PROXMIRE. I see, so you have no figures on either one?

Mr. SELDEN. This is covered in the memorandum from Secretary Shillito.

Chairman PROXMIRE. Can you tell me, Is it possible that the acquisition cost of the excess materials and real property turned over to Vietnam and Thailand in 1970 totaled as much as $1 billion in 1970?

Mr. SELDEN. I can't give you those figures until they are made available.

(The following information was subsequently supplied for the record:)

DATA ON TRANSFERS OF REAL AND PERSONAL PROPERTY

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., January 8, 1971.

Hon. WILLIAM PROXMIRE,
Chairman, Subcommittee on Economy in Government,
Joint Economic Committee,
U.S. Congress,
Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to the commitment made to you in the course of my testimony on 6 January 1971, I am transmitting herewith a memorandum addressed to me from Mr. Barry Shillito, Assistant Secretary of Defense for Installations and Logistics, which includes information with respect to real and tangible personal property transferred to foreign countries.

It is important, Mr. Chairman, to emphasize the fact the figures given in the memorandum are acquisition costs rather than residual or depreciated values of used equipment and property. You will also note that the balance of information requested will become available by 25 January.

Sincerely,

ARMISTEAD I. SELDEN, Jr.

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C.

Memorandum for: Mr. Armistead I. Selden, Jr.
Subject: Data on Transfers of Real and Personal Property.

In Senator Proxmire's letter to you of December 29, 1970, certain information was requested regarding transfers of real and personal property. On January 5, 1971, I advised that a further review had been undertaken of the data requested and that by January 8, 1971, I expected that at least some of the data requested could be made available and that we would have a reasonably firm estimate of the dates all of the data could be made available. The results of this review for each of the categories mentioned in Senator Proxmire's letter are as follows:

1. PERSONAL PROPERTY TRANSFERRED TO VIETNAMESE FORCES

Cumulative totals of transfers of personal property from Service excesses were previously furnished the Committee for Navy and Air Force. These amounts plus the amounts listed under the category Military Assistance Service Funded (MASF) constitute the total value of deliveries to the Vietnamese Armed Forces from the Air Force and the Navy. These transfers from excess by fiscal year are as follows:

[In millions of dollars]

	Air Force	Navy
Fiscal year:		
1965	1.4	
1966	5.2	11.9
1967	31.3	22.4
1968	10.0	31.9
1969	9.6	34.1
1970	8.7	85.1
Total	66.2	185.4

Data on *total* deliveries of personal property by the Army, including all shipments from CONUS, transfers from U.S. resources in Vietnam and materiel that was used or excess, are tabulated by fiscal year as follows:

Fiscal year:	*Millions*
1965	
1966	[1] ($133.0)
1967	367.0
1968	405.0
1969	855.0
1970	1,618.0

[1] Fiscal year 1966 data include transfers from MAP-grant aid.

The above data from Army should be used with caution in conjunction with the data previously reported to the Committee on the MASF program since these data are compiled on the basis of time of delivery rather than on the basis of fund obligations and they include the value of *all* materiel transferred to Vietnamese forces both from excesses and MASF funded items. There is, therefore, a certain overlapping of data with the figures for MASF obligations furnished to the Committee. A breakout of specific Army deliveries from Service excesses as opposed to MASF funded deliveries is not available without significant additional research of records.

2. REAL PROPERTY TRANSFERRED TO FOREIGN COUNTRIES, EXCEPT THAILAND AND VIETNAM

The total value of real property released or in the process of being released to foreign countries, exclusive of Vietnam and Thailand, from FY 65 through FY 70 is about $900 million as the Committee was previously advised. This figure is considered the most useful and meaningful data that can be provided regarding the value of real property transferred during this period. A meaningful breakout of this figure by fiscal year is not feasible since the

circumstances of disposition of real property overseas often involve a long period of time from the date the decision is made to phase out a property to the date all legal and administrative steps are completed to permit the removal of the property from the official DoD property records. In many cases the effective date of transfer, including beneficial occupancy by the recipient, occurs well in advance of the date the property is finally dropped from the records.

3. REAL PROPERTY TRANSFERRED TO THAILAND AND VIETNAM

A record of the cost of real property transferred to Vietnam and Thailand is maintained in the field but is not routinely compiled or reported to higher headquarters.

Thailand and Vietnam were requested this week to furnish this information as soon as possible and advise by January 8, 1971, of the time required if not available by that date. Data on the value of real property transferred to Vietnam is currently being compiled and will be available by January 25, 1971, if not sooner.

The dollar value (original U.S. cost) of real property transferred to Thailand (Royal Thai Ministery of Defense, for military purposes) is as follows:

Fiscal year:	*Millions*
1965–67	0
1968	$0.063
1969	.970
1970	1.638
1971 (to date)	2.858
Total to date	5.592

Chairman PROXMIRE. Can you estimate this; can you give me a rough estimate?

Mr. SELDEN. General Warren may be able to give you an estimate.

Chairman PROXMIRE. General Warren.

General WARREN. Yes, sir; we have complete figures on military assistance to Thailand. However, we don't have for Vietnam because, due to the war situation, we removed it from our normal MAP structure. I do have the complete details of the past military assistance, plus this year's, for Thailand.

Chairman PROXMIRE. The GAO says there are no figures for Thailand. Are they wrong?

General WARREN. They are wrong.

Chairman PROXMIRE. Why didn't you give them the figures when they asked for them? Didn't they ask for them? Why didn't you give it to them?

General WARREN. Sir; if you are talking about the real estate, I do not have that; but, for the military equipment delivered to Thailand, figures are available in the Defense Department in great detail, including excess.

Chairman PROXMIRE. I am talking about real property too. Why don't you have figures on real property for Thailand? We are not at war with Thailand.

General WARREN. I don't have them because that is not involved in administering the MAP and sales program.

Chairman PROXMIRE. All you have to do is mention war and then somehow people assume you don't have to be accountable. After all this is something which has been going on for 6 years. It seems to me that simply to say, "Well, we are at war, we can't keep track of the amount that is being given away out there," hundreds of millions, perhaps a billion dollars, we don't know, no idea, no accountability,

there can't possibly be any kind of oversight or control in behalf of the American taxpayer if you can't even tell us the amount.

Let me ask this, you suggest, Mr. Selden, that the Defense Department has fully informed Congress on various programs. But have you kept the cognizant committees, such as the Foreign Relations Committee, fully and currently informed on your use of excess equipment to supplement the MAP program?

Mr. SELDEN. Yes; they have been informed.

(The following information was subsequently supplied for the record:)

ACCOUNTABILITY OF MATERIAL AND EQUIPMENT IN AN ACTIVE COMBAT SITUATION

The difficulty of maintaining precise accountability of material and equipment in an active combat situation has been recognized in reports of the Senate Armed Services Committee and the House Appropriations Committee in the following language:

"The Committee is aware that a requirement to maintain exact accounts at the field level during the course of combat operations would defeat the major purpose of this section, but it is expected that the quarterly report on the *estimated* value of support furnished by country will be based on the most accurate data that may be made available without impeding supply and distribution in the combat areas." *Senate Armed Services Committee Report*, S. Report #992 dated February 10, 1966, p. 11. (Italic added.)

"This is a requirement of the immediate situation" (Secretary of Defense to render to House and Senate Armed Services and Appropriations Committees a report with respect to the *estimated* value by purpose, by country, of support (MASF) furnished from such appropriations) "so as to avoid the necessity for separate accountability for goods and services by recipient country, where actual combat precludes ordinary peacetime accounting procedures. It should be noted that this is the method used to finance assistance provided to our allies during the Korean War." *House Appropriations Committee Report*, H. Report #1316 dated March 11, 1966, p. 13. (Italic added.)

Chairman PROXMIRE. Well, in point of fact, isn't it true that the Department of Defense concealed the excess shipments in post facto footnotes? That is, they came in after action by the Foreign Relations Committee in footnotes?

Mr. SELDEN. These figures have to be submitted afterward because we don't have the figures ahead of time. They don't know what equipment will be excess a year in advance. Consequently, we have to come in and report after the fact.

Chairman PROXMIRE. Don't you have a plan for transfers?

General WARREN. Yes, sir; we have goals for the future; but the problem is that we don't know what equipment will be coming available in the future. A year ago there was considerable criticism because many people didn't understand exactly what happened when we had a larger excess program than we had originally presented as a target to the Congress. One of the reasons was that our grant aid was cut so far that we started an all-out drive to use excesses, and we got about $400-some million—at acquisition value—of excess materials for the military assistance program a year ago. I think that was what caused people to question a bit.

Chairman PROXMIRE. As you know, Congress last year placed a ceiling on the amount of excess materials and equipment that can be given away by the Pentagon to foreign countries.

General WARREN. Yes, sir.

Chairman PROXMIRE. The ceiling is a hundred million dollars valued at one-third of acquisition costs, as I understand it. I recall that last year before the ceiling was established the Department of Defense stated that it planned to transfer to foreign governments about $152 million worth of excesses at utility value which would be at about three times as much or $450 million in acquisition costs.

In light of the ceiling, what is currently planned for transfer in fiscal year 1971 and fiscal year 1972?

General WARREN. For 1971, we originally estimated that we could get from the services around $500 million in excess property which we could use in our MAP program.

Chairman PROXMIRE. How much again?

General WARREN. Around $500 million worth of equipment at acquisition value.

Chairman PROXMIRE. That is in acquistion terms——

General WARREN. Yes, sir.

Chairman PROXMIRE (continuing). Or utility terms? Acquisition?

General WARREN. Acquisition, sir; and the net result of the $300 million ceiling imposed by the action the other day is that there will be probably about $200 million worth of excess equipment which will end up being junked, demilitarized and sold for scrap instead of going to the countries to which we would like to see it go.

Chairman PROXMIRE. Well, there have been so many abuses in this program, General, and it is so easy to abuse the program, now there have been lots of people who have told me that they think that what happens is that much of this material is perfectly usable, it is declared surplus, and there are various ways, various reasons why client countries would like it declared surplus and then given away, and then the Defense Department turns around and says, "We need more rifles or tanks or planes or whatnot." This is, I presume, why the Foreign Relations Committee and others insisted on that ceiling.

General WARREN. Sir, we report excess equipment in three ways. Each year in the congressional presentation document—this year there were 6 pages of detail devoted country by country to excess material. It is true that the program was not well run or watched in the past. However, about a year ago we established in the executive branch a control group composed of representatives of the Joint Chiefs, the State Department, and OSD which acts on and allocates each major item of excess equipment.

One more point, if I may, Mr. Chairman. The reason we are getting so much excess equipment is the budget cuts in the services; and, of course, some of it comes from withdrawals from South Vietnam. So we will possibly have many millions of dollars worth of this becoming available in the next year. If nobody wants to buy it—that is the countries that are authorized to do so—you cannot sell it to any private institution; and the last place it goes is to the military assistance program. If we don't use it or can't, and we only use equipment which matches our forecasted requirements, it goes to the junk yard, as I mentioned.

Chairman PROXMIRE. Well, I can think of many, many better uses than imposing, and in some cases it is imposing, equipment on underdeveloped countries which they have to maintain and which they

have to devote their resources to developing and then they build an appropriate component around it and it could be a very unwise military decision especially since they don't have to pay anything for it, it is given to them directly. But what you are arguing is that if we don't give this away it is going to be largely a loss?

General WARREN. That is correct.

Chairman PROXMIRE. Let me see if I can get the overall figures correct. The Pentagon has committed about $17 billion worth of excess equipment, is that about right?

General WARREN. I believe that is correct.

Chairman PROXMIRE. How much of this is available for transfer to foreign countries? Mr. Staats said about $10 billion.

General WARREN. I am sorry, the figure he mentioned——

Chairman PROXMIRE. Is the acquisition figure.

General WARREN. It is the acquisition value figure of all the surplus stocks which the Department of Defense has in its inventory. A lot of it we can't use—such things as B–52 engines or obsolete equipment which do not match our requirements.

Chairman PROXMIRE. Well, then, my second question is how much of it would be, could be, available for transfer to foreign countries?

General WARREN. Well, sir, the way we determine what we can use, and, as an example, last year we finally got our requirements in a form where we could match them against inventories of the $17 billion worth of equipment you mentioned—that is the correct figure—but we only want a part of it because unless it matches our requirements we will not use it.

Chairman PROXMIRE. Let me ask the question again, how much is available for transfer to foreign countries?

General WARREN. We would guess $500 million this fiscal year.

Chairman PROXMIRE. Five hundred million this fiscal year. How much would be available, do you have any estimate how much could be available, in the future?

General WARREN. Well, sir; last year it was $425 million at acquisition value, and I would guess it would go up markedly in the future as our units are withdrawn from Southeast Asia.

Chairman PROXMIRE. How do you reconcile that with the response of the Comptroller General who said that $10 billion was available, $10 billion was available, you say $500 million is available in fiscal 1971.

General WARREN. Sir, that is the total amount available. In fact there may be more, but there is a large part we don't want and can't use. Unless it matches our specific program requirements, we will not ask for it.

Chairman PROXMIRE. You are answering the question in a different way. You are saying it may be available but the usable amount that is available for foreign disposal is about $500 million in the fiscal year; is that correct?

General WARREN. That is correct.

Chairman PROXMIRE. How much of this is in Vietnam?

General WARREN. I don't know the answer to that, sir.

Chairman PROXMIRE. Two-thirds of it, would you estimate?

General WARREN. We have a special system which is set up in the

Pacific. It is actually controlled in Okinawa where an effort is made to keep track of the excess equipment in Vietnam. We do allocate from that equipment, but I do not have the details of what is excess in Vietnam right now.

Chairman PROXMIRE. Can the amount in Vietnam be transferred to other countries?

General WARREN. Yes, sir; we could transfer any excesses there and are doing so.

Chairman PROXMIRE. Isn't it true that U.S. military personnel regularly visit the supply depots in Vietnam where the excesses are located in order to shop for materials and equipment which might be available for transfer to other foreign countries?

General WARREN. Well, members of my staff do make regular visits, but I don't think it is shopping. It has been the mission of my representatives to find out if our control is good, and to establish systems so we don't let something which is excess in Vietnam go to waste or be junked. Quite a large amount of equipment from South Vietnam has been delivered as excess under MAP—particularly to the Republic of China, Korea, and the Philippines.

Chairman PROXMIRE. My time is up. I will be back.

Mr. SELDEN. Mr. Chairman, you asked me a question as to whether or not the Congress received any reports on this program. I would like to expand on that. They do receive three different reports. One is a semiannual report to the Congress directed by the Foreign Assistance Act. A second, setting forth complete detail of past year's transfers and next year's estimates is included in the congressional presentation that is sent to the Congress.

Chairman PROXMIRE. Are these unclassified?

Mr. SELDEN. Some are and some are not.

Chairman PROXMIRE. Could we have for the record that which is not classified.

Mr. SELDEN. We will supply that information for the record.

(The following information was subsequently supplied for the record:)

REPORTS TO THE CONGRESS ON ARMS TRANSFERS MADE AND ESTIMATES OF REQUIREMENTS FOR THE BUDGET YEAR

The semi-annual report of exports of significant defense articles on the U.S. munitions list, required by Section 36(a) of the Foreign Military Sales Act, is classified CONFIDENTIAL in its detailed version. A summary version, showing major categories of items by country, is unclassified.

The annual presentation to Congress in support of the budget request for military assistance funds, required by Section 634(d) of the Foreign Assistance Act, is classified SECRET.

The annual presentation to Congress in support of the budget request for foreign military sales funds, required by Section 36(b) of the Foreign Military Sales Act is classified CONFIDENTIAL.

It should be noted, however, that an unclassified version of this presentation is prepared immediately following submission of the classified document and sent to every member of the Congress. This unclassified publication, entitled "Military Assistance and Foreign Military Sales Facts," contains both narrative and statistical data covering, in considerable detail, both prior years and proposed distribution of funds requested for the coming fiscal year. These data include tables setting forth an annual summary of military assistance program by both regions and category of equipment; MAP deliveries/expenditures, country-by-country, from FY 1950 through the immediately pre-

ceding fiscal year, with individual yearly country totals for the preceding five years; a comparable table covering deliveries of excess defense articles since FY 1950; and summaries of selected items programmed and delivered, and students trained, under MAP. The section dealing with Foreign Military Sales includes similar tables setting forth sales by region since FY 1950; FMS deliveries by country for the same period; and a summary of selected items ordered and delivered under FMS. A copy of the "Facts" booklet, additional copies of which are always available to any member of the Congress upon request, is attached.

An even more detailed and inclusive report on all "U.S. Overseas Loans and Grants" from July 1, 1945 is prepared annually for the House Foreign Affairs Committee by the Agency for International Development. This unclassified publication includes country-by-country tables setting forth all available unclassified data on loans and grants to all foreign nations provided through the following U.S. agencies and programs:

Agency for International Development and Predecessor Agencies
Food for Peace
Export-Import Bank
Peace Corps
Other Economic Programs
Military Assistant Program
Other Military Loans and Grants

Chairman PROXMIRE. Could you give us an estimate of the amount of the overall amount that is not classified?

Mr. SELDEN. Yes.

Chairman PROXMIRE. Do you have it with you now?

Mr. SELDEN. No.

Chairman PROXMIRE. Is most of it classified or not classified?

Mr. SELDEN. I believe most of it is not classified, but we will get that information for you in detail.

Chairman PROXMIRE. All right.

Mr. SELDEN. There is a third report. The Senate and House Committees on Appropriations are provided quarterly copies of all the MAP orders that are issued. These constitute the authority for a service to make a transfer. So there is reporting to the Congress in at least three ways. We will furnish you more detailed information as to the classification.

(The following information was subsequently supplied for the record:)

SECURITY CLASSIFICATION OF THE QUARTERLY REPORT ON USE OF MAP FUNDS ALLOCATED AND AVAILABLE TO THE DEPARTMENT OF DEFENSE, REQUIRED BY SECTION 108, PUBLIC LAW 84-208

The summary showing materiel delivered and services performed during the preceding quarter and cumulative since the inception of the Military Assistance Program is unclassified. This summary reports the value of materiel and services provided by Military Departments and others. It also shows the value of items delivered and services performed by geographic region and major category.

The MAP orders are classified CONFIDENTIAL. These orders show in detail, by country, the items directed to be supplied and services to be performed.

Chairman PROXMIRE. My time is up but I will be back.

Congressman Brown.

Representative BROWN. General, I may be the only one in the room but I am confused about the excess material and the difference between the figures of 10 billion and 500 million. Can you explain this to me somewhat more clearly?

General WARREN. I believe, sir, the Comptroller General's figure probably represents the total amount that is available.

Representative BROWN. Total amount of what?

General WARREN. Of excess military equipment available on the records of the Department of Defense.

I went over some of those records, and a large part of the excess we don't want. It consists——

Representative BROWN. Are you talking, for example, about such things as ships in mothballs?

General WARREN. Yes, sir; it would include those but it also includes, for example, extremely expensive R. & D. equipment which is no longer used and may have cost a half million dollars for a given item. There is a lot of that in there.

Representative BROWN. Well now, just a minute. I don't want to interrupt you for I want to get your thought clearly, but this R. & D. equipment that may be highly sophisticated at one time had some utility——

General WARREN. Absolutely.

Representative BROWN (continuing). To you and perhaps, therefore, to some foreign country, but now has no utility at all to anybody?

General WARREN. Yes; it would have utility to some people. Just talking about R. & D. equipments like, let's say, radios or telemetry and so on, there are a lot of "one of a kind" pieces of equipment which are handmade for a certain test, which nobody now wants. This would include probably many aircraft which are no longer used in testing—the prototypes and so on. The only time we accept equipment is when it matches a valid MAP requirement, sir.

Representative BROWN. So you figure that out of this $10 billion there is only material valued at $500 million that has some merit?

General WARREN. No, sir; I believe Mr. Staats is talking about the information on worldwide excesses maintained in the Battle Creek, Mich., computer facility. I was talking about our estimate that probably $500 million worth at acquisition value, of military equipment will become available this year as the services release it. Part of it is from budget cutbacks. For example last year the Air Force——

Representative BROWN. That is what I don't understand because you said budget cuts led to the availability of excess equipment.

General WARREN. That's right.

Representative BROWN. I find your testimony confusing.

General WARREN. Sir, may I give you an example? Last year—and I think this committee is interested in this anyway—the Air Force, as a result of reductions, released an F–104 squadron. The value of that squadron at acquisition cost, with spares, ground support, and so forth, was approximately $50 million. We gave that squadron to the Republic of China as a grant or transfer of excess. We paid for certain repairs and rehabilitation. It was to replace an obsolete F–86 squadron. This is just one example of many where a unit has been entirely deactivated.

Representative BROWN. What other choices would you have for the use of that equipment? What else would you do with it?

General WARREN. One reason we sent it to China is that they al-

ready have around 70 F–104's, so they already have the capability to use them and have all the necessary support equipment. There are other places in the world, but not many, where we could have assigned that F–104 squadron. It could have gone to the National Guard, but the decision was that it should not at that time.

There was a Nike-Hawk battalion that the Army offered last year when it deactivated a unit in Hawaii. Things like this which are quite costly and cause the apparent value to increase because the acquisition cost was high.

Representative BROWN. Let me ask another question. Where is the material that will be junked or sold for scrap? Where is it located?

General WARREN. Sir, it is all over the world. The services have disposal yards to which they send this equipment, and it is all reported back here so we know what is available from all of our forces all over the world. There is a disposal yard, I know, in Okinawa, and a number of them in this country——

Representative BROWN. Well, now——

General WARREN (continuing). And in Europe.

Representative BROWN (continuing). Where would it wind up if it were sold for scrap? Is it going to be taken by some broker and sold to a country over which we have no control of the sale?

General WARREN. No; if we demilitarize it—and we have to in the case of any lethal weapon such as a tank, artillery shell or anything like that—it is thrown open for sale at the disposal yard. This is after we screen worldwide to see, first, if any of our forces want it; second, if any of the countries that are authorized to purchase from the United States want it; and third, if it is needed for MAP. After that, anybody can buy it. It is junk and demilitarized. Some of it is good; yes, sir. A lot of items such as used trucks or nonlethal weapons can be purchased at that point by any non-Communist country or U.S. firm which wants them.

Representative BROWN. How about being bought by Interarmco and resold to some Latin American country?

General WARREN. It has to be demilitarized, sir.

Representative BROWN. I don't understand how you demilitarize a truck.

General WARREN. We don't have to, sir.

Representative BROWN. But it does have a military usage or possibility for military usage?

General WARREN. It is possible.

Representative BROWN. It also has a possibility for civilian usage?

General WARREN. Yes, sir; we are transferring those trucks in the Pacific which still have a reasonable life to China and Korea to the degree that they can repair or rehabilitate them at their own cost, using their own manpower.

Representative BROWN. Mr. Selden, is there any one central point where all the facets of our foreign aid are collected together? The suggestion was made yesterday by the Rand and Brookings gentlemen who were here, that we ought to have a single bill on foreign economic assistance coming before the Congress and another single piece of legislation which would cover all of the military assistance programs. I presume that they would like to see the massive pro-

grams brought before the Congress so that the Congress could have a single public look at these programs. Is there any single place where we can get that now?

Mr. SELDEN. Of course, the President, through the National Security Council, and the Congress, through the Appropriations Committees of the House and the Senate, have access to all this information.

Representative BROWN. You are talking about the President reviewing the program?

Mr. SELDEN. Yes.

Representative BROWN. And you are talking about the National Security Council reviewing the economic aid proposals and military aid proposals? However, is there anyplace where the Congress can get a look at these various facets of our foreign assistance?

Mr. SELDEN. Yes; through the Appropriations Committees. All the funds that are appropriated for these programs are reviewed by the Appropriations Committees, and the information is provided to them.

Representative BROWN. Does this include the military service funded program?

Mr. SELDEN. Certainly. The authorization goes to the Armed Services Committees, but the appropriations go to both the House and Senate Appropriations Committees.

Representative BROWN. In other words, the Appropriations Committees of the House and the Senate look at all of these programs?

Mr. SELDEN. That is correct as far as appropriated funds are concerned.

Representative BROWN. The Appropriations Committees then do view these programs some place along the line.

Mr. SELDEN. Wherever there is money appropriated they look at it.

Representative BROWN. Is it true that the only program this does not include that we are concerned about is the transfer of obsolete equipment?

General WARREN. We have complete detail on that; and it is reported, sir, to the Congress three different ways. I have here last year's congressional presentation document which we used before the four committees, and it includes six pages listing country by country and item by item all of the excess that we gave those countries. As to the future, we have to estimate; and we use illustrative figures because we just don't know what will become available.

Mr. SELDEN. Mr. Congressman, as an indication of the volume of information made available to the Congress—and having been a member, I realize there is so much information that it is sometimes hard for the members to read it all. As an indication of that volume, however, I would like to include for the record a listing of reporting requirements in the field of foreign assistance alone which I think would be of interest to the committee and should be included as part of the record.

Chairman PROXMIRE. Without objection, it will be printed in the record at this point.

(The information referred to follows:)

SUMMARY TABLE OF PROVISIONS OF LAW REQUIRING PERIODIC OR SPECIAL REPORTS TO CONGRESS IN THE FOREIGN ASSISTANCE FIELD

Citation and content of report required	From whom	To whom	When
I. FOREIGN ASSISTANCE			
A. Foreign Assistance Act of 1961 (Public Law 87-195), as amended:			
Sec. 202(c)—Provisions of agreements committing authorized funds.	President	Foreign Relations and Appropriations Committees of the Senate and the Speaker of the House.	Upon conclusion of each agreement.
Sec. 217—Results of study and investigation of feasibility of programs for furnishing used equipment to less-developed friendly countries, and recommendations.	do	Congress	At earliest practicable date.
Sec. 240(g)—Results of pilot programs of agricultural credit and self-help community development projects, together with recommendations.	Overseas Private Investment Corp.	do	On or before Jan. 15, 1972.
Sec. 240A. (a)—Complete and detailed report of its operations during fiscal year.	do	do	After end of each fiscal year.
Sec. 240A. (b)—Analysis of the possibilities of transferring all or part of its activities to private U.S. citizens, corporations, or other associations.	do	do	Not later than Mar. 1, 1974.
Sec. 261—Findings of review and evaluation of the economic development program under this act.	Committee authorized to be appointed by President.	President and Congress	
Sec. 304—Outcome of initiatives to explore means and prospects of improved arrangements for standby forces for United Nations peacekeeping.	President	Congress	Not later than Mar. 31, 1968.
Sec. 451(b)—Programing and obligation of contingency fund.	do	Foreign Relations and Appropriations Committee of the Senate and Speaker of the House.	Quarterly.
Sec. 461(b)—Recommendations for improving and establishing agricultural research and training facilities in tropical and subtropical regions of Latin America, Africa, and Asia.	do	Congress	In presenting proposals for fiscal year 1969.
Sec. 504—Presidential determination that waiver of prohibition against furnishing sophisticated weapons systems to underdeveloped countries is important to the national security of the United States.	do	Congress	Within 30 days of determination.
Sec. 506(a)—Ordering defense articles for military assistance from Department of Defense stocks if President determines it to be vital to the security of the United States.		Senate Committees on Foreign Relations, Appropriations, and Armed Services, and Speaker of House.	Prompt notice of action taken.
Sec. 507(b)—Implementation of subsection which states that to the maximum extent feasible, military assistance to American Republics be furnished in accordance with joint plans approved by Organization of American States.	President	Speaker of House and Committee on Foreign Relations of Senate.	Semiannual.
Sec. 508—Presidential determination to waive prohibition against military assistance to any country in Africa except for internal security or civic action requirements.	do	Senate Committee on Foreign Relations and Speaker of House.	Promptly.
Sec. 613(c)—Consolidation of reports from each agency or department showing amount on hand for each country of all foreign currencies acquired without payment of dollars.	Secretary of Treasury.	Congress	Semiannual.
Sec. 613(d)—Determination by Secretary of State that it is not in national interest to conclude arrangements for the receipt of interest income or foreign currency proceeds, and reasons.	Secretary of State or his delegate.	do	Promptly on each such determination.
Sec. 614(c)—Authorization for $50,000,000 which Presidential certification that it is inadvisable to specify the nature of the use will be deemed a sufficient voucher.	President	Speaker of House and chairman and ranking minority member of Senate Committee on Foreign Relations.	Promptly and fully of each use of funds under this provision.

SUMMARY TABLE OF PROVISIONS OF LAW REQUIRING PERIODIC OR SPECIAL REPORTS TO CONGRESS IN THE FOREIGN ASSISTANCE FIELD—Continued

Citation and content of report required	From whom	To whom	When
I. FOREIGN ASSISTANCE—Continued			
A. Foreign Assistance Act, etc.—Continued			
Sec. 620(f)—Waiver of prohibition against assistance to any Communist country upon Presidential finding that such assistance is vital to U.S. security, the recipient is not controlled by the international Communist conspiracy, and such assistance will further promote the independence of recipient country from international Communist conspiracy.	President	Congress	Promptly.
Sec. 620(i)—Determination by President that any country, previously determined to be engaging in or preparing for aggressive military efforts or participating in any international conference planning activities involving insurrection or subversion against the United States or certain other countries, had ceased such efforts or participation and given satisfactory assurances that they would not be resumed.	do	do	Prior to giving assistance to such country.
Sec. 620(p)—Waiver of prohibition against aid to United Arab Republic upon Presidential finding that such assistance is essential to U.S. national interest and will not assist aggressive actions by U.A.R.	do	Senate Committee on Foreign Relations and Speaker of House.	Within 30 days.
Sec. 620(q)—Waiver of prohibition of assistance to country in default in excess of 6 months in payment of loan from United States upon Presidential determination that assistance to such country is in the national interest.	do	Speaker of House and Senate Foreign Relations Committee.	
Sec. 620(s)—Presidential actions in carrying out provision that before furnishing assistance President is to take into account percentage of recipient's budget devoted to military purposes, foreign exchange resources used to acquire military equipment, and amount spent for purchasing sophisticated weapons systems.	do	Speaker of House and Senate Foreign Relations Committee.	Annually.
Sec. 620(u)—Where country is delinquent on United Nations assessment for the purposes of article 19 of United Nations Charter (2 years), assurances given by country of paying its arrearages or explanation of circumstances which render it economically incapable of giving such assurances.	do	Senate Committee on Foreign Relations and Speaker of House.	
Sec. 621 A. (c)—Specific steps taken, including an evaluation of progress, toward implementation of sec. (b) to establish a management system that includes the definition of objectives, quantitative indicators of progress toward them, orderly consideration of alternative methods, and adoption of methods for comparing results, and which would provide information to the agency and Congress relating resources and budget projections to objectives and results.	do	Congress	Do.
Sec. 634 (a) and (b)—Operations in each fiscal year including information on investment guaranty program and progress under freedom of navigation and nondiscrimination declaration of sec. 102. In this report and in response to requests President is to make public all information not deemed incompatible with U.S. security, and in case of loan made from Development Loan Fund, President to make public appropriate information about the loan including information about the borrower, the nature of the activity, and objectives being served.	do	do	After the close of each fiscal year.

SUMMARY TABLE OF PROVISIONS OF LAW REQUIRING PERIODIC OR SPECIAL REPORTS TO CONGRESS IN THE FOREIGN ASSISTANCE FIELD—Continued

Citation and content of report required	From whom	To whom	When
I. FOREIGN ASSISTANCE—Continued			
A. Foreign Assistance Act, etc.—Continued			
Sec. 634(c)—Information requested by General Accounting Office or any committee of Congress charged with considering foreign aid legislation or certification by President that he has forbidden the furnishing of such information with his reasons.	President	General Accounting Office or requesting committee of Congress.	Within 35 days after written request or no funds to be made available.
Sec. 634(d)—Programs to be carried out with funds appropriated for that fiscal year, if requested by chairman.	----------	Senate Committee on Foreign Relations and House Committee on Foreign Affairs.	When requests are presented to Congress for appropr.ations for fiscal year 1969.
All actions during fiscal year which resulted in furnishing substantially different assistance from that included in presentation to Congress during consideration of authorization or appropriations, with reasons.	President	Senate Committees on Foreign Relations and Appropriations and Speaker of House.	At end of each fiscal year.
Presentation materials to include comparison with programs and activities in previous year and explanation of substantial changes; chart showing all types of assistance planned on country-by-country basis; details of proposed U.S. contributions to multilateral financial agencies; statement of projects on country-by-country basis for which financing was furnished through Export-Import Bank.	----------	Congress	During consideration of amendments to appropriations acts.
Any determinations under sec. 303 (waiver of requirements for using American-flag vessels for Indus Basin Development); sec. 610 (transfer of funds between accounts); sec. 614(a) (Presidential authorization of use of certain amounts of foreign currencies) or findings with reasons under sec. 503 (that furnishing military assistance to foreign nations or international orgaizations will strengthen U.S. security and promote world peace) and sec. 521(c) (section concerning foreign military sales which was repealed).	President	Senate Committees on Foreign Relations and Appropriations and Speaker of House.	Promptly.
Sec. 634(e)—Specific plan for each country receiving bilateral grant economic assistance whereby wherever practicable, such assistance be progressively reduced and eventually terminated.	-----do----------	Congress	To include in his recommendations each fiscal year.
Sec. 634(f)—Repayment status of each loan made under foreign aid authority and unpaid balance.	Secretary of the Treasury.	Speaker of House and Senate Committee on Foreign Relations.	Semiannual showing data as of June 30 and Dec. 31 of each year.
Sec. 634(h)—Information concerning proposed funding levels for military assistance and sales to South Vietnam, Thailand, and Laos.	----------	Congress	In background document eacn fisca year for new authorization and appropriations for military assistance programs.
B. Foreign Assistance Act of 1968 (Public Law 90-554):			
Sec. 502—Recommendations for achieving such reforms and reorganization or future foreign assistance programs as deemed necessary and appropriate in national interest in light of a thorough and comprehensive reappraisal of U.S. foreign assistance programs.	President	do	On or before Mar. 31, 1970, with interim report on or before July 1, 1969.
C. Latin American Development Act (Public Law 86-735), as amended:			
Sec. 2—Plans and programs for utilization of funds authorized.	Secretary of State	Senate Committee on Foreign Relations and House Committee on Foreign Affairs.	To keep currently informed.

SUMMARY TABLE OF PROVISIONS OF LAW REQUIRING PERIODIC OR SPECIAL REPORTS TO CONGRESS IN THE FOREIGN ASSISTANCE FIELD—Continued

Citation and content of report required	From whom	To whom	When
I. FOREIGN ASSISTANCE—Con.			
D. Foreign Assistance and Related Agencies Appropriation Act of 1969 (Public Law 581):			
Title I—Presidential determination that waiver of prohibition against using funds to furnish sophisticated weapons systems to any underdeveloped countries is important to the national security of the United States.	President	Congress	Within 30 days of each such determination.
Title I—Presidentail determination that waiver of prohibition against increase of military assistance program beyond the amount justified to Congress is essential to the U.S. national interest.	do	House of Representatives and the Senate.	Within 30 days after each such determinations.
Sec. 105—Insofar as compatible with requirements of national security, implications of seating Communist China in United Nations on U.S. foreign policy and U.S. foreign relations, including that created by membership in the United Nations, together with recommendations.	do	Congress	In the event of the seating of Chinese Communist regime in Security Council or General Assembly of the United Nations.
Sec. 108—Expenditure under act for procurement outside the United States of any commodity in bulk and in excess of $100,000; to include reasons for Presidential determination under sec. 604(a) criteria that foreign procurement will not result in adverse effects on U.S. economy which outweigh economic or other advantages to United States of less costly procurement outside the United States.		Senate and House of Representatives.	At least twic annually.
Sec. 109(b)—Presidential determination that withholding of economic assistance to nation based on theory of government known as communism except under sec. 214(b) (assistance to certain schools and libraries and hospital centers) would be contrary to the national interest, with statement by President as to reasons.		House of Representatives and the Senate.	Published in Federal Register within 7 days of submission to the Congress.
E. Mutual Security Appropriation Act, 1956, as amended:			
Sec. 108—Items to be delivered against funds reserved and report on a delivery or service-rendered basis of all military assistance funds allocated and available to the Department of Defense.	Secretary of Defense.	Committees on Appropriations of House and Senate.	Quarterly.
F. Mutual Defense Assistance Control Act of 1951 (Public Law 82-213, "Battle Act"), as amended:			
Sec. 103(b)—Determination that cessation of aid to country permitting certain shipments to countries threatening security of United States would be detrimental to security of United States.	President	Senate and House Appropriations and Armed Services Committees and Senate Foreign Affairs Committee.	Immediately.
Conclusions after quarterly review of these determinations with analysis of trade with the Soviet bloc of countries for which determinations have been made.	do	Same committees	Quarterly.
Sec. 302—Continuing study of administration of export control measures undertaken by foreign governments in accordance with provisions of this legislation, with recommendations for action where appropriate.	Administrator (person charged with principal responsibility for administration of provisions of this legislation)	Congress	From time to time but not less than once every 6 months.
G. Use of Foreign Currencies (sec. 6 of Interest Equalization Tax Extension Act of 1955), (Public Law 89-243):			
Sec. 6(c—(1) By executive agencies and by countries (expenditures in dollars and in foreign currencies); (2) amounts of foreign currencies available for use of United States; and; (3) amounts of convertible foreign currencies at close of year.	Secretary of Treasury.	Senate Committee on Finance and House Committee on Ways and Means.	Annually.

SUMMARY TABLE OF PROVISIONS OF LAW REQUIRING PERIODIC OR SPECIAL REPORTS TO CONGRESS IN THE FOREIGN ASSISTANCE FIELD—Continued

Citation and content of report required	From whom	To whom	When
I. FOREIGN ASSISTANCE—Con.			
H. Foreign Military Sales Act (Public Law 90-629):			
Sec. 1—Presidential determination to waive limitation against sales which would have the effect of arming military dictators who are denying social progress to their own people, on grounds it is important to the security of the United States.	President	Speaker of House and Senate Committee on Foreign Relations.	Promptly.
Sec. 3(a)(2)—Implementation of each agreement with country or international organization found eligible not to transfer title or possession of any defense article to any person not an officer or agency of that country or international organization unless the consent of the President has been obtained.	do	do	Do.
Sec. 3(b)—Presidential determination that it is important to security of United States to waive prohibition against selling defense article or service to any country which seizes or takes into custody or fines an American fishing vessel engaged in fishing more than 12 miles from its coast.	do	do	Do.
Sec. 4—Presidential determination that it is important to national security of the United States to waive prohibition against guaranteeing, or extending credit in connection with sale of sophisticated weapons systems to any underdeveloped country other than Greece, Turkey, Iran, Israel, Republic of China, Philippines, and Korea.	do	Congress	Within 30 days for each such determination.
Sec. 22—Any fixed-price sales agreement under which aggregate cost to the United States exceeds the aggregate amount required to be paid by the purchasing country or international organization.	do	do	Promptly.
Sec. 33(c)—Presidential determination that it is important to the security of the United States to waive regional ceilings on foreign military sales.	do	Speaker of House and Senate Committee on Foreign Relations.	Do.
Sec. 35(b)—Reports of sales and guaranties to economically less developed countries with details on the countries and terms of sale.	do	do	Semiannual.
Reports of forecasts of sales and of guaranty and credit applications and anticipated guaranty and credit extensions to economically less developed countries for the current fiscal year.	do		Semiannual, concurrently with above report required under this sentence.
Sec. 36(a)—All exports during preceding 6 months of significant defense articles on U.S. munitions list to any foreign recipient or international organization, with full information on the articles, the purchaser, the terms and other appropriate information to enable Congress to evaluate the distribution of U.S. defense articles abroad.	Secretary of State	Speaker of House and Senate Foreign Relations Committee.	Semiannual.
Sec. 36(b)—Annual tables disclosing dollar value of cash and credit foreign military sales orders, commitments to order, and estimated future orders under this act and estimated future commercial sales, on country-by-country basis and with summaries on economically developed and economically less developed country basis.		Congress	In presentation material submitted during consideration of amendments to or appropriation for this act.

Representative BROWN. Let me ask a question in a different manner. Suppose I get excited about how much or what type of assistance is being provided to South Korea and I want to know what the military assistance is, what the food-for-peace assistance is, what the foreign economic assistance is, and so forth. Is there a dial-a-prayer someplace where I can call and find out what that assistance is?

Mr. SELDEN. As far as the Congress is concerned, this information is provided to the authorizing and appropriating committees and would be made available if you wanted to see it, I am sure.

Representative BROWN. Is this information in a single place? Is there somebody in the Appropriations Committees who keeps a file, for example, on Korea?

Mr. SELDEN. I know on the programs that were considered by the committee on which I served for many years, the House Foreign Affairs Committee, all of the information was available. As I pointed out, it is so voluminous at times that it is difficult for members to be completely familiar with every program; but the information is there. It is a matter of whether or not you have the time to look it up and read it. It is required by statute.

Representative BROWN. I have just one more question.

I am not a member of the Armed Services Committee, the Foreign Affairs Committee or the Appropriations Committee, in the House. However, as a member of the House, can I go to one of these committees and look at this material?

Mr. SELDEN. Yes.

Chairman PROXMIRE. May I pick up right there. That is the difficulty really here. You know it comes into different committees and different subcommittees of the Appropriations Committee, and as you know, the Appropriations Committee is divided up and splintered and you have mostly food-for-peace coming through the agricultural authorization committee and the agricultural subcommittee of the appropriations. You have the State, Justice, and Commerce subcommittees which will handle State Department assistance and then you have the Armed Services Appropriations Subcommittee, so we operate on the basis of subcommittees and this is splintered.

The point I want to make here is if you look at the budget of the U.S., this is the presentation by the President of the U.S. to the Congress and the people, where the money is being spent and if you look on page 82 in the budget you find under the Department of Defense a long list of the amount expended. Then you find military assistance, now this morning after considerable difficulty you came up with a figure of $4.8 billion provided in military assistance in addition to the amount made available with surplus equipment that is given away, $4.8 billion, but then you look at the military assistance in the budget and you find for 1971 the estimate is $625 million, $625 million compared to $4.8 billion. That is the kind of problem, you see, that the Members of Congress and the press and the public have in understanding this program.

This is the first time we have had a notion that it is anything this large, and this is the first time, it seems to me, that the Defense Department has sat down and added it up and told us it is $4.8 billion plus the amount of hundreds of millions of dollars given away in

surplus equipment plus sales, as Senator Fulbright included sales which is another $1.8 billion.

Now, the other kind of deception, not deception exactly, but lack of complete information, in the budget, on page 96, food-for-peace, let me read, and it is a very short one-paragraph statement, let me read that and ask you if you could tell me from that that food-for-peace goes in any part, such as $100 million a year for war purposes.

Food for Peace.—The United States donates and sells agricultural commodities on favorable terms to friendly nations under the Agricultural Trade Development and Assistance Act, Public Law 480, for which extension will be recommended in 1970. This program, closely linked to the aid program, combats hunger and malnutrition, promotes economic growth developing nations and develops and expands export markets for U.S. commodities. Outlays will decrease from $971 million in 1970 to $852 million in 1971, which reflects a greater capability on the part of developing countries to produce more food. Of the 1971 outlays the cost of sales would constitute about $501 million and donations $351 million. More than half of the shipments under this program go to India, Vietnam, Indonesia, and Korea.

Period, close, end, thirty. That is the end of it. That is all we are told. And yet we find, to the great surprise of the chairman of the Foreign Relations Committee, and the man who was formerly in charge of this program for the State Department, that $700 million over the last 6 years has gone to food-for-peace for war purposes, for military purposes, it is not in the budget, and it seems to me it ought to be, it ought to be disclosed.

Mr. SELDEN. Let me agree with you, Senator, on the fact that it is difficult to read a budget and to really get into the details of it. I struggled with it for years. I am sure if this committee finds any simple method by which the Department of State or the Department of Defense can improve its presentation, they will be very happy to have that information.

Chairman PROXMIRE. It is very simple when you have $4.8 billion given for military assistance and you have in the budget $650 million disclosed as military assistance; they just are not being full and frank in telling us how much they are giving for military assistance. It ought to be in the budget. It is not a matter of finding a better way of presentation, it is a matter of not telling us 85 percent is going to foreign military assistance.

Mr. SELDEN. I presume all of this is in the budget somewhere, but I am sure you are reading exactly what is there at that particular point. Cash sales and the excess are not in the budget because these items take no appropriated funds.

Chairman PROXMIRE. Well, you might tuck a needle away in the haystack, but it is not the kind of full disclosure which, it seems to me, that any objective expert would say is desirable. If you are going to spend $4.8 billion, almost $5 billion, for foreign military assistance it shouldn't come through as $850 million.

Mr. SELDEN. What is shown in the budget is current appropriations or current requests. The cash sales are not there because they require no appropriation.

Chairman PROXMIRE. I have not included sales, sales is not part of that $4.8 billion. If you include sales we are talking about a $7 billion figure.

Mr. SELDEN. Sales are included in the $4.8 billion. The excess is not in the budget because that has already been bought and paid for in other budgets. It is now being distributed as excess so there is no—

Chairman PROXMIRE. I didn't include the excess. I say that $4.8 billion which you stipulated, that which we agree on, you added it up, it is your figure not mine, is just not reflected in the budget.

Mr. SELDEN. I might also point out, sir, that the $4.8 billion I gave you wasn't just MAP.

Chairman PROXMIRE. I understand that.

Mr. SELDEN. Yes.

Chairman PROXMIRE. That is it. This is just the MAP and that is the problem with it. The service funded military assistance dwarfs MAP, and we have to dig that out somewhere, it is not in the budget.

Mr. SELDEN. It is in the budget. It is just not in the MAP section that you are reading.

Chairman PROXMIRE. It is not in the budget in a way that tells you what it is. It doesn't tell you that it is for military assistance.

Mr. SELDEN. It is in the budget, but if this committee can find a better way of presenting it, I am sure the executive branch would be glad to have the committee's suggestions. You are reading a section that includes only part of the $4.8 billion figure that we added up and gave you.

Chairman PROXMIRE. Oh, yes; that is right. Well, $4.8 billion was for foreign military assistance, is that right or wrong?

Mr. SELDEN. It is wrong because the $4.8 billion figure included supporting assistance, as well as other items that we in DOD do not consider military assistance.

Chairman PROXMIRE. It is military assistance. What are you supporting?

Mr. SELDEN. Those are our figures for the items we have listed.

Chairman PROXMIRE. Well, you apparently misunderstood my question. My question was to add up the total amount of foreign military assistance and tell us what it was, and you added up and told us it was $4.8 billion.

Mr. SELDEN. That is correct as it applies to the categories listed.

Chairman PROXMIRE. Now, you are saying that it includes other things.

Mr. SELDEN. The $4.8 billion figure refers to a number of items, some of which are in the budget and others are not; some of which Defense considers as military assistance, some of which it does not.

(The following information was subsequently supplied for the record:)

Following the hearing held by your committee on January 6th, I examined the Budget document in order to ascertain the true scope of military assistance and related programs administered by the Department of Defense which is not disclosed in the Budget.

As I pointed out during the hearing, the Budget by definition is concerned with new obligational authority, expenditures, and receipts, and thus does not contain data related to those military assistance aspects which do not have budgetary impact—such as the furnishing of long supply and excess materiel and loans of combatant ships from the reserve fleet. Similarly, commercial military sales transactions directly between private companies and foreign governments are also properly not included in the Budget.

Subject to those qualifications, however, I find that the Budget does in

fact disclose in the relevant sections thereof the full amount of the tax dollars for projected military assistance and related programs administered by the Department of Defense. (Parenthically, I should emphasize again that the $4.8 billion total provided by me during the hearing included programs and funds not administered by the Department of Defense, such as Supporting Assistance, Food for Peace and commercial sales.)

Specifically, in addition to page 82 of the Budget, which is the page you referred to in the hearing, the FY 1971 military assistance and credit sales totals appear on page 87 of the Budget. The $2.5 billion total for FY 1971 DOD budgeted military assistance to Vietnamese and Free World Forces in Vietnam, and to Laos and Thailand; for the cost of military groups and missions; and for our participation in international military headquarters appears at page 84 under the heading "Support of other Nations" and that heading is explained at page 87.

More detailed break-outs of these figures appear on the following pages of the Appendix to the Budget: 76, 77, 78–79, 266, 267, 274, 275, 276, 277, 300 and 301. (The fact that foreign currencies generated under Food for Peace are used for procurements for the common defense and the dollar equivalents involved appears on page 83 of the Appendix to the Budget.)

Furthermore, although a single comprehensive table is not contained in the Budget, we do provide as prescribed by law to the Foreign Affairs, Foreign Relations and Appropriation Committees—the Committees having legislative oversight responsibility—during our annual hearings the following data in accordance with section 634(d) of the Foreign Assistance Act of 1961, as amended: ". . . (1) a chart showing on a country-by-country basis the full extent of all United States assistance planned or expected for each such country for the next fiscal year, including economic assistance and military grants and sales under this or any other Act and sales under the Agricultural Trade Development and Assistance of 1954, as amended (Food for Peace), (2) details of proposed contributions by the United States to multilateral financial agencies, for the next fiscal year, and (3) a statement of projects, on a country-by-country basis for which financing was supplied during the last fiscal year through the Export-Import Bank." (emphasis added) In addition, as pointed out by me during the hearing, the Congressional presentation document also includes our projected use of long supply and excess materiel. Although this document is classified as to the budget year program, it is, of course, available for inspection by non-members of the committees concerned at the committee offices by other members of the House and Senate.

In addition to providing, by means of that document, information to the Foreign Affairs and Foreign Relations Committees on the totals for Service-funded military assistance to Southeast Asia, the full details of such funding are, of course, justified to the committees having jurisdiction over that item—the Armed Services Committees of the House and Senate and the Appropriations Committees. While the detailed breakdown of those figures are classified, the totals and some sub-totals are unclassified, and appear in the hearings, as well as in the Budget. See, for example, page 468 of the FY 1971 hearings of the Senate Appropriations Committee on the Defense Appropriation Act for FY 1971 and page 423 of the hearings before the House Appropriations Committee on the same Act. The members of Congress are fully aware of such Service funding as a result of the extensive Congressional consideration of the matter which has taken place over the past several years. As you will no doubt recall, this was particularly true within the past few months, the Senate having devoted several weeks of floor debate on the pertinent provision of the Military Procurement Authorization Act—section 502 of Public Law 91–441—and the comparable provision of the Defense Appropriation Act—section 838. As you will further recall, both sections impose a limit of $2.5 billion on this program for FY 1971.

Chairman PROXMIRE. I don't know how many of these documents we have but I have one here and I will be happy to give it to you. On page 82 of the budget under military assistance it has two items, one, grants and credit sales. $625 million, and then the next item is trust fund minus $625 million. Now there are other things, there are military construction, research and development, procurement,

operations, and maintenance, enormous figures, but there is nothing to indicate this is going to a foreign country.

Let me go ahead. We have labored this point enough, I think.

Admittedly you did report to the committee excesses, more completely now than in the past, but the point is that you didn't emphasize clearly in testimony that they, you, were using excesses to supplement the military assistance program. Rather you concealed them in footnotes and now are leaning on footnotes to contend that you informed the Congress.

General WARREN. Sir, I was asked to comment on that. We have and provide the Congress with complete details on our excesses in three ways. It is in the congressional presentation document, as I mentioned, which is available to all members of the Congress. Second, we are required to report to the Congress, and we do, all excess provided as grant aid; and, third—I agree probably many people probably won't read them—we provide the key committees quarterly with all of our MAP orders. A MAP order, Mr. Chairman, is the Defense Department directive to a service to procure or deliver defense articles to MAP recipient countries. The MAP order identifies which items are excess and which are nonexcess, so there is nothing we hide. I think the problem is that so many people don't have time to read it all, and I don't blame them because of the volume of the material.

Chairman PROXMIRE. Was it classified?

General WARREN. It is normally classified, confidential, sir.

Chairman PROXMIRE. As long as it is classified, it could be top secret or confidential——

General WARREN. Well, it is classified——

Chairman PROXMIRE. It is unavailable for debate and discussion, you can't use it on the floor, you can't use it in a public hearing, that kills about 90 percent of its effectiveness to the Congress. Frankly, a lot of the Members in Congress get much of their information by reading the Washington Post, the New York Times, and their home newspaper, they don't sit on the floor or in committee hearings or pick up these long hearings and read them, they are there. But unless you can declassify them this important and significant information won't come across.

General WARREN. They are nearly all unclassified for past years, sir. We do classify as confidential figures for the coming year. I might remark on the overall problem of classification that it gets us in trouble if a country level figure leaks out of the next year's program. These countries regard such a figure as a commitment; and, if our budget request is reduced in Congress—and it usually is—it causes all kinds of political difficulties.

Chairman PROXMIRE. We can't get past years figures broken down by country for excesses.

General WARREN. Yes; I have them all here, sir.

Chairman PROXMIRE. Well, GAO couldn't get them for us.

Let me ask, Is there any excess equipment given to our solvent allies in Vietnam like Australia and New Zealand? I am told New Zealand has no trouble in phoning U.S. headquarters and getting just about anything they want in new replacements which they normally buy.

General WARREN. No, sir. They get a lot of equipment from us, but they buy it.

Chairman PROXMIRE. And you can assure us none of this is given to solvent allies? It is all sold.

General WARREN. Well, there may be a question of definition. For example, we are giving Spain some; Spain is a developed country, but this was an unusual arrangement relating to our base rights over there, sir.

Chairman PROXMIRE. Now, last year the Senate attached an amendment to the Foreign Military Sales Act which would have required foreign countries to pay at least one-half of foreign grants aid and transfers of excesses in their local currencies. You can make a strong case for that because you have to have some kind of discipline it seems to me over this kind of a program because if you give it free to a country they are going to take it whether they need it or not. At any rate the Administration fought this on the floor of the Senate but lost. However, the administration suggested deleting it from the conference committee. This amendment would have gone a long way toward the expressed goals from a grant aid to a sales program. Why is the administration opposed to that program? What is wrong with it?

General WARREN. Sir, that amendment would have completely destroyed our military assistance program; and here is why, Mr. Chairman. We have military assistance programs for 47 countries now; but most of them are just token or small training programs. Eighty-five percent of our grant aid goes to the forward defense countries which are the ones right up next to the communist world. We have only eight countries for which programs are over $5 million, and those countries are the ones that can least afford to pay half. Korea can't do it. She doesn't have the money, and neither——

Chairman PROXMIRE. We had a strong argument made by former Secretary Hoopes of the Defense Department who argued that Korea now has, South Korea has, a great advantage militarily over North Korea. The problem would, it might very well, subvert their economy to load more military on them. They have a bigger army, a bigger air force.

General WARREN. That is not correct, sir. The North Koreans have a big advantage over the South Koreans because most of their equipment is modern. Their air force is twice as big as South Korea's. Their army, I grant you, is smaller than South Korea's; but we estimate the shortfall—as we call things the South Korean forces should have to be reasonably modern—at half a billion dollars. I was over there 2 months ago. They have 8,000 trucks deadlined, for example, because we can't afford to fix them under MAP.

Chairman PROXMIRE. They can't pay 50 percent, why shouldn't they at least pay 10 percent. We make the States do that on the highway program. That is the most generous program, giveaway program, we have domestically.

General WARREN. I don't know. I never analyzed a percent figure; but, in the case of Korea last year, a 50-percent figure would have required Korea to put up $70 million in local currencies. In the case of Turkey, possibly $50 million might have been required. Neither one of these countries can afford to do that.

Chairman PROXMIRE. Then they might think twice, if they had to go through the hard tough process of determining whether it is reasonable in terms of their real strength. Social strength and political stability can be just as important or more important from a military standpoint than the amount of equipment they may have if they go through the painful process of considering whether it is wise to pay anything for more tanks and more planes and more guns and more ammunition when their country might be falling apart because of social disorder and discontent.

General WARREN. In the case of Korea, I think the United States would be in an extremely difficult situation if we didn't continue to support them. It is a key country, and they cannot afford to support themselves with anything that would even partly match North Korea's capability. In fact, we are unable to support them in the way we think they should be supported because of the recent budget cuts. In the last 2 years, the budgets we presented to the Congress were, if my figures are correct, cut some $75 million in the overall grant aid program; and we had to cut Korea back to a level where everything we give them this year goes for maintenance and operations, and that means parts and other items needed to keep her equipment going. There are no investment items in the program at all except two F-5's which we had them take because they were coming off the production line and were already programed.

Representative BROWN. I would like to make just one observation, and I would like to have your comment on this, Mr. Selden. In the House of Representatives, the Appropriations Committee, for instance, is a single assignment for Members of the House. Anybody who serves on the Appropriations Committee does not serve on other committees. To some extent, that is true with the senior members of the Foreign Affairs Committee and the Armed Services Committee. I think perhaps it is not as true in the Senate because there are fewer members of the Senate. More committee assignments have to be made to each Senator, perhaps creating a situation which results in Members of the House being able to be more aggressive with the detail of the assignment for which they are responsible. I think perhaps this leads to our having somewhat more confidence in the operation of those individual committees in the House of Representatives.

You mentioned this Freedom Fighter was a matter developed out of the Armed Services Committee interest in that particular problem. You served, sir, as a member of the Foreign Affairs Committee when you were in the Congress. Was that your only assignment?

Mr. SELDEN. Yes; that was my only assignment.

Representative BROWN. So as a member of that committee you had an opportunity to spend literally all of your Washington time with your congressional committee responsible in that area.

During the time that you served on the committee, was it your impression that the executive branch was less than forthright in the presentation of this information?

Mr. SELDEN. I never had the impression that the executive branch was trying to conceal anything; but I was aware of the fact that the material that came to us was voluminous and it was difficult even for members of the committee who received this information to read and

absorb it all. I knew, of course, that other Members of the Congress who were busy in other committees were not able to do so either. But we did make a real effort in the Foreign Affairs Committee in considering the authorizing legislation that came to us to go into it in great detail. Also, I can understand the problem in the Senate. There are so many committees and so many less members on this side of the Capitol that it is even more difficult to go into the details of these programs. We, on the House side, would spend 5 or 6 weeks or longer on the foreign aid bill. When it came to the Senate side perhaps that time was cut down to 2 or 3 weeks or less. We did go into great detail on it. I never had the impression, as a Member of the House, that the executive branch was trying to hide anything. I felt that the information was available. It was a matter of digging the information out.

Representative BROWN. As a member of the executive branch now, do you have any thought as to how this material might be presented in some better or more specific way so that members of the House and the Senate could have it more readily available to them for their information?

Mr. SELDEN. I have thought about it.

Representative BROWN. Have you a feeling there is an effort on the part of the Administration to hide unnecessarily material presented to the Congress?

Mr. SELDEN. None at all. As a matter of fact, I tried to bring with me as much of the information as I could; and I made an effort to obtain the small amount of information that was not available and have been assured that it will be made available.

Representative BROWN. Let me question just one other point. Are all Members of Congress cleared to the same degree of secrecy?

Mr. SELDEN. Yes.

Representative BROWN. So if you are a Member of Congress you automatically get all this information, is that right?

Mr. SELDEN. It is my understanding that if you want to see this information, the committee will make it available to you.

Representative BROWN. What are your feelings about this declassification problem? Is there a way in which classified material can be presented so that the Members of Congress can have more free and open debate on it or be better informed about these programs, whether they be MAP or military assistance service funded or other programs that may be classified here? Could you tell me what the other programs are that are classified?

General WARREN. Sir, essentially we only classify programs for the future years.

Representative BROWN. Next year's proposals, is that what you are saying?

General WARREN. Yes, sir. Until they are presented to the Congress, we feel it is essential that they not be released because we would be violating a commitment to the Congress. The other thing is that, if they are released, sir, these countries regard them as commitments; and when they are cut back—and they usually are—it creates all kinds of hostile and difficult diplomatic situations.

Representative BROWN. But as an administrator and part of the

executive branch what do you say in your comment to the foreign country when the Congress cuts back a program? Do you just shrug your shoulders and say, "That is the way the ball bounces"?

General WARREN. We don't normally reach agreements with the foreign countries until we have a pretty good idea what the country dollar ceilings will be, and that normally is after we have presented the program to the Congress. Then our military assistance groups in the field, and our ambassadors and staffs, start working with the countries concerned—but not before we are fairly sure what money will be available.

Representative BROWN. Well, now, the staff advises me that you classify country by country breakdowns of everything except the military assistance program. Is that correct?

General WARREN. Not exactly. There are some classified aspects, but they don't involve much money. There are political reasons for classifying data on only certain countries. But as to our overall grant aid, sir, the minute we deliver to the Congress our 1972 program, for example, which we are working on now, the current 1971 program will become unclassified.

Representative BROWN. Let me move to the other side of this thing for a minute and become specific: If U.S. assistance to Korea, for example, includes in it a heavy amount for helicopter troop carriers, military airlift, as opposed to a heavy amount for amphibious military lift, which would infer something about what the military anticipates in the way of military requirements attack usage, would that sort of thing be classified or would it not be classified?

General WARREN. The policy guidance on classification comes out of the State Department. Most of the country is unclassified; but the example you used would probably be classified, sir, if it involved a future program until——

Representative BROWN. Why? Because it prepares the potential enemy for a response?

General WARREN. There are several reasons. First, it is taken as a commitment by the country. Second, it could embarrass the Defense Department if it were let out before the program had been formally presented to and acted on by the Congress. If we put out figures now on the worldwide program we would have diplomatic problems. The State Department has the responsibility for giving us the ground rules on classifying, and the directive is a thick document. We abide by it.

Mr. SELDEN. Mr. Brown, I might suggest that this is certainly a proper subject to be addressed to the State Department. I for one, as a former member, feel that perhaps too much is classified. I think this might be a proper subject to be addressed to the Undersecretary of State when he appears before the committee, and perhaps the suggestion made that this program be looked at carefully to determine whether or not some of the things that are now classified might be declassified.

Representative BROWN. Let me ask you a question which is appropriate, I think, to the military components here. How much control does the military have over these programs as distinct from the civilian components in the Pentagon or the State Department itself?

Mr. SELDEN. As I noted in my statement, the agencies that are involved in the review of grant and sales programs are the Office of the Secretary of Defense, the Joint Chiefs of Staff, AID, the State Department, the Office of Management and Budget, and the National Security Council.

I think from this list it is obvious that, at all levels, civilian control of the program is paramount especially since the final decisions are made by the Secretaries of State and Defense and the President. Then, of course, the Congress actually makes the final decision through its authorizing and appropriating process.

Representative BROWN. Who really has the trigger finger here? Is it the military? I would assume that in the moving of obsolete equipment the military has the upper hand——

Mr. SELDEN. Yes.

Representative BROWN (continuing). As it were?

Mr. SELDEN. I think in most of these programs, though, the Secretary of State because these are policy decisions——

General WARREN. Sir; just one point of interest that relates to your question. By law, the Secretary of Defense is charged with determining which items go to a given country and with procuring those items and with establishing the orders of priority on any hardware program. The Secretary of State has overall responsibility for policy guidance.

Mr. SELDEN. Policy guidance rests with the Department of State.

General WARREN. Defense runs the program in coordination with the Joint Chiefs through our Unified Commanders and through our country teams in each country. The country team includes our military assistance chief—MAAG Chief—and the Ambassador's staff. So the programs are policed and reviewed at many levels.

If I may go back to the previous discussion on releasing information on equipment we plan to give, to do so would release intelligence to the enemy because if they know what equipment we are giving in our larger programs, they can make a pretty good guess as to what the country's overall order of battle is—particularly if we are introducing a new weapon.

Representative BROWN. This is the Flying Banana as opposed to the amphibious.

General WARREN. Yes, sir; whatever major items may come.

Representative BROWN. Well, to go back to the question we are finishing up on, it is the State Department, you say, ultimately that makes the decision whether you are going to rely on tanks or social strengths or economic strengths in some of these forward nations.

General WARREN. No, sir. They spell out to us the policy toward a given country. For example, in most of the countries of Latin America and Africa, our military assistance is for internal security only. Under this general guidance and working with State, of course, we proceed with actual procurement priorities and delivery of weapons. Our MAAG's and the Unified Commanders in the field actually handle the programing details and report equipment arrivals in a country.

Our MAAG's are required to monitor end item disposal in these countries so that we are assured there are no third-country sales of

MAP by the recipients without U.S. approval. So the machinery we have for running it is rather elaborate. It is doing a very good job except in South Vietnam where there is a war situation. Our bookkeeping elsewhere has to be in detail because of congressional requests and the law, but we just can't do as exact a job in South Vietnam.

Representative BROWN. My time is up. I will be back.

Chairman PROXMIRE. I think what Congressman Brown has been pursuing is enormously important. Until we can get this declassified we are not going to really have the kind of discussion and debate and understanding of this program and action on the program we ought to have either in the Congress or in the executive branch, for that matter. These things don't happen unless somebody goes after it and I want to say this Senator is going to do all I can for the next year to try to get this military assistance information declassified by country. I have got no answers from you, General, with all respect, or from the other distinguished witnesses who testified as to why it shouldn't be declassified. The notion you have a commitment to Congress, which you have given us several times, and that Congress shouldn't be told about this until Congress has acted, just doesn't make any sense to me at all. You can say for any country, and the notion that a country would feel let down if the administration asked for $100 million and the Congress gives them $50 million, they have to learn after all it is the Congress that determines these things and not some people in the administration or in the military, it is part of the process, and I can't understand why that is necessarily a penalty to pay. It is the taxpayers of the U.S. money that is being expended.

General WARREN. We are anxious to provide these complete details; but they don't have to be declassified, Mr. Chairman, because most of our hearings are closed when we go into the detail of the program.

Chairman PROXMIRE. Well, most of this information, all of the service funded, and the food for peace and so forth, where that goes, to what country, is classified now and prospectively, that is the classification applies to the country that is going to receive it. We ought to have that information, we ought to have it available so we can discuss it. We now know it is an enormous program of $4.8 billion and $1.8 billion for military sales plus an undetermined amount for excess property which adds up to $7 billion. It is a huge program and, it seems to me, under these circumstances we have a duty to determine that the Congress and public know about it from beginning to end.

Let me ask, would you favor further authorizations for military assistance, Mr. Selden, to the Armed Services Committees in view of the fact it is military assistance? Should this go to the Armed Services Committees? Now, we have it fractured somehow between the Agricultural Committee and the Armed Services Committee and the Foreign Relations Committee. It should be in one committee and if so should that be in the Armed Services Committee?

Mr. SELDEN. I think this is a decision that will have to be made by the President. The determination as to committee jurisdiction will have to be made by the Congress itself.

Chairman PROXMIRE. Why doesn't it make sense to have this handled in the first place by the Secretary of State as the policy making officer in our foreign policy, with the advice and understanding and so forth, from the Secretary of Defense, and then have it all in the Foreign Relations Committee and the Foreign Affairs Committee?

Mr. SELDEN. I might, if I may, Mr. Chairman, read you what the law calls for on this subject. In the Foreign Assistance Act, section 622(c) it says:

> Under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of economic assistance and military assistance programs, including but not limited to determining whether there shall be a military assistance (including civic action) program for a country and the value thereof, to the end that such programs are effectively integrated both at home and abroad and the foreign policy of the United States is best served thereby.

Chairman PROXMIRE. You know that doesn't mean a thing because what happened over the past 5 years is that the money under the MAP program has declined sharply, as you testified to this morning. The services, service-funded money has skyrocketed so that you can say all you want to about the State Department but as one witness after another has testified they are in a very weak position. The Secretary of State really just doesn't have a handle on this at all. It is really handled by the Armed Services, by the Army, Navy, and Air Force.

Mr. SELDEN. The differences have to be resolved by the President, and he would have to make the determination as to how he wants to present this legislation to the Congress.

The Congress itself would have to determine to which committees it would go. I would assume that, under the law as it is written now, the Senate could channel this legislation in any direction it wishes it to go.

Chairman PROXMIRE. What I am getting at is this is a big program, we know little about it because of classification, it is scattered among a number of committees, it is scattered among several agencies, Agriculture, Defense, and State, and within Defense, it is scattered among the three services, it is a program that seems to be badly in need of being brought together, pulled together, brought under control, discussed and disclosed and we have not done that.

Mr. SELDEN. The State Department by statute also has the same control over sales and food for peace as it does for MAP. In addition, Mr. Chairman, let me say I served in the Congress long enough to know there is some jurisdictional question among the committees.

Chairman PROXMIRE. Of course there is.

Mr. SELDEN. And I would not want to suggest to what committees the Senate or House should send this legislation.

Chairman PROXMIRE. As I understand it, the Armed Services Committee of the Senate has little authorization control. I am not sure they have any control over service funding. We have been trying to call their staff all morning to determine it. I don't think they do have. This goes to the Appropriations Committee without authorization.

Let me ask you about the Korea situation again. Already $290

million has been appropriated for 1971 for military assistance to Korea. It has been announced in addition as U.S. troops are taken out of Korea their equipment will be given to the Korean Army. What is the value of the equipment to be given Korea?

General WARREN. I have the information here. It will approximate $150 million at acquisition cost, but this is a general statement because we are continually refining the list.

Chairman PROXMIRE. What is the justification for turning all this equipment, General, over to Korea? Hasn't the American taxpayer paid enough? Wouldn't they let us go home unless we leave our equipment?

General WARREN. The justification, of course, is first of all the application of the President's Nixon doctrine in accordance with which we are withdrawing U.S. troops. Most of the equipment that the Army has carefully selected for transfer as the first group of 20,000 comes out is equipment which is not intended to be replaced except possibly in some instances with different equipment. It is definitely designed to beef up the Korean forces so they can take care of themselves better and offset the 20,000 U.S.-troop reduction in that country.

Chairman PROXMIRE. Well, it seems to be just a sharp difference. We can't reconcile it here this morning, of course, but you have argued that the South Korean Army is not as strong as the North Korean Armed Forces, and we have heard contrary testimony.

Let me ask this, what is the value of U.S.-built facilities in Korea? How much of this property will be turned over when our troops are taken out?

General WARREN. As of now, sir, the only property that I am aware of that is being turned over is the equipment of the 20,000 who are coming out.

Chairman PROXMIRE. Is that aid to South Korea just dictated by military requirements or wasn't there also a letter from Ambassador Brown spelling out that aid would be given to South Korea for sending a division to Vietnam. Isn't this kind of quid pro quo, a paying off of a debt to Korea for putting a division into Vietnam?

General WARREN. Sir, there was a letter signed by Ambassador Brown which specified that when the Koreans did send a division to Southeast Asia, we would suspend the MAP transfer program which provided that each year Korea would start paying for different items it could manufacture locally, such as batteries and so on. The MAP program, as such, was therefore not affected as a result of a division going to South Vietnam. It was a separate arrangement. I think there are 19 divisions in Korea; and their equipment was all obsolete—all of their communications equipment.

Chairman PROXMIRE. I understand that. My question, however, was simply whether or not there was any understanding, any quid pro quo return for their sending a division to South Vietnam, we would provide more in funds and more in equipment for South Korea?

General WARREN. With regard to the regular MAP program, the point I mentioned is the only quid pro quo I am aware of.

Chairman PROXMIRE. All right. You stated that $46 million has

already been appropriated, Mr. Selden, I think, for the development of the international fighter, the F–5–21. As you know, the United States has no use for this plane in its own inventory, never used it, built entirely for foreign countries. The program is entirely for military assistance purposes. Will these development costs ever be recovered for the U.S. taxpayer? Can you tell us what the total program costs for the F–5–21 will be?

General WARREN. Sir, I don't know the total figure right now.

Chairman PROXMIRE. Please submit that for the record.

(The following information was subsequently supplied for the record:)

INTERNATIONAL FIGHTER AIRCRAFT (F–5–21)

For source selection planning, a total buy of 325 aircraft was assumed. We cannot forecast the total program price and the number of aircraft that will be procured at this time. The program is one of Grant Aid, however, some development costs could be recovered if there is a later sales program.

Chairman PROXMIRE. Let me ask you, General Warren, did you testify earlier this was something that Congress had insisted on?

General WARREN. Sir, the Defense Department did not request the original funds.

Chairman PROXMIRE. Didn't you testify, however, before the House Armed Services Committee that you wanted it, that you were in favor of it?

General WARREN. No, sir; I did not.

Chairman PROXMIRE. You did not. I understand that you had testimony before Mr. Rivers that was interpreted that way by some reporters who were present.

General WARREN. Mr. Chairman, may I comment on that? When I appeared before Mr. Rivers' committee—this was some time ago—it was actually on a minor matter involving the switch of funds for NATO from MAP to our regular defense budget. I had been instructed to be prepared to discuss the F–5–21, but they did not bring it up or ask me about it.

Chairman PROXMIRE. Let me ask you if Vietnam goes Communist, wouldn't the Communist government take over all the excesses that are located in Vietnam?

Mr. SELDEN. That is one of the reasons we are trying to make them strong enough so that the Communists cannot take over South Vietnam.

Chairman PROXMIRE. Won't the Communist government take over all of the military construction and facilities built by the United States in Vietnam?

Mr. SELDEN. I presume that would be true anywhere the Communists took a country where we have built permanent installations.

Chairman PROXMIRE. Can you tell us how much the U.S.-built facilities in Cam Ranh Bay alone are worth?

Mr. SELDEN. I can't, but I can furnish the information for the record.

Chairman PROXMIRE. Can you give me an estimate of that?

Mr. SELDEN. We will get you the value.

(The following information was subsequently supplied for the record:)

COST OF U.S. MILITARY CONSTRUCTION IN CAM RANH BAY

As of 31 October 1970, US military construction in Cam Ranh Bay totalled $138.2 million.

Chairman PROXMIRE. What is the total of U.S.-built facilities in Vietnam?

Mr. SELDEN. We will have to give you that information for the record, Mr. Chairman.

Chairman PROXMIRE. Billions of dollars, is it not?

Mr. SELDEN. I couldn't say, but we will get the figures.

(The following information was subsequently supplied for the record:)

TOTAL COST OF CONSTRUCTION IN SOUTH VIETNAM

US military construction appropriations made available to COMUSMACV for construction of facilities in RVN totalled $1.774 billion as of 31 October 1970. Virtually all of these funds have been committed.

The cost of the construction completed as of 31 October 1970, totalled $1.590 billion. In addition, Operations and Maintenance appropriations for AID/DOD funds have been made available for the Lines of Communication (road construction) Program and the Dependent Shelter Program. These other appropriations total $331 million and $4.3 million for the respective programs and the funds are also virtually completely committed.

Mr. SELDEN. Mr. Chairman, you asked a question as to whether or not the military assistance service-funded programs are authorized by the Senate. It is my understanding that the Senate Armed Services Committee does authorize that program, and has been authorizing the program since its inception.

Chairman PROXMIRE. I want to go into that a little later. My time is up.

Mr. Brown.

Representative BROWN. Mr. Selden, in your testimony you say military assistance programs will continue to be absolutely essential if the United States is to continue its adherence to the principles of the Nixon doctrine, and then in your testimony you say with reference to Korea, "This increased military assistance will enable Korea to modernize its forces sufficiently to preclude a diminution of overall defense capabilities as U.S. forces are withdrawn. Such withdrawal of U.S. forces will, however, permit reductions in the U.S. defense budget * * *." You suggest, I think, by these two statements that we have going here some kind of a tradeoff between military assistance programs abroad and the reductions of the maintenance of U.S. defense capability abroad and presumably, I guess, at home. What are our alternatives in military deployment and spending with reference to the U.S. foreign policy and military defense? What do you see as the alternatives we have in terms of our military effort either through military assistance to other nations, through our own deployment of military forces around the world or through a Fortress America concept of some kind?

Mr. SELDEN. The only realistic alternative I can see in today's world would be a large standing military establishment, both here and overseas, if we are not going to strengthen our allies who can be helpful to us in those countries where Communist pressure is evident.

Representative BROWN. Either that or this military assistance program to try to develop the perimeter nations and their capability to defend themselves.

Mr. SELDEN. Yes, sir; that is the only alternative I would say we have to our military assistance program.

Representative BROWN. Will the Nixon doctrine which, I guess, is an increase in foreign military assistance and a cutback in U.S. military involvement abroad make military assistance more or less visible?

Mr. SELDEN. I think it will make it more visible.

Representative BROWN. In other words, we aroused some concern, when these hearings opened, about the fact that in 1966 and 1967 we moved from the military assistance programs into the service-funded military assistance programs where the money being put into foreign nations for military assistance was not quite so evident to Congress and the public. As we withdraw from places like South Korea and Vietnam, will we then put the money in a military assistance program which is a more evident placement of the funds for military assistance abroad?

Mr. SELDEN. I would think that, in places where there is no combat, these funds would move back under the military assistance program and, as you pointed out, would be more evident as far as the Congress is concerned.

Representative BROWN. Well, now, I conclude from the comments that were made in some of the testimony yesterday that there was criticism of our putting military assistance funds or military assistance equipment into areas like Greece and Turkey and Korea because these nations cannot individually withstand the onslaught of Communist aggression from the sources that it might come in there areas. That criticism raises a question as to whether that military assistance can be effective. What does it buy for us in terms of our capacity to respond?

Mr. SELDEN. As you, of course, know, Greece and Turkey are part of our NATO alliance, and——

Representative BROWN. If the Communists can take South Vietnam, they can perhaps take Western Europe, too.

Mr. SELDEN. Perhaps so, but obviously the retaliatory forces that we have available have to date deterred them from doing so. I would think that the chances of their overrunning Western Europe would be much greater if the United States had not participated in NATO.

Representative BROWN. Are you saying that you can't look at these perimeter countries and the assistance we gave them singly with reference to military assistance programs, but they must be looked at as a package?

Mr. SELDEN. I'm sure that, if the entire might of the Soviet Union were focused on any one of those countries, it would be impossible to withstand. But I think that collectively the chances of withstanding the forces of the Soviet Union would be much greater.

Representative BROWN. You mean the deployment of Soviet forces around their own perimeter.

Mr. SELDEN. Yes.

Representative BROWN. You are saying, then, that this deployment

has some impact on the Soviet capability to go, for example, into Western Europe or to go into some place in Asia.

Mr. SELDEN. Yes, I think that is correct.

Representative BROWN. Well now——

Mr. SELDEN. And I think they know that only collectively will they be strong enough to withstand Soviet attack. If it were an isolated country, I don't know that there would be any way for it to withstand the pressures and the might of the Soviet Union.

Representative BROWN. In my colloquy with the Chairman of the Foreign Relations Committee of the Senate, on the first day of these hearings, he suggested that he didn't see much merit in military assistance for Latin America, as one example. Then we went on and talked about other parts of the world, such as the Middle East and the question was raised as to the merit of military assistance in this area. What about that part of the problem? Perhaps we are spending these military assistance funds in areas where they do not have merit.

Mr. SELDEN. Having served as chairman of the House Subcommittee on Inter-American Affairs for 10 years, I feel that some limited military assistance to Latin America is very necessary. You have a Communist base in Cuba where literally thousands of nationals of the different countries of Latin America are being trained in insurgency, and Communist pressures are on all the governments of that area in an effort to create chaos. I don't see how any country can progress under chaotic conditions.

Representative BROWN. Now wait a minute. Are you telling me that the Communist strategy is to stimulate insurgency on our perimeter or parts of the world where we are interested and that our strategy is to arm the nations in their perimeter. Is that essentially where we are in this situation?

Mr. SELDEN. I don't think there is any question that, for the last 12 years, Communist tactics in Latin America have included training of insurgency forces in Castro's Cuba. There is all sorts of evidence that has been documented and presented to the Congress.

Representative BROWN. Let's look at the Middle East for a minute. The suggestion was made yesterday that the Greeks and the Turks, through the assistance we gave them in the Marshall plan, were using their forces to sort of be equal pressure on each other. Now, of course, the Greeks and Turks haven't gotten along for years, they are not unlike the Arabs and the Israelis. The question is, Should we give military assistance to those countries if they are not going to focus it on the Communist aggressor but rather to focus it on each other? Is there merit in our providing funds on that basis?

Mr. SELDEN. Well, I think you always take a chance when you provide military support to countries between whom there has been a longstanding enmity, and we are taking that chance in the Middle East. We are furnishing military equipment both to Israel and to Jordan.

Representative BROWN. This is in an effort to keep the situation balanced so that nobody jumps on anybody else.

Mr. SELDEN. Hopefully that will be the situation; hopefully that will be the case. We are friendly to Israel and we are friendly to Jordan; and we hope that by furnishing equipment in that area,

some balance of power will be maintained, and that the situation will not erupt into a third world war.

Representative BROWN. Let's say this equivalent balance isn't maintained. In other words, that the Communists supply one side and we conversely do not supply the other, and there is the effort to start a local war. Is that the kind of troubled waters that our adversaries are likely to fish in?

Mr. SELDEN. I would think that the history of communism has indicated such to be the case. Wherever there is turmoil, the Communists move in very quickly to fill the vacuum.

Representative BROWN. Well, have we described here what the Nixon doctrine is without getting into the nuclear response area? What we have described really has been a position that we have been maintaining for sometime, except for our adventure into Southeast Asia and into Korea. Isn't that correct?

Mr. SELDEN. The Nixon doctrine, as the President spelled it out in his speech in Guam in 1969, had three points, as I understand it. First, that the United States would meet its security commitments to other nations.

Representative BROWN. These are commitments created by existing and previously drawn treaties.

Mr. SELDEN. That is correct.

Representative BROWN. Over a period of history.

Mr. SELDEN. That is correct. We would not avoid our commitments. Second, we will insist that our allies place greater reliance on their own resources—particularly on their manpower—in meeting the threats to their security, and third——

Representative BROWN. Is that second point a modification of the first? In other words, the first one, I suppose, is our treaty commitment to respond in case they are attacked or is our treaty commitment to provide them with certain resources. Now, the second one, saying we want to rely more on what they can do for themselves, is that a modification of this first point?

Mr. SELDEN. No; I don't think so. I think the second point puts us in a better position to preserve our own manpower, but we are still fully committed under our treaty arrangements. Rather than put American manpower into those countries, we will assist them in training their own manpower and in developing their own defenses so that the commitment of U.S. forces will not be necessary.

Representative BROWN. And the third point?

Mr. SELDEN. That was the third point, that we will assist them in their own defense efforts.

Representative BROWN. Thank you, my time is up.

Chairman PROXMIRE. You think there is a lot of merit in the principle of the Nixon doctrine. I am not saying we shouldn't help other nations with military assistance. I think we very likely should. But we ought to know what we are doing and we don't know what we are doing now and we won't know what we are doing unless we know how much money, when you consider what we have gone through here this morning, but we won't know what the details of this are and we won't know until we get this declassified and then it seems to me we can make rational decisions as to where we should move

with assistance and where we should not. If there is anything clear we have made some serious blunders in giving military assistance we have given some areas.

We ought to consider that military assistance can be counterproductive in strictly military terms. You can have a weak country because so much of their resources are poured into the military and, therefore, you have a poorer country with people more discontented and more willing to revolt, and certainly in South America, as you certainly well know, we aren't afraid of a massive invasion from Cuba or any other source. If they are going to have Communist Governments moving in they have to move in through subversion and through discontent and through poverty and through hunger. That is the kind of thing, it seems to me, we have to combat, and if we have a program that is designed to overcome this kind of subversion it ought to be primarily and fundamentally in economic and social programs and not a military program.

Mr. SELDEN. Let me speak to that point, if I may.

Chairman PROXMIRE. And I think a lot of this can apply to Asia because while there is the possibility that Mainland China may engage in an invasion of some countries they can't possibly get to Formosa. That was pretty well documented yesterday, can't even get to Quemoy and Matsu, they can't get to the Philippines, can't get to Indonesia, they don't have the naval power. Conceivably, they could move into Thailand and Cambodia, but the real problem again is internal subversion and how do you prevent that. You prevent that through strengthening their economic and social structure and not through imposing a military obligation on them which enfeebles their social and political structure.

Mr. SELDEN. Mr. Chairman, if I may speak to that, and I think you have made some good points.

Chairman PROXMIRE. You see, the main point I try to make is, Mr. Selden, this ought to be debated and discussed, Congressmen ought to know what they are doing. At the present time we are permitting most of this to be done through the military, and I use it in the best term, military bureaucracy, it is being done out in the field where there is a lax control, where there is no knowledge on the part of the chairman of the Foreign Relations Committee and the Congress, and all the witnesses have testified the Secretary of State is in a weak position, there has been no discussion publicly, there is no debate in the papers or Congress, on the floor of the Senate because much of it has been classified information.

Mr. SELDEN. You mentioned Latin America. May I take a moment to say there certainly is poverty in Latin America, and that I think we have done a great deal to try to help the Latins alleviate their poverty. We channeled billions in aid to Latin America through the Alliance for Progress, which I supported. I do think, however, we must recognize that the military in Latin America has influence on the governments in those countries, and that a limited and carefully selected program of some military assistance to Latin America is advisable. In that way, we can keep a handle on the situation. We have found from experience that, if we move out, very quickly someone moves into the vacuum. This year alone a half dozen Latin Ameri-

can countries have bought military equipment, which really they could not afford, from other nations.

Chairman PROXMIRE. That may be, but at least they buy it, if they pay for it it is a matter of having to go through the discipline of the budget and making the hard choices.

Mr. SELDEN. But the point you have made, Mr. Chairman, is that they use money for military expenditures when perhaps it should be channeled into economic and social areas.

Chairman PROXMIRE. True; that is right.

Mr. SELDEN. We did make a real effort, I might point out, in Chile a few years ago to support a government that supposedly was improving the situation. Now Chile has elected a Marxist Government.

Representative BROWN. My point is much of this decision is one only the country itself can make. We can only help them with economic and social help as much as we can.

Let me ask you this, can you tell me how the ship loan program is administered? Is it the responsibility of your office?

Mr. SELDEN. The ship loan program is the responsibility of the Navy, but we have information on that program.

Chairman PROXMIRE. I understand the United States has loaned an aircraft carrier to Spain, is that correct?

Mr. SELDEN. It is a converted transport.

Chairman PROXMIRE. When did it happen?

Mr. SELDEN. It is a helicopter carrier. It is not an aircraft carrier. It is a converted transport.

Chairman PROXMIRE. When did that occur?

Mr. SELDEN. Three years ago, I believe, sir.

Chairman PROXMIRE. Is it also correct that Spain has borrowed a submarine and five destroyers and she has had these ships for more than 10 years?

Mr. SELDEN. That is correct.

Chairman PROXMIRE. Is it also true we are now in the process of lending Spain additional ships?

Mr. SELDEN. Under our base agreement, that is correct.

Chairman PROXMIRE. What in the world does Spain need these ships for, what are they going to do with them?

Mr. SELDEN. They have a long coastline, I presume——

Chairman PROXMIRE. Are they going to be attacked by Corsica? [Laughter.]

Mr. SELDEN. We are using bases in Spain, and someone may attack those bases.

Chairman PROXMIRE. Well, we have a Navy. It seems to me there has been no thoughtful rationalization of this. Whatever they want we provide for them, and it seems to me we really paid a price that is pretty ridiculous for the base.

Mr. SELDEN. In this connection, Mr. Chairman, let me give you information on the ship loan bill that I think would be of interest to you.

Combatant ship loans have been authorized by the Congress. With respect to combatant ships such as battleships and aircraft carriers and cruisers, destroyers, and submarines, congressional authority for each loan is required by title X of the United States Code, section 7307.

Seventy-four of those type ships are presently on loan.

Chairman PROXMIRE. If you would put the rest in the record, I would like to ask you this because it is late and we have been really imposing on you and you have been very responsive and helpful to us.

(The following information was subsequently supplied for the record:)

SHIP LOAN PROGRAM

Seventy-four are on loan as follows:

Argentina	3 DD, 2 SS.	Korea	3 DD, 3 DE.
Brazil	6 DD, 2 SS.	Netherlands	1 SS.
Chile	2 DD, 2 SS.	Pakistan	1 SS.
China	6 DD, 1 DE.	Peru	2 DD.
Colombia	1 DD.	Philippines	1 DE.
Germany	5 DD.	Spain	5 DD, 1 SS, 1 Helo-carrier.
Greece	6 DD, 2 SS.		
Italy	5 SS.	Thailand	1 DE.
Japan	2 DD, 2 DE, 1 SS.	Turkey	2 DD, 5 SS.

Chairman PROXMIRE. Is it true as reported in the press that Turkey is letting Soviet Migs and other planes en route to the UAR land in Turkey? If so are they landing on fields that we helped construct?

Mr. SELDEN. I have no information on that report.

Chairman PROXMIRE. On their way to give battle against Israel or be in a position where they could.

Mr. SELDEN. I have no information on that report.

Chairman PROXMIRE. Can you find out and let us know for the record? We would very much like to know that.

Mr. SELDEN. We will do that, if possible.

(The following information was subsequently supplied for the record:)

TURKISH FOREIGN MINISTRY DENIAL OF REPORT ON SOVIET TRANSIT FLIGHTS

The Turkish Foreign Ministry, in a press report dated 5 January 1971, stated that:

"Reports that Soviet military aircraft have flown over Turkey on transit flights were denied today. A statement issued by the information office of the Turkish Foreign Ministry said that no Soviet military aircraft has flown over Turkey on a transit flight, either with or without a refueling stop in Turkey."

Chairman PROXMIRE. Is it possible the Soviet Union can use bases that we have built?

Mr. SELDEN. Under the agreements which we have had with the countries in which we built bases, it would be highly unlikely.

Chairman PROXMIRE. Do we have an agreement that they will not permit the Soviet Union to use these bases we have built in the past when we transferred them to Turkey?

Mr. SELDEN. Of course, I presume that the Soviet Union could conquer a country and take the bases that we have abandoned.

Chairman PROXMIRE. This is not a conquered country but a country in the alliance with NATO as you said.

Mr. SELDEN. Yes.

Chairman PROXMIRE. And they continue to get funds and equipment from us and yet you won't deny they may have been making their facilities, American built facilities built with American tax

dollars, available to the Soviet Union to land planes on their way to Egypt to attack Israel.

Mr. SELDEN. If that is correct, I do not have the information.

Chairman PROXMIRE. Well, you can't assure us that this would be illegal under our agreements.

Mr. SELDEN. I would say that it would be highly unlikely.

Chairman PROXMIRE. You will find out and let us know. When will you let us know, today?

Mr. SELDEN. Well, as quickly as I can get some information on it.

Chairman PROXMIRE. We would like to know at once if we can, within the next day or two.

(The following information was subsequently supplied for the record:)

Although they are acquired with Turkish funds and constructed with US funds or under the NATO infrastructure program, such bases or facilities, nevertheless, remain within Turkish sovereignty. Consequently, it could be theoretically possible, but highly unlikely, that the Turks would permit Soviet military aircraft to refuel there enroute to the United Arab Republic, particularly when consideration is given to the nature of the NATO Alliance obligations which we share with Turkey, our own relations with Turkey, and the Turk's traditional distrust of the Soviet Union.

Chairman PROXMIRE. We have loaned more than 70 ships to 71 countries including China, that is Formosa, Turkey, Peru, Colombia, Chile, Argentina, Brazil, and Greece, that is ships, military warships. What possible contribution to national security does a loan of these ships make?

Mr. SELDEN. In the Latin American area, there is coastal surveillance by these ships. We have an operation each year called UNITAS in which part of our Atlantic Fleet goes around South America and operates with the ships of most of the coastal South American countries in antisubmarine warfare exercises. This has gone on for 11 years.

Chairman PROXMIRE. These are ships owned by those countries, all countries and they are collaborating with us in giving us intelligence on submarines, is that it?

Mr. SELDEN. They are working with ships of our Navy. Each year, we send ships down for 3 months that go all around South America; and we operate with the navies of most of the coastal South American countries.

Chairman PROXMIRE. Doesn't it seem to be a very hard program to justify in view of the fact we have a navy bigger than all the other navies in the world combined, in view of the fact we have certainly naval control over this hemisphere, to give these other countries ships?

Mr. SELDEN. This fits into the Nixon doctrine, giving them some defense capability.

Chairman PROXMIRE. If there were any conceivable defense purpose.

Mr. SELDEN. Well, it would be hard to convince——

Chairman PROXMIRE. Would you be arguing that either Russia or Cuba would invade some of these countries?

Mr. SELDEN. I would say——

Chairman PROXMIRE. South American countries, Colombia, Chile, and Brazil.

Mr. SELDEN. Cuba has landed insurgency groups in a number of Latin American countries over the years. Some of these groups have been eliminated, but I am sure Cuba would continue to do so if it could. I know that there have been insurgency groups landed in Latin America. Take, for example, Che Guevara's group in Bolivia which was eliminated. There is every evidence that, if Castro could, he would have active insurgency groups in every Latin American country.

Chairman PROXMIRE. You are not arguing that these 70 ships are able to prevent insurgency groups coming from Cuba and landing in these countries. There are so many ways that they can get in this country or that country.

Mr. SELDEN. No; but it does make it more difficult. There is very little aerial communication or air travel between Latin America and Cuba, and I think that some sort of coastal surveillance does make it more difficult for the Cubans to land insurgency groups on the beaches of some of these countries.

Chairman PROXMIRE. It is just another example of why I think this ought to be brought out and discussed publicly so that we can see what I think is a very ridiculous allocation of our tax money.

Mr. SELDEN. I might add with respect to providing those ships, that many of them are taken from what would be a mothball fleet, which would be very expensive to keep up. We turn ships over to those countries, and they use them. Where we have not done so, some have purchased ships at great expense to their own economies—again taking needed money away from the social and economic development that you stressed. I feel, as I pointed out earlier, that some limited selective military assistance from this country to Latin America is advisable.

Chairman PROXMIRE. Well, again, I don't dispute that. I don't dispute that at all. I think we ought to know what we are doing precisely and we ought to discuss it publicly.

Mr. SELDEN. I might add that these loans are authorized, and we do have to have congressional authority for combatant ship loans. I think the Senate and the House both passed a ship loan bill this year, did they not?

Chairman PROXMIRE. My time is up. It is 12:30, you have been extremely courteous to us, I am going to yield to Mr. Brown, of course, for whatever questions he wants to ask but I hope he can terminate soon.

Representative BROWN. I have just two questions relating to the colloquy with Mr. Proxmire. Does the loan in any way relate to the increasing presence of the Russian naval ships in the Mediterranean?

Mr. SELDEN. I think the desire of the Spanish to have ships certainly is related to the increase of Soviet presence in the Mediterranean.

Representative BROWN. General, can you comment on that? Do you have a statement to make?

General WARREN. Sir, would you repeat the question?

Representative BROWN. Does the loan to Spain have anything to do with the increased presence of Russian ships in the Mediterranean?

General WARREN. Yes; it does. In this respect, our advisers over there have discussed this with the Spanish. When I was last over in that area, it was of great concern to Spain because a couple of Russian ships were anchored just off shore. The increasing Soviet presence in the Mediterranean is of concern to the United States, and to many other countries. A second reason for loaning additional ships to Spain, if some are approved, is related to U.S. base rights. We advised Spain on the equipment it wanted, but she has the final decision on what she would like to have. We think it is justified for her to have these ships, and possibly more, because of the increasing Russian presence in the Mediterranean. And, again, the second reason is related to base rights matters.

Representative BROWN. Let me go to the Peruvian usage of American ships. I understood from what you said that those are ships that we would otherwise have to keep in mothballs up in the harbor in New York or out in San Francisco Bay someplace. With reference to keeping surveillance on enemy submarine activities in Latin America and the Caribbean and so forth, are such ships operated by Peruvian and other national forces more economic than if we sent part of the American navy down there to keep an eye on what is going on?

Mr. SELDEN. Unquestionably, it is much cheaper for us to have the Peruvians operate their own ships, particularly if they will share information with us, than it would be to send our ships to that particular area.

Representative BROWN. What are you going to do with all those ships up there anyway, up in the bay? As an old amphibious sailor I hope you are not going to send me out on one of those ships that has been out here for 20 years?

Mr. SELDEN. As an old DE sailor, I don't want to go with you either. [Laughter.]

I think one of the arguments for this program is that these ships can be used by some of our allies at little or no expense to us, perhaps at a savings to us since we do not have to continue them in mothballs.

Representative BROWN. Thank you.

Chairman PROXMIRE. Mr. Selden, General Warren, thank you very, very much. You have done a most responsive job in the useful testimony given us this morning.

Mr. SELDEN. Thank you, Mr. Chairman.

Chairman PROXMIRE. The subcommittee will stand in recess, subject to the call of the Chair. We expect to have hearings later this month.

(Whereupon, at 12:30, p.m., the subcommittee recessed, to reconvene subject to the call of the Chair.)

60-050—71——17

ECONOMIC ISSUES IN MILITARY ASSISTANCE

MONDAY, JANUARY 18, 1971

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Symington; and Representative Conable.

Also present: John R. Stark, executive director; Richard F. Kaufman, economist; and George D. Krumbhaar, Walter B. Laessig, and Leslie J. Barr, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

First I have an announcement about tomorrow's hearing. Under Secretary of State John N. Irwin was scheduled to be our leadoff witness. Over the weekend, he was dispatched to the Middle East by President Nixon and will, therefore, be unable to testify. We will reschedule Mr. Irwin's appearance soon after his return to the United States. There will thus be no hearing tomorrow.

Originally, we had invited Secretary of Defense Melvin Laird to testify on January 6. Secretary Laird explained that he could not appear because he was being dispatched to Vietnam during the week that we wanted him. This coincidence is getting to be quite extraordinary.

On January 6, I had asked the spokesman for the Pentagon, Deputy Assistant Secretary Armistead I. Selden, to provide certain information about foreign military assistance which he could not supply during his oral testimony. I had asked him to tell us the value of the personal and real property given to Vietnam since 1965. A document was submitted to the Committee purporting to answer this question. I am sorry to say that it does not. The submission of Mr. Selden is entirely unresponsive on this matter.

I had also asked Mr. Selden to confirm or deny the allegation that Soviet aircraft have been able to land on bases in Turkey constructed with U.S. military assistance funds en route to the United Arab Republic. A document was also tendered to the committee purporting to answer this question. It does not. The Pentagon has been unresponsive on this matter, too. I am informed that the information re-

quested is contained in another document classified secret "because it contains the substance of conversations between Turkish officials and our Ambassador relating to this matter."

This answer is completely unacceptable to me. Why shouldn't the American people know whether or not U.S. funds are being used to facilitate Soviet aircraft? Frankly, it is my impression that the Defense Department itself does not know the answer to the question I asked on January 6. It does not know whether Soviet aircraft are able to use Turkish bases or bases in other countries which U.S. military aid funds have helped construct. I could well understand the difficulty, and perhaps the impossibility of monitoring the numerous facilities that this country has helped build and maintain in other nations throughout the world.

The fact is, in my opinion, that it is not possible to control the use of all of these foreign bases. And this fact underlines the overall difficulty of controlling foreign military assistance.

We hope to learn more about the controllability factor in military aid this morning. Our witness is Mr. Chester Bowles, the former Under Secretary of State and the former Ambassador to India, and I might say that Mr. Bowles, as Ambassador to India, was a most unusual and remarkable Ambassador. He, I think, set a new kind of style and brought to India a kind of a broad sympathy and understanding and he took part in the life of the Indians, as no Ambassador I know of did, and so did his remarkable family.

The word "statesman" is bandied about quite easily these days.

There are few people, in my opinion, who are entitled to be considered statesmen in the true sense of the word. Mr. Bowles, in my judgment, is one of those few. He has shown wisdom, skill, and humanity in conducting State affairs and treating public issues. Mr. Bowles, you have submitted a prepared statement and you may proceed in any way that you wish.

Representative CONABLE. Mr. Chairman, before you proceed, I would like to subscribe to and applaud your statement about Ambassador Bowles. I would like to ask, however, before we get into the Ambassador's testimony, if you feel the trip of the Secretary of Defense to Southeast Asia or the trip of Under Secretary Irwin to the Middle East are not legitimate trips, but are trumped up to keep them from testifying?

Chairman PROXMIRE. Of course, they are legitimate trips.

Representative CONABLE. Why did you refer to the "extraordinary" coincidence of these officials' trips coming at this time?

Chairman PROXMIRE. It is a coincidence we asked two witnesses to appear and it just happens on the days we asked them to appear they are both overseas. As a matter of fact, Mr. Irwin, we expected him to be here until the last minute. It was at the last minute they told us he was to take this trip.

Representative CONABLE. There has been a recent development out there relating to oil, has there not?

Chairman PROXMIRE. I am sure the statements by the Administration are sincere and honest, but I say it is an interesting and extraordinary coincidence.

Representative CONABLE. I think these gentlemen are both im-

portant people and have business of their own to transact beyond appearing at a Joint Economic Committee hearing during the hiatus of the Congress.

Chairman PROXMIRE. I think that is right. I think Congressman Conable, one of the most able of Congressmen, is unusually sensitive and defensive.

Representative CONABLE. I am defensive because you said this was a remarkable coincidence.

Chairman PROXMIRE. It was just a coincidence.

Representative CONABLE. Well, your use of words, sir, indicates a lurking partisan intent, I am afraid.

[Laughter.]

Chairman PROXMIRE. I just hope the Republicans don't feel this guilty.

[Laughter.]

Representative CONABLE. If we are feeling guilty, sir, it is only because of the extreme steps you are taking to try to help us feel guilty in this respect.

Chairman PROXMIRE. I'm always happy to help Republicans feel guilty.

Representative CONABLE. I understand, but I would like to point out to the Senator that he has already been elected for another 6-year term.

Chairman PROXMIRE. I am sure you will have no trouble getting elected and re-elected from everything I have heard of in your area, Congressman Conable, and I wish you success——

Representative CONABLE. Thank you for your support.

Chairman PROXMIRE (continuing). In your great effort to reform the Republican Party. It is a tough one.

Representative CONABLE. It is not nearly as tough as it might be if I were in the other party, or the other body.

Chairman PROXMIRE. Mr. Bowles, you go right ahead.

STATEMENT OF CHESTER BOWLES, FORMER UNDER SECRETARY OF STATE AND FORMER AMBASSADOR TO INDIA

Mr. BOWLES. Thank you very much, Mr. Chairman.

I am very pleased to be here. I think these hearings of yours are extremely wise and well-timed. We don't know nearly enough about these programs. The precise figures are hard to find. I don't know what they are. I have been involved in the State Department, also abroad, for a long time and I really frankly do not know what the story is on these figures. You get all kinds of different guesses and estimates and figures on different bases. I think the most important thing you could do would be to really dig out these figures and put them on the table and get an agreement on what they are.

I thought I could be most helpful perhaps if I could talk in somewhat broader terms than previous witnesses about some of the situations we have become involved in through military aid. Then I would like to conclude with some comments on our foreign policy in Asia, which has been strongly shaped by these military assistance programs. I will deal largely with Asia because our biggest programs

have been in Asia, and I know Asia best, but we also have similar problems in Africa and Latin America which are very serious.

The distribution of military assistance, of course, should be closely related to our foreign policy objectives. It can't be separated from them. The usual pattern, however, has been that a partial military commitment is made to a given country which has then led to a greater and still greater commitment. Eventually the commitment becomes one that few would have supported in the first place if they had foreseen the political consequences. Finally, when it becomes apparent that it doesn't make sense, we try to pull back, but by that time our clients, whom we were supposed to control, start controlling us. There are all kinds of pressures brought to bear on us to stick with a program even though it is obviously not making sense; we get emotionally involved—people of both parties, I might say, get involved emotionally—our stake in the outcome becomes bigger and bigger and it is hard to get back to a rational position, very hard.

Of course, one of the biggest aid programs of all has been NATO, which, I think, by and large has worked very well. Large sums were spent and they were spent well, spent by expert people, good managers who knew what they were doing. You can criticize NATO, but by and large it has been a very able program. In contrast to this, our support of China in the 1940's was inept. We spent huge sums of money there without any thought of the basic reforms required in building a new China. As a result, much of our equipment wound up in the hands of Mao Tse-tung's Communist Chinese. The arms which the Chinese attacked us with in Korea in 1953 were in part American weapons taken away from Chiang Kai-shek's forces. What worries me is we learned few lessons from all of this, and we still make the same mistakes.

Vietnam, of course, is a prime example. When the Japanese surrendered in August 1945, the French set out to secure their colonial position in Indochina. FDR was always very clear on this, to never let the French or the Dutch back into Asia. We discussed this on several occasions. Once I asked him, "How about the British?" He said, "The British are sensible people; they will get out on their own accord and they will eventually get out of India. But the French and Dutch, never; they will stay there as long as they can."

Of course, after Roosevelt's death most of this was forgotten, even when the French shelled the city of Haiphong in November 1946, killing thousands of civilians.

Our first big mistake was a military "deal," which I think, was one of the most unfortunate deals in American diplomatic history. In the late 1940's, we desperately needed forces from France—some 12 divisions—to bolster up our NATO defenses in Europe. German troops were not then available. The French said, "We cannot possibly supply these unless you will help us out of the Indo-Chinese situation; we need your help there, and hope you will subsidize us with equipment in Indochina."

By 1949, the Communist Chinese had taken over Mainland China, and the pressure on Vietnam became greater. Now, of course, the French insisted they needed our support, not for colonial purposes but for other purposes, to block communism and in their words, "Pro-

tect French property" (phrases calculated to salve American consciences and to win American support). We agreed to what I believe was a very cynical deal.

By 1951, the French forces in Vietnam totaled 140,000 professional soldiers, supported by 150,000 French-trained Vietnamese. Yet this force was unable to hold the Viet Minh in check.

The claims were quite different. I was there in 1952, and everywhere I went during that period I heard optimistic comments about their ability to handle the Communists. Our embassy in Saigon, was confident of it. Everybody you talked to was confident of it. The Communists were on the run everywhere, and we were about to win.

Now, at that time there were 38,000 French dead, including 11,000 officers. U.S. military aid to France was 2.5 times as great as our entire worldwide point four program, and equal to our Marshall plan contribution to France itself. An average of one 10,000-ton freighter was arriving with U.S. military equipment every day.

On February 4, 1954, just 2 months before the collapse of the French military stronghold at Dienbienphu which spelled defeat for their entire effort, Adm. Arthur W. Radford, Chairman of the Joint Chiefs of Staff, was quoted in the New York Times as testifying before the House Foreign Affairs Committee that:

> **The development of a broad strategy in concept by the French and Vietnamese commanders in Indochina, supported by the United States financial and military assistance, should insure within a very few months a favorable turn in the course of the war * * * Communist prospects of achieving any decisive immediate successes are nonexistent.**

In any event, after the Geneva Agreement was signed, there was some hope for stability. But President Diem failed to hold elections or to make needed reforms leading Ho Chi Minh to begin a new wave of terrorism against the Diem government. Diem promptly sought our assistance. This was another turning point.

Now, in February 1961, when I was Under Secretary of State, I felt very strongly that our support of Diem was going nowhere, and I tried to get consideration for a neutralized Southeast Asia, expanding the 1954 Geneva Accord on Laos to embrace the whole area. This proposal got nowhere. Instead Walt Rostow was sent to Vietnam in October 1961 with Max Taylor. They came back with a report that we ought to move in and help directly. Their recommendation included helicopters, B–26's, military advisers and training experts and the introduction of American ground troops, with the possibility that as many as six full divisions might ultimately be required. Now, some of us worked very hard against this and we failed. The President decided on sending more military advisers but did not take the rest of the program at that time. But in this period, you could see the precarious balance on foreign policy between the State Department and Pentagon was being turned upside down and more and more the Pentagon was moving into the political questions and making decisions.

I have often wondered what Kennedy would have done if he had lived. My guess was he would not have gotten us into the mess which developed. Although I can't prove it—it is perhaps a more sympathetic emotional hope—there is some evidence. He said to Walter

Cronkite in September 1963 that we could not solve Vietnam's problems for it. He said something similar to me 3 or 4 days before he died—I don't know if he would have sent in ground troops or not, I don't think we can know. Anyway we got in up to our ears, both parties. This is a nonpartisan issue in that respect.

Another example of "creeping militarism" concerns the origin of our military assistance program to Pakistan. In 1950, a remarkable book came into the bookstores written by Sir Olaf Caroe, a very able British foreign service officer, who worked in Pakistan. Called the "Wells of Power," the book said that the stability of the Middle East and Asia depended largely on the Indian Army, British diplomacy, and the British Navy. Now, Caroe wrote the British were pulling out and the Indians had adopted a policy of noninvolvement so we could no longer count on the Indian Army. What was the force which could replace this? It was the Pakistanis, Caroe argued. They were supposed to protect the flank on the Persian Gulf, while the Turks were on the other side. I thought this made no sense. If the U.S.S.R moved overtly into the Middle East, which was most improbable in the first place, Pakistan, separated from Russia itself only by Afghanistan, would almost surely remain aloof no matter how many arms we might provide them. I argued very strongly against it in 1951, when I was Ambassador to India. But after the new administration had moved in in 1953, Ayub Khan, then Commander in Chief of the Pak Army, came to the United States in the fall presumably for medical help. I assume he came here for other purposes, too. He argued the Caroe thesis persuasively with the State Department and Pentagon. Korea was on our backs at that time; we were very worried about it. Ayub Khan offered the support of a Pak Army of many thousands of troops if the United States would arm it.

At first the State Department was very strongly against this, and the Pentagon was not for it either. But soon it leaked out in public we were turning our backs on all these fine soldiers available to us. Senator Joseph McCarthy's influence was then at its height, the State Department was being suspected of all kinds of Communist-oriented policies, and it was easy to see a refusal to arm a willing ally in a subversive light. So the State Department pulled back, and so did the Pentagon.

Now, the Indians were very worried about it. Their own military had not been built up very much. It was not very competent or very well trained at the time, and they saw clearly if we were to help Pakistan, there would be strong forces in India that would turn to the Soviet and ask for standoff help.

I wrote to Secretary Dulles in December 1953, a strong but futile letter, in which I said:

> The proposed arms agreement with Pakistan, from furthering our national objectives in the Middle East and South Asia, will add dangerously to the grave instability that already exists there. I am convinced that the proposed United States-Pakistan military agreement may indeed set in motion a chain of events which in the next ten years can lead to political developments in India and South Asia which will have grave implications for our future relations in this area and indeed in all of Asia.

Nehru also protested strongly. He said the U.S. military assistance would bring the cold war to India's borders. He called it an

"anti-Asian step," a step toward war, not peace, a step which will bring war or the threat of war to our frontiers.

However, in February 1954, President Eisenhower approved an arms agreement with Pakistan. He wrote to Nehru very clearly he was not doing this against India. It was solely to be used for defense of Pakistan and South Asia against the Chinese and the Russians. He wrote a very strong statement. And Nehru answered, "Although I appreciate the assurance you gave me, you are, however, aware of the views of my Government and our people in regard to this matter." He added that he was convinced that President Eisenhower bore no ill will toward India and that his decision to give arms to Pakistan was well-intentioned, but that the effects were "bound to be unfortunate." The first result, he pointed out, was "a sense of upsetting things" and the creation of insecurity between India and Pakistan.

Over the next decade our Government, represented by a series of Ambassadors in India, of which I was one, continued to assure the Indians that our arms would never be used against them. I made the statement over and over again, I don't know why John Sherman Cooper made it, Ken Galbraith made it, and Ellsworth Bunker made it; "these arms would never be used against you Indians. Relax, it will not occur." Why we said that I don't know; well, we just had faith it wouldn't happen.

Now, in the fall of 1965, 5,000 guerillas came in to Kashmir from Pakistan, not very well trained, not very well equipped, often speaking the wrong language, and they were not very successful—a little like our Bay of Pigs. When this didn't work, a Pakistani armored division went across to close the neck at Kashmir. The Indians counterattacked and a very brutal disastrous war occurred that lasted about 6 weeks. About 3,000 men were killed on both sides. It was a very costly affair. We stopped our military aid program at that point, to both countries. We did not file a report with the U.N. criticizing the use of our weapons. We said India used our weapons, too. I think I know the story on this. There were two armored divisions that had American weapons, Eighth and Ninth. They were brought into a support position behind the major forces. They were not engaged. They were armed with American guns and rifles and small arms and some jeeps.

The Indians were always aware that the equipment we gave to Pakistan could never have been used in the Hindu Kush Mountains. It was equipment suitable only to the plains of North India. It was tanks, armored personnel carriers, short-range jet fighters. Nobody in their wildest imagination thought it would ever be used against anybody except India. They pointed it out to us. Why we did it I don't know. My guess is that is what the Paks wanted and what they got without any questions asked. I went through some very bad moments in India because the Indians said very justifiably every soldier killed was killed by an American machinegun or grenade. They were very bitter against us. It was one of the toughest moments I spent in India, trying to bear up under this heavy pressure, "Why did you not keep your promise to us?" I had no answer when they asked me why I had made the promise.

I thought the program of military aid to Pakistan was dead at that point, but it wasn't. Two years later the rumors came it was going to go through again. The Pakistanis said, with some logic, that the tanks we had given them were not operable because they had no spare parts, therefore, we should provide spare parts. The Indians said with some justice, "This means you have a hundred or 200 more tanks that are operative than you had before. The balance of power will be upset. If you make these tanks operable we have to get some other tanks to oppose them." We argued as best we could against providing spare parts but it finally went through.

There also was a request to the effect that we would under certain circumstances permit "third power" sales to Pakistan. This meant purchase from a third country which had American equipment under license and could not sell that equipment without our permission. The first in line was Belgium. We went to Belgium and said, "Why don't you sell a hundred tanks to Pakistan." The Belgians didn't want to get into this. They knew the reaction in India and they didn't want to do it. We pushed them very hard; they stubbornly stood their ground.

The Germans were next asked to do it. Again the same situation, the Germans didn't want to do it and stalled and didn't do it. But it leaked to the press they had been asked.

Then came the Italians and they refused, and finally the Turks, and the Turks stood their ground also, all the time we were appearing more devious, more and more dishonest. It was very ugly to see a great country like America looking so devious and so dishonest. As an Ambassador, I had to defend this to India and I had to do the best I could. My best was not very good. At that time, however, we were up to our necks in Vietnam and, failing to succeed in getting a "third country" to cooperate, we set aside for "further study" Pakistan's request for additional tanks.

In March 1970, a year after I had returned from India, the Pakistani request for tanks was renewed and from press reports I learned the administration's response would be favorable. At this point, several people here on the Hill hit this very hard and they said it was a mistake and shouldn't be done. I wrote an article for the New York Times pointing out this was a misuse of funds. Previous administrations had made mistakes, why did the new administration have to make the same mistakes? I argued we were upsetting the balance of power in that part of the world, angering the Indians who had already turned to the Soviets for help and pushing them to turn further. The next thing that occurred, a few months later, was the announcement we were going to send to Pakistan a squadron of B–57's, armored personnel carriers, and a few tanks. Not too big a program but it still happened.

Another point of criticism is that over the years we gave a whole series of different reasons for the program. The first reason, as I have pointed out, was the Caroe thesis to prevent the Soviets from coming into the Persian Gulf. That was ridiculous. The Paks were trying to get along better with the Soviets. They were not angry with them. The equipment they had was no good in that area.

The second argument came into vogue in the late 1950's, when the

validity of our the previous assumption that Pakistan could be counted on as an ally in the event of a Soviet attack. This was the development of a large military airbase at Peshawar in Pakistan. The Peshawar Air Base, which you know about, was where the U–2 was flown from, and it began to take on bigger and bigger importance. The reason for giving arms to Pakistan was no longer the Russian-Chinese attack that they were supposed to stem, but was a price for holding on to this base. The base was important, there is no doubt about that, but I doubt that it was as important as claimed. A major reason we decided not to assist India to modernize its armed forces in 1964 was that it might jeopardize our standing with Pakistan and cause us to lose the Peshawar base.

The Indians, predictably, went to Russia in August 1964, six weeks after being turned down finally by us, and they came back with far more than they anticipated and we anticipated, I think it was well over a billion dollars now.

Ironicallly, the heavy political as well as military price we paid for the "indispensible" Peshawar base was spent in vain. In 1968, in an effort to please the U.S.S.R. Pakistan refused to renew our agreement and we were forced to move out the following year.

I think the whole thing is an example of how you go from one reason to another to justify something which has a momentum of its own. First, these were our allies and friends, who will fight our enemies, both China and Russia. Then when we got the base we had to supply tanks, the base was worth any cost. The present reason since 1968, if you ask the administration is the Chinese and Russians are giving equipment to Pakistan, so we must do so, too. It is a little bit like saying, "Everybody is selling heroin so we might as well get into it ourselves." The Chinese and Russians are selling equipment to Pakistan, therefore, it is all right. I don't think it is all right. It is a very serious mistake.

I would like to add a personal story. When I was asked by President Kennedy to go back to India in the winter of 1963, my instinct was not to go. I had been there once, and it is hard to go back and recapture an old experience. But another point convinced me to go. I always argued that policies are not changed or modified merely by argument or by persuasion. They are changed by events. Something occurs unexpectedly and jars everything into a new relationship. Then arguments you have made previously have an effect.

I felt several things were different in Asia. Number one, Russia and China had broken apart; two, China and India had broken apart; third, we were becoming deeply involved in Southeast Asia; and finally Japan had emerged at a much more rapid rate than had been expected, was potentially a very powerful nation.

These four events in my estimation created a whole new situation in Asia and everything in a sense was up for grabs. Everything was in a state of flux and there was a chance at that point in 1963 for new ideas to take hold and result in a different policy.

Why a different policy? What we have tried to do in Asia is "to contain China" with a whole lot of lesser nations: Taiwan, Thailand, South Vietnam, South Korea, etc.—nations of good people, brave people—but which represent 8 percent of non-Communist Asia, while

92 percent of non-Communist Asia, India, Pakistan, and Japan, are sitting on the sidelines in various forms of neutralism. You can't balance China that way. It isn't going to work. What we are doing—what we must do—is dominate the alliance, finance it, direct it and control it. This is absolutely impossible in Asia today. In Asia, nationalism is a big question, not communism, and it is very strong.

I don't think the Russians will control Asia either. I think a Russian-led coalition that Brezhnev has referred to will be a failure. It might work for awhile but not all the way through. Asian nations are very anxious to get on their own feet.

My own feeling in 1963 was we should spend whatever time we could, not in the forefront leading charges up various hills but in the background, trying to bring Japan and India closer together—and they are coming closer together. Japan is, I believe, the biggest buyer of iron ore in India. We cannot control this process, but we have much to gain from it. The Australians see this. They have to decide whether they are Asians or transplanted Europeans, and more and more they are seeing that they are Asians. I think by careful work the United States could have encouraged India, Indonesia, Japan, and Australia to move closer together. A lot of us tried anyway. You could get no help on this from Washington at all for several reasons. Most of your scholars on Asia dealing with East Asia are Chinese or Japanese scholars, very few have a comparable knowledge of South Asia. The two divisions in the State Department are east and west of the Burma border. Everything east is east Asia; everything west is Middle East.

India has been looking west for a long time. I hope she could see her problem is to look east. I used to say to my Indian friends, "Do you think someday through the Khyber Pass is going to come a great army, elephants, spears, javelins, and crossbows to invade India? This is not going to happen. Your trouble will come, if it does, and let's hope and pray it doesn't, from the east."

I told them a story of our experience, how hard it is to get rid of old concepts. I used to sail a great deal on Long Island Sound, past the Islands, Fishers Island, Plum Island, Gardiners Island, and Montauk Point. These islands were covered with big coastal defense guns stuck in the sand; they could throw a shell 22 miles out to sea. Fifty years ago, they scrapped the old guns and got new guns. I wondered what these guns were for, who was the target. Was it the British? No, we are good friends. The Japanese? No, they are too far away. Germans? No. French? No.

Suddenly I thought, in 1813 the British Navy came into the harbor of New London, burned New London and burned the town I live in, Essex, which is 20 miles west of there. We weren't going to let those frigates get in there again.

I can think of no other reason. A whole lot of powerful forces grow up, coast defense alumni, widows, pension groups, you build up this whole damned thing and it becomes very powerful. So at least up to 1948, I know they were there in 1948, heavy coast defense guns defended the entrance of Long Island Sound against British frigates.

India is, I believe, thinking more in terms of East Asia, and I think the Japanese think much more in terms of India. But it won't

come rapidly. It won't come tomorrow. Instant solutions are not going to happen. They are going to come very slowly. India and Japan do not understand each other very well. They don't fit easily together. I think they are gaining acquaintanceship.

My point is we can't run Asia. We can help; we can support but we can't decide what will happen, nor can the Russians, nor can the Chinese.

Before I left India 2 years ago, I called on a whole group of Indian officials and I said, "What would you like American policy to be in Asia?" They all thought a minute and said the same thing: "First of all, internal conflicts we have to solve. You can't solve them for us. If we can't solve our own internal problems, forget it, we just don't deserve to be a nation."

They pointed out Nagaland, on the eastern frontier; 3,200 Nagas who had been sent to China to be trained and learn a little bit about guerrilla warfare from the Viet Cong. They came back across North Burma with their new equipment into Nagaland and the Indians, cleaned them out in about 4 months. When I left India these guerillas were practically gone. The Indians were very good in cleaning them out. "Unless we can do that," my Indian friends said, "we don't deserve to be a nation.

"Second, we need economic assistance to help us grow and trade and sell things. We want all the economic assistance you can properly give us without strings to help us build our nation as best we can. And third, if China tries to overrun our borders on a mass basis, which we don't think will happen and you don't think will happen, we want your full support."

Everyone said the same thing. "First, don't try to interfere and solve our internal problems; second, help us every way you can in your economic assistance; third, we don't want your army unless we are hit."

I hoped the Nixon doctrine would be a policy based on these realities. What was said in Guam seemed consistent with this. But I cannot find what the Nixon doctrine is; it has not been spelled out, at least to my knowledge, and our actions in Asia certainly do not reflect its words.

I think we still have a big chance in Asia of thinking fresh and more imaginatively. But, I think, we haven't too much time. We have lost our reputation out there. A lot of people who were once very much for us and strongly for us are no longer for us. They like Americans but don't like the actions of our Government sometimes. We must realize the only hope for stability in Asia will come from Asians and not Americans. Americans will play a very important role in aid programs, in trade programs, generally helping them to get on their feet. But our aid programs, whether it is economic or military assistance, will not make them love us or support us. We know that by now. You don't love people to whom you owe money. Mark Twain once said to his neighbor, "Why do you dislike me so? I never loaned you any money."

I remember in 1967 we had a hard time in India getting some American wheat one time to meet India's desperate needs. I finally got 2 million tons, and everybody sighed with relief. The Com-

munists attacked Mrs. Gandhi very hard and said she sold out to "American Wall Street imperalists." A few days later Mrs. Gandhi got up in Parliament and she sent a telegram to Ho Chi Minh wishing him a happy birthday. I think the two were connected. This was an effort on her part to show India was independent; she was not an American stooge who could be bought by 2 million tons of wheat. The reaction in Washington was catastrophic, with a call getting me out of bed at 3 o'clock in the morning, "What in the world do you think you are doing?" I was asked, "We gave them the wheat and off she goes to Ho Chi Minh."

This is what we have to understand. What would Jackson have done in 1828 or so if the British had said, "We will loan you money for the Erie Canal and will then show you how to build it, because you foolish people don't know how to build canals, and we will come out and make it run for you." He would have thrown them out.

The Asian world is like the young American in the first half of the Nineteenth Century, arrogant, if you want to say so, not too confident, nationalistic and very resentful of people trying to run it. We should at least have learned the lesson we cannot run Asia nor can anybody. Whether it is now too late or not to think in fresher terms I don't know. It may be.

I know when I first went to Vietnam in 1952 there was a tremendous feeling of support and approval for the United States. Ho Chi Minh's government's constitution of North Vietnam starts, "We, the people of North Vietnam." The Bandung Conference of 1955, that great reaction of Asians against foreign oppressors, was held on the anniversary of the Battle of Lexington and Concord, the 19th of April. The midnight ride of Paul Revere was read from the rostrum that night. They have been very close to us, but we are bound to lose contact if we take over their responsibilities.

The British used to solve our problems for us in the nineteenth century, and they took the rap. We wrung our hands and said, "Isn't the British nation and world irresponsible."

Our policies in Africa have been good, by and large, but we have made some of the same mistakes as in Asia. We can not upset the Portuguese because of the Azores. Our base, we think, is very important, and we have to hang on to Portuguese good will. I once suggested we underwrite the development of Portugal if they would relinquish their colonial holdings. But, of course, it didn't work.

We have a chance, and a great chance I feel, if we will see the costs of our past mistakes and learn from them. But we haven't learned yet. We still think we can come out with a victory somehow in Indochina, and we can't. People who say we can't are likely to be suspected of being Communist spies, and that too in itself is, I think, an unfortunate fact—that you can't even talk about it.

But I don't think we can win in Southeast Asia; I don't think anybody can win. It is a stalemate, and I think we have to admit that. The longer we try to hang on there the tougher it is going to get. Things will occur we don't suspect, and embarrassing changes, a coup d'etat in South Vietnam, for example, and put us in a very difficult position. I would like to see us out of there as fast as we can. I would like to see us get rid of the illusion we can run that

country. We still have a lot of good will in Southeast Asia. Many people disagree with us, but they don't dislike us. I think Americans and Canadians are probably the best-liked people in Southeast Asia, but they don't care for many of our present policies.

All of this comes back to foreign aid. The "loss of China" followed a period when we tried to put in all kinds of unlimited money to build a Chinese nationalist army to lick the Communists. Mao Tse-tung started with 10,000 men, an idea, and 5,000 rifles, and he conquered China. Where was power in those days? Power was on the side not of the arms, equipment, it was on the side of the people. How many divisions did Gandhi have? How many divisions did the Pope have, as Stalin once asked? They didn't have arms, but ideas, very powerful ideas. America's ideas, too, have been powerful in the past. We shouldn't be embarrassed by the ideals of democracy or think this is something soft. If we get back to some of the basic principles our nation was founded on we will face today's world in better perspective. But a foreign policy based on buying this general or that admiral, which we have tried over and over again, does not work. We have a great talent in selecting for support the wrong leaders, who do not have the support of the people. Therefore, we join them in being condemned. Take 1954, if we had gone to Vietnam after the Geneva Convention saying, "We will do in South Vietnam what we did in South Korea and also in Taiwan. We will help you in every way, *but* you have to have land reform, make basic changes in the land system, clean up corruption, give back power to the villages," we would have changed a lot of things, and I don't think we would be in this mess today.

Why didn't we do it? One reason is that a policy, whose effects are not felt for 5 or 10 years or more, requires you to make decisions that may be initially unpopular. The President of the United States, be he Republican or Democrat, will ask, "Why should you ask me to do this unpopular thing when the beneficiary will be a President 10 years from now?"

If you are arguing with Mr. Eisenhower in 1955 about supplying assistance to Vietnam he would say, "If we go ahead with the land reform, who will like us for it, who will support it?" The answer would be the Vietnamese peasants, they would like it. "But do they vote?" No, they don't vote. "Who will dislike us?" The powerful church groups, the military people will dislike us. The President then concluded that there is no reason to go ahead and do this.

We have a lot of hard thinking to do about how policy is made, and I am glad to see this committee is embarked on trying to do something about it. We have learned a lot as a result of Vietnam and we can do a great deal differently in the next 10 years if we don't lose our nerve or our confidence. I am not discouraged about this. Writing off America abroad is a mistake. The very fact we are examining ourselves, the very fact you are holding this committee hearing, examining our government's policies, is part of our strength. No nation has ever undertaken an effort to examine its own premises more than we have. We are studying ourselves, taking ourselves apart, some might say often unnecessarily, to find out what is wrong. This is good, and this above all else gives me confidence in the future.

I again want to say I think your hearings are very helpful. I hope we get on the table all the facts about the money that has been given out for military assistance: Food for Peace money, loan money, grant money, gift money, "Tanks for Peace" money, which they kidded us about in India. Let's look at it; what is it for, what is it doing for us? Was it given to buy some general or buy some colonel, to get some objective that would be impossible to buy? We ought to look at it all.

I think a lot of people will thank you for these hearings. They are worried that something new is needed, and they are worried about whether we have the capacity to provide something new and better. Trying to change these policies is slow, difficult work. You can't shake loose all at once; it has to be done gradually. And the first step is to have the wisdom to know what has gone wrong and where we should be heading instead. If we can get at this, then I am not worried about the future.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Bowles, for a brilliant statement.

(The prepared statement of Mr. Bowles follows:)

PREPARED STATEMENT OF CHESTER BOWLES

Mr. Chairman, I am pleased to testify before your Subcommittee on Economy in Government and to assist in your investigation of military assistance programs. For twenty-five years or more I have been concerned about many of the military commitments our government has made and the manner in which it has made them. I am hopeful that through the efforts of your committee the public and the Congress will be given a greater understanding of how misused military assistance upsets regional power balances, commits us to support factions and leaders who are more often than not at odds with their people, and leads into situations which we cannot control.

The distribution of military assistance, of course, should be closely related to our foreign policy objectives. When military assistance gets out of hand, as I believe it has, it is in part because our foreign policies in many areas have been based on misconceptions.

Although my discussion of the misuse of military assistance will deal primarily with Asia, the process which I shall describe applies on a lesser scale to Africa and Latin America as well.

The usual pattern has been as follows: a partial military commitment is made to a given country which has then led to a greater and still greater commitment. Eventually the commitment becomes one that few would have supported if they had foreseen the political consequences, but which has gradually become a matter of national prestige which, it is said, we cannot abandon as a matter of principle.

Let us briefly consider the disaster of U.S. involvement in Vietnam. How could the United States, which not so long ago freed itself from colonial rule, first be persuaded to underwrite French colonialism in Indochina and then ultimately assume the burden itself? Why did presumably able, thoughtful American officials dealing with Indochina allow themselves to become committed to such unrealistic goals with so little understanding of the forces with which they would be called upon to contend?

In August, 1945, when the Japanese surrendered, the French promptly set out to regain their former colonial position in "French Indochina." If Franklin D. Roosevelt, who felt strongly about this subject, had lived, I am confident that he would not have permitted this. But after Roosevelt's death, a series of events combined to push us into the grievous error of actually underwriting the French effort.

During the war we had worked closely and effectively with Ho Chi Minh against the Japanese. When the war was won we were in a strong position

to assure Vietnamese independence. But we were occupied with other problems and our primary focus was on Europe, and Indochina was far away.

In Southeast Asia our policy, insofar as there was one, was "don't rock the boat." In October, 1945, for example, a diplomatic cable from Washington to our mission abroad stated: "U.S. has no thought of opposing the re-establishment of French control in Indochina and no official statement by U.S. Government has questioned even by implication French sovereignty over Indochina."

On the rare occasion when the situation was discussed, France assured us that they were pursuing a policy of eventual independence for the Vietnamese. However, when their early negotiations failed with Ho Chi Minh, the French abruptly turned to military force. In November, 1946, the French Navy shelled the seaport city of Haiphong, killing some four thousand Vietnamese, most of them civilians. This event was little noticed in Washington, but it made a full-fledged conflict inevitable.

By 1949, the Communist Chinese had taken over mainland China, Viet Minh troops were being trained and equipped by China, and in Europe NATO had been formed to discourage Soviet expansionism. A primary U.S. strategic objective was to persuade the French government to contribute 12 divisions to the recently organized NATO Defense Forces in Western Europe. As a *quid pro quo* for these divisions, (which never made their appearance) we agreed to supply substantial amounts of American military aid to "assist in restoring stability and in permitting the Associated States of [French] Indochina to pursue their peaceful and democratic development." The ultimate result was the shipment to Vietnam of some $2 billion worth of military equipment. The French assured us that their objective was not to reestablish their former colonial position, but rather to "block Communism" and to "protect French property" (phrases calculated to salve American conscieices and to win American support), and we agreed to what I believe was one of the most cynical and indefensible political bargains in the history of American foreign policy.

By 1951 the French forces in Vietnam totalled 140,000 professional soldiers, supported by 150,000 French-trained, French led, and to a rapidly increasing degree, American-equipped Vietnamese troops. Yet this formidable force was barely able to hold its own against a far smaller number of ill-trained, ill-equipped and ill-nourished but deeply committed Viet Minh guerrillas fighting for their independence.

When I first visited Saigon in the summer of 1952, French casualties already totalled 38,000 dead, including 11,000 officers. U.S. military aid to France in Indochina was already two and a half times as great as our entire worldwide Point Four program, and equal to our Marshall Plan contribution to France itself. An average of one ten thousand ton freighter was arriving with U.S. military equipment every day.

The French military and political officers with whom I talked were blindly confident of a military victory and the American officials in charge of our vast military assistance program generally shared their confidence.

On February 4, 1954, two months before the collapse of the French military stronghold at Dienbienphu which spelled defeat for their entire effort, Admiral Arthur W. Radford, Chairman of the Joint Chiefs of Staff, was quoted in the New York Times as testifying before the House Foreign Affairs Committee that "The development of a broad strategic concept by the French and Vietnamese commanders in Indochina, supported by the United States financial and military assistance, should insure within a very few months a favorable turn in the course of the war . . . Communist prospects of achieving any decisive immediate successes are nonexistent."

In July, 1954, when the Geneva Agreements were signed, there was some basis for hope that a stable peace might be assured by the free elections which the agreements called for to determine the future governments of North and South Vietnam. But South Vietnam's President Ngo Dinh Diem, on one pretext or another, refused to cooperate, and, with our connivance (the United States never actually signed the accords), the elections were never held.

When the Ho Chi Minh Government in Hanoi, bitter over what it considered to be a deliberate violation of the Geneva election agreement, launched a new campaign of terrorism against the Diem Government, Diem promptly sought our assistance.

In retrospect, this was a turning point. If we had learned our lessons from the failure of Chiang Kai Shek in China and the French in Indochina, and insisted as a condition for our economic assistance, on a sweeping program of domestic reform and development in South Vietnam—a more equitable tax system, increased rural credit, irrigation, schools and roads, and above all a sweeping land reform program that would have assured each rural family in South Vietnam ten or fifteen acres of their own—I believe the political and economic situation might still have been stabilized.

At first Diem demonstrated a heartening degree of courage and understanding, but gradually, like most recipients of American military aid in the underdeveloped world, he slipped under control of the great landlords and other right-wing elements who were determined at any cost of blood and suffering to maintain the political status quo. Rejecting what he (correctly I think) believed to be halfhearted urging from the United State, Diem refused to place a ceiling on land holdings (as he had promised to do), to clean up corruption in the villages and cities and to grant even minimal local powers in a society long accustomed to strong political institutions in the villages.

In spite of this mounting evidence that Diem was incapable or unwilling to create a political base for an independent South Vietnam, much of the discussion in the Departments of Defense and State and, increasingly, the White House continued to center around Diem's military capacity to counter the Vietcong.

In February, 1961, I recommended to the President and Secretary of State that the neutrality concept established for Laos in the Geneva Accords in 1954, be expanded to embrace the rest of Southeast Asia, excluding North Vietnam and East Pakistan, but including Thailand, Burma, Cambodia, Malaysia, South Vietnam and Singapore.

Neutral status, I said, might be guaranteed by the United States, Britain, France, the Soviet Union, India and Japan. It was conceivable that such a plan might appeal to the Soviet Union's interest in keeping Communist China from moving to absorb Southeast Asia into its sphere of influence. At least it would enable us to move out of the stifling confines of the SEATO pact as a legal justification for our presence in Southeast Asia and give our future actions an air of broad international cooperation rather than one of narrow anti-Communism.

In October, 1961, these recommendations were rejected. Instead a military mission headed by General Maxwell Taylor and Walt Rostow was sent on a mission to Vietnam to determine Vietnam's military requests. Their recommendations included helicopters, B–26's, military advisers and training experts and the introduction of American ground troops, with the possibility that massive numbers might ultimately be required.

In an effort to transfer the debate from the military to the political arena I again introduced my proposal for a neutralized Southeast Asia in a somewhat new form: i.e., that we expand the negotiations in regard to the neutralization of Laos which were still under way in Geneva to the neutralization of the entire area, including not only Laos but both Vietnams, Cambodia, Burma, Thailand, Malaysia and Singapore.

My recommendations, with those of the Taylor-Rostow mission, were vigorously debated in the State Department and the White House. The decision was to go part way: we would increase the number of U.S. military advisers in Vietnam but forgo for the present at least, the introduction of American troops. This represented a defeat for my proposal and a partial victory for the military view.

Inevitably, it further upset the precarious balance on foreign policy questions between the State Department and the Pentagon and, as it turned out, set the stage for the nearly total militarization of our Southeast Asia policy and the ultimate debacle in Vietnam. In 1965, the decision was made (and I might add, endorsed by a majority in Congress) that we introduce whatever troops were required to "win the war", thereby repeating the error that the French made fifteen years earlier.

What I find most worrisome about this dismal story is that there is no evidence that we are capable of learning from our own mistakes and even less from the mistakes of others. It is even more frightening to think that we could become so emotionally involved that it would be considered "un-

patriotic" to admit our errors. Whatever "Vietnamization" is, it is not an admission of failure, only an attempt to shift the military burden. Those who are shaping our policies today are still seeking an outcome that can be labelled a "victory".

Now let us briefly consider another example of "creeping militarism"—the process by which our foreign policy is determined in bits and pieces by decisions which are largely based on military thinking which ignores the political, economic, and social forces which are shaping tomorrow's world. This concerns the origins of our military assistance program to Pakistan.

The rationale of the United States' interests in Pakistan's military strength may be traced to a book, "Wells of Power", written by a British civil servant, Sir Olaf Caroe, which came to the attention of the U.S. State Department in 1950. As Caroe pointed out, in British colonial days the stability of the Middle East and Southeast Asia largely depended on three elements: British diplomacy, the British Navy and the Indian Army. Following the British withdrawal from India and the establishment of Nehru's policy of noninvolvement in 1948, the Indian Army had been neutralized; hence, Caroe argued, a substitute must be found, and Pakistan was the most likely possibility.

When this strained bit of geopolitical reasoning was first unveiled in the winter of 1952 during my first assignment to India, I strongly questioned it. After countless cables followed by a visit to Washington, I convinced President Truman that a large-scale military assistance to Pakistan would be a serious mistake. If Soviet Army forces moved overtly into the Middle East (a most improbable turn of events), Pakistan, separated from the U.S.S.R. itself only by a relatively weak Afghanistan, would almost surely remain aloof no matter how many arms we gave them.

In the fall of 1953, Ayub Khan, who at that time was Commander in Chief of the Pakistan Army arrived in the United States, presumably for a medical check-up. However, it soon became apparent that his visit had other purposes. In discussion with the State Department and Pentagon he persuasively advocated the Caroe thesis. The State Department, which under my prodding had explored the pros and cons of the idea when it was first proposed and had reached a negative decision, continued to disagree.

The story was then leaked to the newspapers. Soon articles began to appear, citing "informed sources", which alleged that the State Department was rejecting an opportunity for a military alliance with a nation of 100 million "hard-fighting Muslims" who were willing, even eager, to take on whatever Communists we might designate. At this time, Senator Joseph McCarthy's influence was at its height, and a vision of a State Department "infiltrated" with Communist spies scheming to deprive the U.S. Government of a new source of military support was easily conjured up.

Soon new stories began to appear of behind-the-scenes maneuvering within the State Department and Pentagon for a review of the earlier negative decision. Of particular concern was the report that Secretary of State Dulles, exasperated by India's non-aligned foreign policies, was in favor of the proposed build-up of the Pakistan military.

On December 21, 1953, I wrote to Dulles pointing out what I believed to be the dangers of a military pact with Pakistan. The Indian government and people, I wrote, would react strongly against any program to supply modern U.S. equipment to the Pakistan Army which might be used against India.

Moreover, the Soviet Union would be presented with a tempting choice of alternatives. The Soviets, I wrote, would surely offer India military assistance to match our assistance to Pakistan. This offer might be supported by substantial Soviet economic aid to bolster the Indian Five-Year Plan. I concluded:

"The proposed arms agreement with Pakistan, far from furthering our national objectives in the Middle East and South Asia, will add dangerously to the grave instability that already exists there. I am convinced that the proposed United States-Pakistan military agreement may indeed set in motion a chain of events which in the next ten years can lead to political developments in India and South Asia which will have grave implications for our future relations in this area and indeed in all of Asia."

As rumors of an impending U.S.-Pakistan arms agreement continued to grow, the Communist Party of India seized the opportunity to launch mass agitation for the immediate purchase of "defensive" arms from the Soviet

Union. Nehru made a speech strongly opposing U.S. military assistance to Pakistan on the ground that it would bring the Cold War to India's own borders. Two weeks later, he characterized the proposed military aid as an "anti-Asian step, a step toward war, not peace, a step which will bring war or the threat of war to our frontiers."

On February 25, 1954, President Eisenhower approved the arms agreement with Pakistan. In a public letter of explanation to Prime Minister Nehru he said:

"What we are proposing to do and what Pakistan is agreeing to is not directed in any way against India, and I am confirming publicly that if our aid to any country, including Pakistan, is misused and directed against any other, I shall undertake immediate, and, in accordance with my Constitutional authority, appropriate action both within and without the United Nations to thwart such aggressions."

On March 1, in a formal reply to President Eisenhower's letter, Nehru wrote, "Although I appreciate the assurance you gave me, you are, however, aware of the views of my government and our people in regard to this matter." He added that he was convinced that President Eisenhower bore no ill will toward India and that his decision to give arms to Pakistan was well intentioned, but that the effects were "bound to be unfortunate." The first result, he pointed out, was "a sense of upsetting things" and the creation of insecurity between India and Pakistan. Nehru expressed doubt that President Eisenhower could, as a practical matter, prevent "aggression" by Pakistan with United States arms.

The Congress and public were told that the sole purpose of our military assistance was to enable the Pakistani to join in the common defense of South Asia and the Middle East against a Soviet-Chinese attack, while the State Department and the U.S. Embassy in New Delhi continued to offer India similar assurances.

But the Indian Government remained skeptical. The military equipment that we were giving to Pakistan, they pointed out, had no relevance to our alleged military objectives. If the Pakistan Army were actually designed to become part of a U.S.-sponsored defense system to discourage a Soviet or Chinese military movement through the Himalayas or the Hindu Kush Mountains, it would be seeking equipment appropriate for fighting in the mountain areas. However, the equipment we supplied Pakistan—tanks, motorized artillery and the like—was suitable for use only on a relatively flat terrain, in other words, on the plains of North India. Moreover, from the outset the Pakistan Government had itself made clear that it had no quarrel with either the U.S.S.R. or China and privately admitted that its military build-up was, in fact, directed against India.

To balance the increasing strength of the Pakistan Army and Air Force, which we were equipping with F–86 and F–104 fighter planes and Patton tanks which we provided on a grant basis, the Indians dipped into their limited foreign exchange reserves to buy Centurion tanks and Hunter fighter planes from the British and Mystere fighter planes from the French. The fact that India's purchases were limited reflected its continued trust in the United States' pledge that under no circumstances would we "permit" the equipment given to Pakistan to be used against India.

In the late 1950's as the validity of our assumption that Pakistan could be counted on as a loyal ally in case a Soviet or Chinese attack came into question, a new element was introduced to justify our commitment to Pakistan. This was the development of a large U.S. military base at Peshawar in Pakistan. Alert American reporters soon discovered and publicized the fact that the base had been established to gather information on scientific developments in the U.S.S.R. The U–2 in which Francis Gary Powers embarked on his flight across the U.S.S.R. on May 9, 1960, took off from the Peshawar airfield.

As the Pentagon and State Department placed greater and greater emphasis on the importance of the Peshawar air base the capacity of the Pakistan Government to influence U.S. policy in South Asia increased correspondingly.

When the Chinese attacked India in the fall of 1962, we promptly came to India's assistance with some $60 million in military equipment. But when India asked for one hundred million a year for five years to modernize its military forces, a bitterly fought contest occurred within our government. In

November, 1963, when we were about to respond favorably to India's request, President Kennedy died. In May, 1964 when we were again on the eve of a favorable decision, Nehru died.

Under these circumstances it was inevitable that the Indian Government, which had been waiting impatiently for U.S. support for eighteen months, would turn to the U.S.S.R. for the military assistance which it quite reasonably felt was essential to discourage, and if necessary, defeat any Chinese attack.

The Soviets had belatedly awakened to the fact that the disruption of their relations with China gave India much greater importance in their world strategy. The Soviet Union had previously supplied a few planes and some SAM's (Surface to Air Missiles) and had discreetly suggested that possibility of building plants in India in which to manufacture MIG–21 planes. Although India made it clear that it would prefer to base the modernization of its armed forces on American equipment, the Soviets were now ready and waiting to move in if and when we rejected the Indian request. By mid-August, 1964, it had become clear that those who opposed military aid to India for fear of jeopardizing our base in Pakistan, had won the debate and the same Indian military negotiating team, headed by Defense Minister Chavan, with which we had so nearly reached agreement in Washington two months earlier, departed for Moscow. Two weeks later they returned with all they had asked, and more.

Since 1954 the U.S.S.R. has been the major source of military equipment for the Indian Army, Navy and Air Force. It may be added that the well trained and well equipped Indian Army, made up entirely of volunteers, is now the fourth largest in the world.

Ironically, the heavy political as well as military price we paid for the "indispensable" Peshawar base was spent in vain. In 1968 in an effort to please the U.S.S.R., Pakistan refused to renew our agreement and we were forced to move out the following year .

The brief but hard-fought Pakistan-India War began in August, 1965, when some 5,000 Pakistan guerrillas invaded the Kashmir Valley. A month later when it became clear that this covert effort had failed, a Pakistani armored brigade, equipped with American tanks, artillery and machine guns and supported by American planes, crossed the Indo-Pakistani frontier in the Jammu area and moved to cut off communications between northern India and the Kashmir Valley. Since the roads and rivers were flooded by the monsoon rains, the Indians were unable to bring up the forces needed to meet this thrust and the Pakistani quickly moved some ten or fifteen miles into Indian territory. The Indians then launched a diversionary thrust farther west; two Indian divisions moved across the Punjab border and headed for Lahore.

In early October, 1964, the Chinese who welcomed the conflict between Pakistan and India and were alarmed over the progress being made in the negotiations for a cease-fire, sent India an ultimatum over an alleged violation of their border by Indian troops. But India ignored the Chinese warning and after intensive negotiations involving our embassies in Delhi and Rawalpindi, the State Department, the British and the United Nations, an Indo-Pakistan cease-fire was arranged. Although the war had lasted less than four weeks, an estimated three thousand were killed on each side.

The Indian Government, press and public were predictably bitter over the use of American equipment by the Pakistanis. Over and over again it was pointed out to me that every Indian casualty had been caused by an American bullet, an American shell or an American hand grenade.

Eleven years had elapsed since President Eisenhower's 1954 assurance to Nehru that he would "take appropriate action" if any U.S. arms were ever used against India, and Nehru in reply had expressed doubt that as a "practical matter" the President would be able to prevent aggression by Pakistan troops equipped with U.S. arms. Nehru's doubts had been vindicated by events.

But the possibility of losing our Peshawar base continued to dominate American policy in South Asia. In spite of our pledge to keep the Pakistani from ever using U.S. weapons against India we made no public protest when the pledge was broken.

In April of 1967, we once again resumed shipments of arms to Pakistan. When I received the cable in New Delhi announcing the decision, I could

hardly believe it. The action came all wrapped up in rationalizations about promoting arms reductions. Probably because so few members of Congress have the time to study the fine print in operations of this kind, the State Department and White House had actually secured Congressional approval of the transaction on the grounds that it would help "avoid an arms race." In New Delhi it was jocularly referred to as "America's tanks for peace" program.

The Pakistanis assumed that the new U.S. decision meant not only supplying spare parts for their F–86 planes and Patton tanks, damaged in the recent war with India, but also slackening of our restrictions on the purchase of U.S.-manufactured arms, particularly tanks, from third countries.

To meet Pakistan's request for more tanks, the U.S. Government asked first the West Germans, then the Belgians, then the Italians, and finally the Turks to "sell" one hundred U.S. tanks to Pakistan for a nominal price with the assurance that we would approve the sale, and then replace the third country's tanks which had gone to Pakistan with an equivalent number of our most modern tanks "to strengthen our NATO forces."

Predictably, these "third countries", which were reluctant to antagonize India by becoming a party to this gambit, each in turn leaked the story of our pressure to the press, and after a period of uncertainty the Johnson Administration, already caught in a "credibility gap" in Southeast Asia and elsewhere, decided not to widen the gap any further. Consequently, the agreement with Pakistan was limited to spare parts; and the request for U.S. tanks to be provided by a third country was set aside for "further study."

In March, 1970, a year after I left India, the Pakistani request for the tanks was renewed, and, according to press reports, this time the response of the new U.S. Administration was favorable. It was a senseless performance. Why should a new Administration, with a relatively clean slate, seriously consider a proposal that simply repeated the blunder of its predecessors?

There was considerable opposition in Congress, and I added my protest in a "guest editorial" in the NEW YORK TIMES. Again the decision was delayed; but six month later, in October 1970, an agreement was reached which, according to press reports, permitted Pakistan to purchase one squadron of B–57 bombers (the only conceivable purpose of which could be to bomb Indian cities) and a sizable number of armored personnel carriers which could only be used on the flat plains of the Indian Punjab.

Our old rationales, first that U.S. arms to Pakistan were required to block a most unlikely Soviet push into the Middle East and later that U.S. military assistance to Pakistan was required to enable us to retain our Peshawar military base, no longer made sense. Consequently, a new rationale to fit the situation was produced, i.e., "we must provide arms to Pakistan because both the Soviets and Chinese are doing it."

Whose interests are served by such decisions? Certainly not the interests of the American people or the people in South Asia, or the cause of world peace, or the welfare of the Pakistanis who are more in need of tractors than of tanks. A few military leaders in Pakistan, perhaps, and the American firms that manufacture the equipment. but that is all.

In the 1930's, Sir Basil Zarahoff, chief arms salesman for the British firm of Vickers, was described as "the merchant of death." Now the "merchants of death" are governments, and death has become nationalized. I believe that the United States Government alone sells something in the neighborhood of $1 billion worth of arms to foreign governments each year. Pentagon-sponsored arms salesmen moving from country to country, peddling military equipment in these dangerous times, present, in my opinion, a sorry spectacle.

The need in Asia, in Africa and in Latin America too is not for more machine guns and status symbol jet bombers, but for more food, for population control, for industrial growth, for irrigation and electric power.

The governments of both Pakistan and India desire a better life for their people. Our efforts ought to go toward helping each of them to achieve this. If the money we have spent in the last 17 years under-writing the Pakistan army, navy and air force, thereby sparking a South Asia arms race, had been spent to improve the lot of the people in both countries, the prospects for peace and for steadily improving living conditions in Southeast Asia would be dramatically improved.

Mr. Chairman, this concludes my formal statement—I would be happy to answer any questions you may have or pursue any matter you see fit.

Chairman PROXMIRE. I want to apologize for Mr. Conable and Senator Symington, they both had 11 o'clock engagements. They did want to hear you and they both indicated their pleasure at hearing your remarks.

I think you have done so many helpful things in this statement, one of them of course is to add a new dimension by asking us to look at this military assistance from the standpoint of those who receive it.

Mr. BOWLES. Right.

Chairman PROXMIRE. There is a tendency on our part to ignore that, and in many ways that is perhaps the most important action we can take. Obviously we provide this military assistance with the expectation and hope that it is going to be used for a purpose which we would support. If we don't consider thoroughly and carefully the viewpoint of those who receive it, obviously, we are going to be disappointed many times, it is going to be used for a frustrating purpose.

I would like to start off, I have a whole series of questions to ask you. You refer in your prepared statement, to the shocking fact that the equipment that was given to the Pakistanis, the Paks, couldn't be used for the purpose which most Americans would assume that it was designed for and that is to prevent aggression from China. It was ideally designed apparently to be used against India.

What method is there to reconcile the kind of weapons we send to other countries to meet our own objectives? Is there any review in this way? Do we simply give a country whatever weapons they may request without reconciling the request with our fundamental foreign policy objectives?

Mr. BOWLES. What I think happened there is this: The President decided, this was back in 1954, he was going to go ahead with a program. The State Department argued against it a bit, but we felt right after Korea everybody was about to attack us and we wanted to have friends so there was little scrutiny. The Pentagon was simply told, "Please provide some equipment," and that was the end of it. Nobody sat down, as far as I know, to think through what kind of equipment it should be, they merely asked Pakistan "What do you want?" And the Pakistanis said, "We would like tanks; we would like motorized artillery, we would like all kind of mechanized equipment and we would like jet planes," F–86's, in that case, F–104's later. So without further question we provided these things.

Chairman PROXMIRE. It is appalling to me that in a program that costs obviously hundreds of millions of dollars there is no method established for determining what kind of equipment or what kind of purpose the equipment will serve. It is just incredible.

Do we still follow that kind of policy, do you think, in many circumstances on the basis of what you can see and observe?

Mr. BOWLES. We stumble along in the same sort of way.

Chairman PROXMIRE. We still have no office or no group or no person in charge of determining whether or not the equipment that we give will serve the foreign policy objectives of our country?

Mr. BOWLES. I don't think we have. I think you can help provide it.

I think your committee can bring this point out hard enough so these mistakes will not be made again

The North Indian plain is very flat, and the Pakistanis had armored divisions which they thought could reach Delhi and, as far as I know, we never questioned this. But if somebody like yourself, or somebody in the State Department had asked them, "What kind of weapons are you going to use and why?" things might have been different. How can you tell an Indian this equipment was meant to hit China or Russia when obviously it could never get anywhere near China and Russia?

Chairman PROXMIRE. Exactly. I recall, and this was debated on the floor of the Senate, it was almost a matter of grim humor involved in the fact that expensive as it was that American equipment was being used on both sides. That we had provided some American equipment in India; we provided a great deal to Pakistan and it was a war that was being supplied by America on both sides. I guess it is not the first time it has happened but it would seem to me this is so fundamental, so simple, that it should be one of the first principles those who provide military assistance to foreign countries would grasp. Not only should we say, as you and other Ambassadors said in India, "it is not going to be used against India," we should certainly see that is not possible not only by assurances, but we should see that the weaponry is of a nature that would not be used against them and, as you point out so devastatingly in your prepared statement, the only way this equipment could be used was not against China because of the geographical situation but against India.

Mr. BOWLES. The Indians saw that.

Chairman PROXMIRE. It is a very compelling and persuasive point you mentioned.

Mr. BOWLES. A few months ago, the same old thing happened—we provided B–57's to Pakistan. Who are they going to hit? India. They could not be aimed at anybody else. They can't reach inside of China or Russia, and, moreover, the Chinese are getting along with Pakistan. But we still gave them bombers and one more squadron of F–104's. You can justify F–104's, they are a short-range bomber, so you can call that defensive; but a B–57?

During the Pakistan-Indian conflict there were two Indian armored divisions, armed solely with weapons for use in the mountains against China which were brought up in the Punjab, a front backup. But they were never actually engaged; they were reserve divisions. They were the only Indian forces near the battle that had American equipment. The whole Pakistan army, however, was equipped with our weapons. The Indians captured a hundred Patton tanks intact and knocked out about 200 or 300 more, and they offered me as a gift the hundred Patton tanks. "This is a gift to America," they said, "you use them in Southeast Asia." I knew the reverberations this would cause here in Washington, "Please, no jokes," I told them, "just forget this."

"We can't use these tanks," they said. "We will give them back to you." Another wry proposal was to have a tank in every town as a memorial. Now, obviously, the question was not asked hard enough, if it was asked at all, why did Pakistan pick this kind of weapon?

Chairman PROXMIRE. You mentioned the misuse of military aid to upset regional power balances. While you were Under Secretary of State or Ambassador to India, was there an office or a group of people in the Department of State who were responsible for periodically reviewing the aid program in order to reconcile assistance given to countries within a region so that the power balances would not be upset? Was there an office which evaluated the impact of military aid on the recipient countries?

Mr. BOWLES. Several of us were very concerned about it. I have been concerned about it for a number of years. As a matter of fact, as a member of the House of Representatives in 1959, I proposed an amendment to the foreign aid bill, that we should not give any arms to any country which would upset the regional power balance. The President would make a finding that this would not upset the regional power balance and only then could he give equipment.

It passed the House. I am sorry to say it failed in the Senate in committee and was knocked out. This was my effort to get at this problem you mention.

Chairman PROXMIRE. That would certainly be completely an effective step if it could work, but as you say it didn't pass.

What I am asking though is whether it wouldn't be wise to set up at least a staff, a small staff, of people whose responsibility it would be to determine what effect our military assistance program may have on the power balance, call this to the attention of the Secretary of State, the President, and the Congress so that it would be well known. Then they could go ahead, and upset the power balance if they wanted to but they would be aware of the consequences.

Mr. BOWLES. There is also the domestic power balances to be concerned about. In Latin America we give a lot of military aid for internal security and that sort of thing. Who uses that? The police, many of whom are used to support rightwing governments. We tend to side with the police against basic changes required by the people; we become identified with this repression and it does not make us very popular with the people. Unless we are very careful security assistance goes to very illiberal forces, and I think in Latin America this is going to cause us some very serious trouble.

We have not tackled head on the problem of the distribution of wealth. A few wealthy people at the top are getting an awful lot of our help and a great mass of the poor people at the bottom are getting very little. I would say it is a very revolutionary situation. I would not doubt in the next five or ten years you will find revolutions all over South America, and we are tied in with it.

Chairman PROXMIRE. You refer to the misconceptions on which our foreign policy has been based. We heard testimony earlier to the effect that our total Asian policy has been based on a misconception about the nature of the threat from Communist China, armed aggression from Communist China. The point was made that whereas we have regarded Communist China as an external threat to the other nations of Asia and have, therefore, assisted those countries in creating military forces capable of repelling external aggression and invasion from China, this is not the principal danger, as you have stated. One of the examples to illustrate this point is Taiwan, a

country which Communist China is incapable of invading; it is a hundred miles away. They can't even invade Quemoy and Matsu which are only two miles away, and they don't have an effective navy and if they tried to assemble a fleet, as one witness testified, it would take 45 days in which we would have time to frustrate any such action.

Would you comment on this matter and reconcile this view, if you can, with the border fight a few years ago between India and China?

Mr. BOWLES. Taiwan has a pretty good internal national program. There has been land reform, there is a limitation of 10 acres for every family and the people own their own farms. Once you own land, you feel more secure and you have more of a stake in the future. It is, obviously, still an authoritarian state, but there is still a chance there for the little farmer, and also local industry has grown up. A good economic job has been done there.

Chairman PROXMIRE. You feel that this is the essence of the reason for the stability of Taiwan, they have a stable economic situation, they have landholding which is sufficiently dispersed so that people feel they have a stake in their country so that the prospects of subversion are greatly reduced by this and this is perhaps a more important fact in the stability and independence of Taiwan from Mainland China than any military force that we might give them to buttress——

Mr. BOWLES. I think this is one situation we handled pretty well. Another is Japan. Douglas McArthur may be remembered not for his military ability, which not being a military man I cannot judge, (though I still have my doubts about the Yalu River) but for his ability to see the land problem in Japan clearly. He set 7 acres of land as a limitation for every family, and 94 percent of the families in Japan got the land. The average farm was 3 acres, and they now raise more wheat per acre than we do, and the people in Japan have a sense of belonging and involvement in the future of their country. They are excited about it, and more jobs open up in the nearby towns. The program is similar in South Korea—a good job. There again, you have a 10-acre limitation on land, 7 in Japan, 10 acres in Taiwan.

The sad thing is we did the right things in Japan, Taiwan, and in South Korea, but we did not do the right thing in South Vietnam. If we had, I don't think we would ever had this problem. But the trouble is it usually takes a disaster to teach the lessons. I argued for land reform hard while in the State Department and India and I was told:

Well, first of all, it is a great idea, you are absolutely right, but now is not the time to do it. There is a lot of fighting going on, and as soon as the enemy is defeated, then we will go to work and help.

I said, "You will never defeat the enemy on the battlefield unless you first defeat them in the rice paddies." Then they said, "You could not enforce land reform." I said, "This is like saying Abraham Lincoln could not enforce the Emancipation Proclamation. It was not a law, but it was a clear statement of objective which gave a rationale to his actions.

If we had come through with a big land reform program, 15 acres per family in South Vietnam, I doubt the Vietcong would ever have got hold of the country. We would have had another achievement to add to that of Japan, South Korea, and Taiwan.

Chairman PROXMIRE. Let me ask an alternative to the military assistance program, vigorous military assistance program, for the containment of China, is for the United States to display new leadership in establishing peaceful relations with China. Not minimizing the difficulties in this area, and we know they are very considerable, this country still must someday take steps in that direction. We had hearings before this committee that I thought were very helpful, suggested by Senator Javits on the economy of China. This committee had some of the outstanding scholars in the world make a study of the Chinese economy. They came up after about a year of study, and considerable hearings, with some recommendations for increasing trade and for other ways of approaching China.

In your opinion, what is this country going to have to do in order to establish peaceful relations with China? Recognizing, as I say, we are a long way from it and we can only do what we can do, where there has to be some reciprocity on their part.

Mr. BOWLES. Well, I think we would agree completely on that. It is late. It should have been done long ago. We should have started long ago, for instance on a "two-China" policy, we ought to call it a two-nation policy, that is to support Mainland China's bid for a seat in the U.N., but also to insist that Taiwan have a seat. This, of course, requires Taiwan to give up its claim to repreesnt the people of the mainland. We could have gotten this ugly business of blocking Mainland China from the U.N. off our back. We look ridiculous; we are going to lose the next vote or the vote after that and go out with our tail between our legs. I urged such a policy 10 years ago and caught hell from another committee that I was "aiding and abetting the Communists." We have to decide Taiwan is a nation and should be respected as such and so should Mainland China. I would go so far as to say, recognize both Chinas, both Koreas, both Germany's, and Taiwan.

Chairman PROXMIRE. It is a big politcial step, but I think you may be right. It is hard for any administration to do this, whether it is the Nixon or any other administration to do this soon. I wonder if we can take steps that are quite short of that that would create a situation that would make it more possible. We know we have made some effort, President Nixon has made some commendable effort, toward trying to encourage exchange of students and toward permitting scholars and others to visit in China and, of course, he has been met, as all Presidents have been, we were told, with opposition by the Chinese government.

Do you think there are things that we can do more imaginatively and aggressively on this level of trade, exchange of people?

Mr. BOWLES. I do. We have to do the small things; I doubt if any of them would be accepted by China right now, but you keep pushing them, offering them for the advantage of China, and sooner or later they will be picked up—trade particularly. They want to trade with Canada and Australia, and maybe we can find some ways that we

could trade. In 1961, for example, I suggested to President Kennedy that we offer them 4 or 5 million tons of food at regular food prices. President Kennedy agreed to do this and I asked, "Would you then offer 10 or 12 million tons of wheat?" (they had had two bad crops then) "if the Chinese would agree not to invade or aggress against any neighbor? They can *claim* all of Taiwan but just agree not to be an aggressor. We could offer the wheat for local currency or for free," and President Kennedy said, "I would agree to it." I said, "How do I present this? Do I say it is your idea or my idea, whose idea?" He said, "It is your idea, but I know about it."

So I was supposed to go over and see U Nu, the Prime Minister of Burma. I knew U Nu quite well and would try to get him to act as an intermediary in negotiating with the Chinese. But he was overthrown and put in jail the day before I got there. At that time this was enough to kill that plan, although other means of approaching the Chinese could have been found. Now, I think trade should be discussed in the Warsaw negotiations. We could find out what they want. If they want wheat from Canada and Australia, they may want it from us; there are plenty of things we can do.

Chairman PROXMIRE. One of the interesting speculations on this was the trade between China and Japan which was developing and has a more pronounced effect on China than on Japan because whereas Japan is a principal trading partner of China we were told then, China is only a small trading partner with Japan because Japan is much bigger trader than China is. The same way if we traded with China we could have a much more profound effect on China because what we sell to China would be far more significant for her economy than what she would sell to us, and we are an open society, and she is a closed society, so for these reasons, it would seem to me, we would have far more to gain, the influence would be far greater with respect to the Chinese attitude than with respect to our own or any other effect that it might have on this country.

Mr. BOWLES. I think that is absolutely true, and I think the mood domestically is such that we can accept this. Ten years ago if someone argued for this it would not be accepted. It was a far-out idea. Before the Foreign Relations Committee of the Senate in 1961, I was probed for 2 hours on this subject, "Do you believe in two Chinas?" I was asked accusingly. Now, it is politically safe to say these things. But one thing we ought not to do is play China against Russia. It would be a bad mistake. A Russia-Chinese conflict would be a disaster for the world. A war between China and Russia would not be in our interests and therefore, we shouldn't try to scheme to cause trouble between the two. We are hoping for a more rational relationship. It is coming slower than we wish, but it has to come sooner or later.

Chairman PROXMIRE. I am very intrigued with the arrangement you described between the United States and France. Can you tell us which individuals negotiated this bargain whereby $2 billion was given to France to underwrite her colonial adventure in Indochina in exchange for the 12 divisions promised to NATO but which were never delivered? Was the deal made public when it was struck? As I recall it wasn't debated in Congress.

Mr. BOWLES. I think in the month of May 1950, Dean Acheson made a statement on this. This was right after Korea and we were very jittery.

Chairman PROXMIRE. Who made the statement again?

Mr. BOWLES. Dean Acheson. He also referred to the French as having blackmailed us on it, which I think is an apt word. We never got the 12 divisions.

Chairman PROXMIRE. How did they blackmail us into it?

Mr. BOWLES. Well, they must have said, "If you don't come through with the money we won't come through with the divisions." Actually the divisions all ended up in Algeria, never got to France.

Chairman PROXMIRE. Do you know if the funds given to France were authorized and appropriated by Congress in the form of military assistance?

Mr. BOWLES. I don't, and I don't underestimate the power and capacity of the Pentagon to hide these things either.

Chairman PROXMIRE. We have discovered that in the last few days.

Mr. BOWLES. You can find out exactly what happened. Two and a half billion dollars was put into "French Indochina" starting in about 1950.

Chairman PROXMIRE. Over what period was this $2½ billion expended?

Mr. BOWLES. Four years, 1950 to 1954. It was a sum greater, I believe, than the amount of money we gave the Marshall Plan in France. While I was there, I watched the ships being unloaded at the docks, an average of one 10,000-ton freighter a day with American machineguns, bazookas—20 years ago—supplying that equipment to the French in an Asian country to try to keep them from becoming independent. It was a hopeless effort then and we are still doing the same thing. We are doing it more reluctantly, but we still say we are going to win a victory. Of course, we are not going to.

Chairman PROXMIRE. You spoke about the debate in the State Department and the White House that followed the Taylor-Rostow mission and the recommendation that we step up our involvement in Vietnam. Do you recall whether the discussions ever included or took into account the cost of the various policies that were under consideration?

Mr. BOWLES. No.

Chairman PROXMIRE. Did anyone ever mention the dollar outlays involved in stepping up the aid to Vietnam?

Mr. BOWLES. Never heard it mentioned. It must have been mentioned, but I didn't hear it. The whole thing was an argument between the Pentagon and State Department, whether it was at bottom a military or political question. The State Department said it was a political problem; I argued it was a political problem. When Walt Rostow and General Taylor, whom I greatly admired, were sent to Vietnam, the State Department should also have had somebody there. It was a military-minded mission, and they went there to find military answers. But it was a political problem.

Chairman PROXMIRE. There were enormous costs and never discussed or considered, it never was a factor?

Mr. BOWLES. No.

Chairman PROXMIRE. Although it is true that Congress went along with the Gulf of Tonkin resolution and approved the funds that were requested for Vietnam, isn't it true that Congress and the public were presented with an all or nothing proposition? The policy of neutralization that you proposed was not part of the debate, so far as I can recall. Did the executive branch ever try to explain your proposal to the Congress as an alternative to the military solution?

Mr. BOWLES. The opinion in the State Department was it was a good idea, but the time was not ripe for it yet. "Let's wait until the dust settles" was a favorite phrase in Washington at the time. Nobody disagreed with my idea very much, but nobody seemed quite ready for it.

In 1962, I made a trip to Asia. On my return I again suggested that an effort be made to neutralize the area, and it was finally suggested I go out there as an Emissary to discuss the concept with Thailand, the Philippines, and Taiwan. Cables were prepared in the State Department setting the date I was to arrive in each country to find out how much support there was for this idea, but at the last moment the trip was blocked by the Robertson Far East group. I was told it was a wonderful idea, but the wrong moment. I should wait a couple of months when it was a better time.

I once wrote a speech comparing our efforts in Vietnam with previous situations. Woodrow Wilson's 14 points gave a purpose to World War I. The Germans knew they had a future, and so they quit fighting. In World War II, however, there were no 14 points; we demanded unconditional surrender. It gave Goebels an argument that "You Germans must fight to the death because the death is all you will get anyway. If you are defeated, you will be obliterated," so they fought far beyond the time they might have stopped. The war could have ended after Stalingrad, if the Germans knew what the future would be. Suppose you told the Germans after Stalingrad, "We are going to rebuild Europe, rebuild your cities, rebuild your commerce, develop a closer relationship between us—this is what is going to happen after defeat." The Germans would have laid down their arms long before they did. They wouldn't have fought to the end.

In Korea, when the Inchon landings took place, a brilliant operation, we had no policy. There were three things we could do. We could stop at the 38th parallel, which I think would have been wise, a victory for the U.N. We could have gone to the "waist" of Korea, where it is only 80 miles wide, or we could have gone to Yalu River. We didn't choose, there never was any decision made. You will find the State Department still arguing about it, but so far as I could find out, McArthur was given carte blanche to do what he wanted. So a great political decision was left to the General on the ground.

I said in my speech the same thing happened in Vietnam. We never spelled out to the American people what kind of Asia we wanted to see. There was no set of objectives. I called for objectives in my speech. I hoped the President would give the speech spelling out why we were in Vietnam, why we were in Southeast Asia, a speech similar to that Wilson gave, the speech that was not given in the cases of World War II, and the Korean War.

As long ago as 1942, I urged F. D. R. to clarify our purposes in Asia. A letter I wrote long ago to him asked "What are we fighting for? Are we fighting against colonialism? French, Japanese, Dutch, British? Is the purpose of this war to clear the colonists out of Asia? If you say that you will have all of Asia with you, you will have a crusade, a great crusade, for a free Asia." F. D. R. was very excited about this. He once suggested it to Churchill, knowing what Churchill would say, i.e., he had not become Prime Minister to preside over the liquidation of the British Empire. I felt that we should have spelled this out ourselves, our purposes, in Southeast Asia.

Chairman PROXMIRE. There was a beginning attempt in that direction by Johnson's speech at Johns Hopkins as I recall.

Mr. BOWLES. That is right. It was the only really effective thing that was done. I don't know whether my own venture in the summer of 1962 would have succeeded or not. I was told October would be a good time to consider it again, but in October came the Cuban missile crisis and, of course, it never occurred.

Chairman PROXMIRE. Before Mr. Conable left he asked if I would ask you two questions. One, the significance in your view of the Russian buildup in the Indian Ocean, whether that constitutes a threat to India, whether it should constitute a requirement for reaction on our part?

Mr. BOWLES. Well, I think that to say they are filling the vacuum in the Indian Ocean is an overstatement of fact. The Indian Ocean is almost as big as the Pacific, and five ships would get lost there pretty fast. Five ships wouldn't control the Pacific, or the Indian Ocean either.

Chairman PROXMIRE. Are you telling me the buildup of the Russians in the Indian Ocean is confined to five ships?

Mr. BOWLES. That is what I understand. Your information is better than mine. They probably have some supply ships along with them.

Chairman PROXMIRE. Aren't there more submarines than this involved?

Mr. BOWLES. I don't know. But, whatever it is, I doubt it is very great. There are probably some Russian ships there, but also probably some Americans. I think we should realize that when Russia and China were together, they appeared as a great mass, a great red bloc on the map. Every Asian quivered when they thought of this great Communist bloc stretching all the way from the Bay of Japan to Germany might turn on them, so they all came to us. They wanted assurances we would defend them against this great mass. When Russia and China broke up the Asians had two choices, they could choose Russia or the United States to ward off the threat of Chinese aggression. Most of them by habit turned to us. But more and more they will turn to Russia. As we pull out, and as we show our distress over Vietnam, cut off our aid programs, lower economic assistance, the Russians will be given a big opportunity. I wouldn't get excited.

Chairman PROXMIRE. What you are saying is pull out our military but keep our economic aid?

Mr. BOWLES. By all means.

Chairman PROXMIRE. Make it more vigorous?

Mr. BOWLES. Yes.

Chairman PROXMIRE. What can we do to bring Japan into the act? You suggested she should be brought into it but it is a question of how do you do it?

Mr. BOWLES. We can't do it. But we can create an atmosphere in which people can think this way. More and more Japanese are going to India and more and more Indians go to Japan. The two of them do not understand each other very well, but they are beginning to. In New Delhi you will see hundreds of Japanese businessmen.

Chairman PROXMIRE. I would think we would be able to bring Japan into economic, not military, assistance. She obviously doesn't have anything like the military capacity in weapons that we have, that is by design, but they do have huge economic power and——

Mr. BOWLES. The Japanese have been self-centered, but they are broadening out. They realize they have big responsibilities in Asia, and if they will take more leadership, and if they develop more ties with India, Australia, and Indonesia, some things will be very different there.

Another thing that is forgotten is the major source of weapons for India are weapons they build for themselves. About 50 percent of the equipment in the Indian Army is made in India. They make a very good tank, machine gun, rifles, bombs, bazookas, and they are even making planes. We should encourage them to build up a military and economic base of their own so that in time of crisis neither Russia nor the United States can control them. The Indians want this. If we went to India and said, "We will help you build an airplane base, which you can use either for domestic airlines or for military purposes, they would be overjoyed."

They are worried about the fact that the spare parts come from Russia, and the ammunition often comes from Russia. They wonder, "How will the Russians behave? They seem to be flirting with the Pakistanis like the Americans. What does this mean to us?" They are worried about it but they are in position where they can't move very well.

Chairman PROXMIRE. What we have seen during these hearings, Mr. Bowles, is the gradual shift of military aid funding responsibility from the State Department to the Defense Department, as well as the fragmentation of aid programs among various bureaus and agencies in the Government. I think we have included in the military aid program now the State Department, the Army, Navy and Air Force separately because these are service-funded not by the Defense Department but by each service separately. We also have the Department of Agriculture with the Food for Peace program going into military assistance.

Do you believe the shift of program responsibility from State to the Pentagon has contributed to the militarization of our foreign policy?

Mr. BOWLES. I do. Very dangerously. The State Department must find some way to have civilian people in the State Department making these policies or helping the President——

Chairman PROXMIRE. We have some situations in which the Defense Department was more reluctant to provide military weapons than the State Department was, you have some instances where Ambassadors with military-minded governments in South America and

elsewhere, some Gung Ho for military aid, with the Defense Department saying this doesn't make any military sense. Are you familiar with that?

Mr. BOWLES. I am. A lot of people in the State Department want to feel tough, to demonstrate they are not a striped pants bunch but can come to grips with military problems and they often take that position. So do many liberals, I may say. They are tired of being called wooly minded, and they come down to Washington and try to outmilitarize the military. I have seen that happen to some of my friends in Washington, names not mentioned.

Chairman PROXMIRE. But you still feel that it is a good idea to bring this program together and it should be brought together in your view in the State Department?

Mr. BOWLES. The State Department should be able to do it. The State Department is now undertaking an effort to reexamine their whole operation, and they themselves say, "We want more responsibility. We have to gear ourselves to have it. We have to build a better department to have it." I spent 2 years there and I learned the hard way how difficult it is to change things. People's habits of mind are very deep. Also, take the young Foreign Service Officer who is, say 37, 38, a brilliant person, he knows when he gets to around 50 he will be up for an ambassadorship. If he gets mixed up with controversial issues before that it is going to hurt him. There may be a new administration which will be looking back to see who did what, who said what, and it may not be very good for him to have been on the wrong side. So he becomes very skillful in saying two different things at the same time. This is natural. How you get rid of that I don't know. But there are many exceptions. Some of the ablest men in the State Department do not get ahead for the simple reason they do speak out. They challenge people.

I had a remarkable middle-level person on my staff, for example. He was tough-minded, he disagreed with me and with anybody; he was brilliant, bright and often right. He is not going very far, and I know this is true. The whole system of things holds such people back.

When I was Under Secretary my answer was to bring in outside people, semiprofessionals, put them in expendable positions. If the people are expendable, they move in and take their chances; they say what they think and if things go wrong they go back to Princeton or a law firm or wherever they came from and forget it.

Chairman PROXMIRE. Do you feel along with concentrating the program in the State Department it should be presented in one bill, a line item so that we can know exactly what it is and how much it is?

Mr. BOWLES. Right.

Chairman PROXMIRE. Do you feel also we can declassify the country-by-country distribution, which I feel is very important, so that we can debate it and discuss it and challenge it?

Mr. BOWLES. You have to.

Chairman PROXMIRE. And understand it, then we can convert—there are a series of questions but I would like to have you comment on the whole package—as much of this military assistance program to a sales program as soon as possible because then you have some incentive for efficiency on the part of the country that buys it. It is

not just given to them, something they more or less have to take, but a program which they have to pay for and, therefore, they won't take it unless they really need it.

Mr. BOWLES. I would wholly agree with that. I would get rid of the grant program as quickly as you can and go to sales. But put a proper price on this stuff.

Chairman PROXMIRE. Do you know any reason why the amount of military assistance should be classified on a country-by-country basis as it sometimes has been?

Mr. BOWLES. Well, you will have arguments but——

Chairman PROXMIRE. Your experience in the State Department has been that it would be worth the price of embarrassment?

Mr. BOWLES. Yes. A great deal of credit goes to Bill Macomber of the State Department who as Under Secretary for administration has tackled this task that many people tackled before, reorganizing the State Department to make it a better instrument. I tried 10 years ago and failed and the program they now have going goes beyond what I have tried to do. It is very good. There are going to be all kinds of efforts to block this. When they come to Congress here for legislation, you should, in my opinion, give them every encouragement. You have got to find some way of getting the not-too-good Foreign Service Officers in their fifties out of the way of the younger people so that the younger people can get ahead. Now, there are a load of FSO–1's that are just bearing down on the whole structure. Ten years ago there was only one officer in the State Department under 50 who was a career Minister. He was 49. I once told Jack Kennedy, I said, "Do you realize that if you were in the State Department rather than President at your age, there is nothing you could do to go beyond an FSO–3 solely because you are only 42 years old?" How can you run a business that way, or Congress, or anything else? [Laughter.]

Chairman PROXMIRE. You notice the laughter when you said Congress?

Mr. BOWLES. Yes.

Chairman PROXMIRE. There are hearings being held today on the seniority system. I must say the longer we stay here the more attractive it becomes. [Laughter.]

Mr. BOWLES. Macomber has done a good job over there and he is trying very hard against, I am sure, very great odds. I am sure the same people who undercut me when I was trying to do it are undercutting him, but he is working at it. More power to him.

Chairman PROXMIRE. How about the problem of the kind of expert military advice that you can get on military assistance and military competence? One of the reasons, I presume, why they justified splitting off the military assistance program from the State Department and giving it to the military services is because the military is supposed to understand the military because that is their job and they are supposed to understand military problems. This is, in part, a military problem and the feeling is the Defense Department should run it. If this program is given to the State Department do you think it will be possible to develop a basis of consultation and advice and so forth with the Defense Department so you can

run it as a sensible military operation as well as achieving our foreign policy objectives?

Mr. BOWLES. I say there is no place for it to go but up and, therefore, I would certainly take a chance on that side. But, you see, in the State Department the political officers giving economic and foreign aid assistance originally were dealing with things they didn't understand very well. For instance, it takes a developmental economist—and we haven't got enough good ones in this country as yet—to understand how to spend money in developing countries. What do you do with it? How do you get stability? The more growth you get, the more instability. It is not a simple question. The people in the State Department had no economic assistance experience. They were political. They would say "This man will take over the Government 5 years from now and he wants a schoolhouse built, so let's build it," and a lot of similar things. In a sense all aid is political, but I think the State Department people were not qualified to make developmental decisions; they didn't think in those terms. I think they will in the future.

Chairman PROXMIRE. What disturbs me very much about the examples you have given us this morning are the implications they have for the so-called Nixon doctrine. Could it be the beginning of Vietnam was like the Nixon doctrine; that is, rather than getting involved in sending troops we sent arms and equipment and other types of aid and President Nixon indicated when he spoke in Guam we will try to concentrate, as far as I understand it, on sending arms rather than troops but then you need to send technical advisers along to show how the complicated equipment should be used and to exercise some control over its use. This is supposed to give the United States a lower profile. There is nothing new about this policy, as you have shown. Do you see any resemblance to what happened in Vietnam and the Nixon doctrine? Can you tell us your views about this new policy?

Mr. BOWLES. Will you tell me what the Nixon doctrine is? I am never quite sure I understand what it means. But if it means what I think it does, I would be very careful about putting our military aid into delicate political situations. Aid shouldn't be given for internal political reasons. But it has been done for that reason and may be increasingly in the future if we are not careful about what the Nixon doctrine implies.

Our aid should be economic. If you go out to try to build up an economy with American aid, you have to be willing not to be liked by the people. For instance, Charles de Gaulle did not like America; he was critical about us. But do we want to go back to 1946. when France almost fell apart? Of course, we don't. We will take a solid France with de Gaulle, and cheerfully.

If India succeeds economically, it may well turn out that it doesn't like us someday. But so what? We can live through that. We have to get over this feeling that people should like us, agree with us, and follow our lead. My own feeling, as I said before, is we don't know enough about these things. I am sure the growth in India's economy today in the rural area is very exciting. When I first went there in 1951, only 50 percent of the people thought they could live a better life. Today 95 percent not only think so, but they are determined to

achieve it. So if it doesn't come fast enough, they are upset. Far from being lethargic, they are now saying, "How can we change?"

Chairman PROXMIRE. Of course, it is inspiring and exciting but you also indicated it is dangerous.

Mr. BOWLES. Very dangerous.

Chairman PROXMIRE. If only 5 percent feel they can have a better life the prospects of subversion are far less than if 95 percent feel these expectations. We have done that in civil rights. We have a more unstable situation than we had 5 years ago as we see in the riots in the cities.

Mr. BOWLES. This is a question of whether democracy is sophisticated enough. You cannot stop the process. You cannot stop it if you wanted to.

Chairman PROXMIRE. I am concerned about what appears to be an unrealistic relationship between the means and the objectives of the Nixon doctrine. In Asia, for example, we are told and I quote from President Nixon's statement, "We will maintain our interests in Asia and the commitments that flow from them * * *." In other words, our objective remains the containment of China. Notwithstanding that, this may well be the wrong objective; what are the means by which it will be achieved when the Nixon doctrine also promises to bring the troops back home? Is it believed that we can rely on airpower or tactical nuclear weapons, or simply increasing arms shipments?

Is this realistic?

Mr. BOWLES. I don't think so. The air power particularly shocks me. If you bomb from a plane at 30,000 or 50,000 feet, you don't see the remains of a baby broken up by bombs. We are comfortably relieved from that spectacle. I think the Nixon doctrine is a dangerous doctrine if it proposes to stabilize Asia with airpower. You can't do it. It is appealing because it doesn't cost so much. It doesn't cost us these grim views we get when we see the results of war on a battlefield. I think this theory that we can "hold" or "contain" China with airpower is just nonsense and many Air Force people, I know, agree. China has a lot of food problems, money problems, problems of trying to build a big atomic energy system, which costs vast sums of money. They have had some setbacks. I wouldn't expect a rampaging China to go roaring over Asia.

Chairman PROXMIRE. In our committee hearings and in our study of the Chinese economy, we found that China's production, her total production, her GNP was one-twelfth of what ours is. When you consider the immense demands for feeding, sheltering, and clothing their people this just does not leave the margin for military adventure or for really even foreign subversion that had been indicated to us. It is not really the kind of sleeping giant that we feared. They have a whale of a lot of people, but that is as much of a problem as it is an advantage, perhaps more.

Mr. BOWLES. I would go further and say something that a lot of people would disagree with: if I would be forced to bet on India or China I would bet on India. India cannot be demolished by one or two mistakes, China can. India has resiliency; 50 percent of India is cultivated, 14 percent of China is cultivated. If you divide the land in China into equal sections the average family would get 2½

acres, in India they would get 6. And China has got a lot of problems. China has got Russia sitting on her flank. She is unhappy about that.

Now, I think the Indian Army and Air Force are perfectly capable of holding a very long border against China with no particular help from the United States. They have got a 1,100,000-man army—I am sorry to see that it needs such a big army, but they are all volunteers, 12-year enlistments. They are defending their own country and not trying to please us. I think the Chinese will have a very hard time getting into the Bay of Bengal now without interference from us at all, and I think this theory we have to help bolster people is cockeyed, they do a good job of bolstering themselves.

Chairman PROXMIRE. Mr. Bowles, I want to thank you very, very much for an excellent job. Your statement was, as I said, brilliant and I think you have been most responsive and helpful to this committee.

The subcommittee will stand in recess, subject to the call of the Chair. We are determined to hear from the State Department but it looks as if it will be several days, perhaps a week or two, before we can. Thank you very much.

Mr. BOWLES. Good luck. I wish you good luck.

(Whereupon, at 11:50 a.m., the subcommittee recessed, subject to the call of the Chair.)

ECONOMIC ISSUES IN MILITARY ASSISTANCE

TUESDAY, FEBRUARY 2, 1971

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to call, at 9:35 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representatives Conable and Brown.

Also Present: John R. Stark, executive director; Richard F. Kaufman, economist; George D. Krumbhaar, Walter B. Laessig, and Leslie J. Barr, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

This morning we continue our hearings into the military foreign assistance program.

We have had some very interesting revelations in connection with the program. We had some difficulty determining how big it was. Nobody seemed to know. And we did determine that it was far bigger, seven or eight times bigger, than was reported in the budget.

Among the most shocking revelations was the disclosure that is shocking to me and to Senator Fulbright and to Townsend Hoopes who was in charge of the program to a considerable extent in the Johnson administration, that the food for peace funds generated by food for peace were mandated for military purposes, and were, of course, part of the program. And we had considerable discussion of that by various witnesses.

But we fortunately have this morning a man who can speak with more authority on this than anybody we have had so far. And few people in Government can speak with as much knowledge and understanding of the program as can Senator George McGovern. Senator McGovern was administrator of this program, I understand, in 1961 and until July of 1962.

Senator MCGOVERN. That is correct.

Chairman PROXMIRE. He has been known as an outstanding expert in foreign policy. I do not know anybody in the Senate whose judgment on foreign policy has been more clearly confirmed by historical developments. He is a man of great courage and understanding. He is a man who has also served on the Agriculture and Forestry Committee for a number of years, and knows the food for peace program

from both the executive branch standpoint and the legislative standpoint.

Senator McGovern, we are honored and happy to have you here. You may proceed in any way you wish.

STATEMENT OF HON. GEORGE McGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator McGOVERN. Thank you very much, Mr. Chairman, for your generous words about me personally. And let me commend you for opening up this subject that should be very carefully viewed by the Congress of the United States and by the country.

I am most grateful for your invitation to appear at these hearings.

I am convinced that a full and complete understanding of our foreign military assistance programs is necessary if Congress is to reach wise foreign policy judgments. The information you have extracted thus far illustrates that our access to such knowledge is inadequate at best.

I am especially concerned by the testimony you have received in regard to the food for peace program. As you know, I was privileged to serve as Director of that program for 18 months at the beginning of the Kennedy administration. I do want to point out, Mr. Chairman, that my function there, under an Executive order from the President, was to make a maximum effort, in his words, to narrow the gap between abundance here at home and near starvation abroad. In other words, my job was as an expediter to find out why we had surpluses accumulating here at home at a time when people were starving to death overseas.

The actual administration of the program remained in several departments of the Government, the Department of Agriculture, the Department of State, the Foreign Aid Agency. And it was administered whenever an agreement was proposed with a particular country through an interagency committee involving some 90 different departments of the Government. They would sit around in a room like this and pass judgment on the various aspects of each agreement that was made with a foreign country.

All agencies that had any relationship to the program sat in on these meetings, including the Department of Defense, the Department of the Treasury, the State Department, Agriculture, the Budget Bureau, Commerce, and everyone that had any interest in any part of the program.

The actual negotiation in the field would, of course, be carried on by the State Department. But before one of those agreements was signed off it had to be approved by this interagency group. So far as I know, that is still the procedure that is followed.

In any event, I retain the conviction that for all of our wealth, we have no greater international asset than our ability to produce unparalleled quantities of food, and to share that abundance and that ability with the two-thirds of the world's people who are threatened with hunger and malnutrition.

I have always thought that was the best and most effective form of foreign assistance that we can give. Closely related to that, of

course, is the matter of population control assistance, which is of equal if not greater importance. But the two are very closely related.

For all of our military and political concerns, the most critical fact of life on this planet in the remainder of this century will be the size of the gap between food and population. If we can close that gap we will have discovered an important key to peaceful development in countries now in turmoil. If we cannot, then all the weapons we can invent will not make this world a safe place in which to live.

Your earlier hearings, on January 4, focused on the use of Food for Peace counterpart funds for military purposes. These funds are generated through the concessional sales provisions of the law. That law has been on the books since 1954. It was renewed by title I of the 1966 Act. That title authorizes the sale of American agricultural commodities in exchange for foreign currencies. Title III of the 1966 Act provides that the funds realized through such sales are deposited to the credit of the United States, and that they can be used for certain specified purposes, among them to finance U.S. expenses in the recipient countries, including the cost of running an embassy, or to develop new markets for our farm commodities. In most of these agreements a certain portion is set aside to pay for promotional programs designed to increase the sale of United States farm commodities; or to promote economic development, which is frequently the largest share of the currencies that are set aside; to finance educational exchange programs, including the Fulbright programs; and then the part that you were interested in, to assist "in the common defense."

As compared to total military assistance costs of $204 billion in 1970, the amount traceable to food for peace programs is relatively small, about $108 million in Fiscal 1970. But this is not significant, since 1954, when the act first went on the books, a total of $1.6 billion of funds generated by Food for Peace has been used for military support, or to use the language of the law, "common defense" purposes.

Let me stress that that is not a new procedure. The same essential provisions were in the basic Food for Peace law, Public Law 480, when it was first adopted in 1954. In calendar year 1956, for example, some $187.8 million was used under the common defense provision.

Now, that does not suggest to me that the committee's concern is unjustified. On the contrary, I think we have the most compelling of reasons for making changes in the administration of these funds.

It is an open question whether foreign countries generated by food for peace should be used for military assistance at all. I think that is a question that ought to be considered, whether you should use one dime in a program that is called Food for Peace for military assistance.

In that connection, Mr. Chairman, as you know, there have been news stories over the weekend about a mysterious memorandum being circulated in the Pentagon or somewhere else in the Government, implying that it would be very embarrassing to me and to other Senators who have been critical of our military assistance program if it can be shown that back in 1961, when I was affiliated with this program, that we were using a portion of funds generated by food for peace for military assistance.

There is just one observation I want to make on that. I would like to think that around this Government we have a right to change our views slightly in ten years. I do not think there is anything written into the spirit or the letter of democracy that requires that a person think exactly the same in 1971 that he thought in 1961. People who hold to that view may be responsible for some of the difficulties that we are in today.

It can, in any case, be argued persuasively that the label food for peace funds is inaccurate, since the foreign currencies involved are earned through that program rather than allocated to it.

In the usual transaction we sell American foodstuffs to the recipient country and we take that country's currency in exchange, including in the transaction self-imposed limitations on our own right to use that currency. Without these restrictions we would presumably be free to use those funds for any purpose we saw fit in the country with which we were dealing. A good share of the reason for the limitations on the use of the funds is the fact that unrestricted use could severely damage the monetary system of the recipient country.

At the same time, however, I personally deplore even the slightest hint of a connection or the slightest confusion of approach between military assistance and food for peace. If that is an inevitable result of the law as it now stands, then the law ought to be changed, and we ought to limit all funds connected with this program to nonmilitary purposes.

In addition to an improved appearance, it seems likely that an amendment to that effect would also serve the committee's interests in achieving the efficient and sound administration of military assistance programs.

And that, of course, is why I want to commend the Chairman especially for these hearings to try to bring some degree of control over military assistance, some congressional accountability.

But there is a broader question involved here. And that is the ability of the Congress to identify and control the future military involvements of the United States. And I know that is a concern that the Chairman and members of this committee especially share.

If there is one lesson we have learned in Vietnam, it is that limited commitments have a way of growing. I do not think anyone ever intended when we first started offering limited assistance in Indochina that many years later we would be involved in the kind of massive warfare that is still raging in that part of the world. And if Congress is to have any meaningful role at all to play, I believe we must exercise continuing positive control over military assistance programs.

There are several billion dollars in foreign currencies presently on deposit to the credit of the United States as a consequence of past food for peace agreements.

Mr. Chairman, as you know, I was invited here only late yesterday, and I did not have time to look up those figures. But they are available, I am sure, either at the Department of Agriculture or the Department of State, because those funds accruing to the credit of the United States are not subject to the appropriations process, and they run to a considerable number of billion dollars. They are, in effect, beyond congressional control, and are only——

Chairman PROXMIRE. May I say, Senator McGovern, that the committee will request that information.

Senator MCGOVERN. It is a travesty that this committee or any other committee of the Congress should be forced to track down obscure entries in innocently named reports to learn what the executive branch is doing in this critical field.

Even more alarming is it that we have apparently authorized an enlarged military assistance program without considering it as such at all.

On the basis of these disclosures, I would like to suggest that the committee consider the merits of a consolidation and reenactment of all provisions in existing law which affect U.S. military assistance to other countries. Such legislation might include a requirement that the total amounts, the forms of assistance, and the identity of the recipient countries be reported to the Congress on an annual basis, and that continuing authorizations be considered as a unit by the Foreign Relations and Foreign Affairs Committees.

It should identify the Secretary of State as the single official responsible for the conduct of these assistance programs.

Now, I should say in all fairness, Mr. Chairman, that anyone who wants to read these annual reports on the food for peace program could have identified the money being set aside for military defense purposes. That is in the annual report country by country that we have had ever since 1954. I have a table here listing by years the amount set aside for defense purposes under these countries genrated by the program, and I will make that available to the committee.

Chairman PROXMIRE. Without objection that table will be printed in the record at this point.

Senator MCGOVERN. Thank you, Senator.

(The table referred to follows:)

Food for peace funds used for common defense purposes, sec. 104(c), Public Law 480

	Millions		*Millions*
1954	$13	1964	$175.1
1955	37.1	1965	37.9
1956	187.8	1966	175.4
1957	23.23	1967	110.7
1958	64.1	1968	85.6
1959	53.7	1969	137.8
1960	56.6	1970	151.3
1961	91.2		
1962	221.3	Total	1,626.6
1963	5.0		

Chairman PROXMIRE. The total was $1,626.6 million?

Senator MCGOVERN. That is correct. In 1961 it was $91.2 million, and in 1962 it was $221.3 million. In those 2 years, as I recall it, the total volume of the program under Food for Peace would have been about $3½ billion.

Chairman PROXMIRE. In other words, the following year it dropped only $5 million. That was by far the most dramatic shift.

Senator MCGOVERN. That is correct.

Chairman PROXMIRE. Was there a reason for that?

Senator MCGOVERN. I think it had to do, Mr. Chairman, with our relations with Taiwan and South Korea, primarily. I know those

were the two major recipients in 1961 and 1962. And there were cutbacks in those programs.

It also has to do with the time in which these agreements are negotiated. In some cases the use of the currency may have been negotiated in an agreement in a particular year, but it is a continuing benefit to that country. So that the actual figures on a year by year basis are not particularly significant.

There was an effort made, Mr. Chairman, in 1966, when we extended this program, to change the name of it to food for freedom. Now, the reason for that is that some of the people in the executive branch throught it ought to become more of a cold war tool, just very frankly an instrument of the free world against the Communist world, or whatever you call the rest of the world. And I was the one, as you may recall, who led the fight against changing the name of the program, because I have never thought that program to be essentially a cold war tool. I felt that its basic purpose was to feed hungry people.

The very first thing I did as director of the program in 1961, in the first 10 days I was there, was to try to persuade President Kennedy that we ought to include Mainland China in this program; that we ought not to base distinctions based on ideology, that hungry people ought to be fed even though they held an ideology different from ours, and that this was one part of our foreign assistance program which ought to be entirely humanitarian.

To return to my proposal I would like to suggest that we might well require that all commitments of U.S. resources to military assistance, including, in addition to dollar grants, such items as foreign currencies obtained through food for peace, concessional sales of military equipment, disposals of surplus property abroad, and extensions of credit for military purposes, that all of those be subject to the regular Congressional appropriation process.

I think that would give the Congress a second look at this program in addition to putting these things through the Foreign Relations Committee. Such action would be one way to fix in current practice the sharing of powers contemplated by the Constitution.

Finally, its result could help prevent the kind of deepening involvement that has led to such tragedy in Indochina.

Chairman PROXMIRE. Thank you very much, Senator McGovern.

I take it you would oppose at the present time, after the experience you have had, the use of counterpart funds generated by the food for peace program for military purposes?

Senator MCGOVERN. Yes; I think so, Mr. Chairman. I think it not only distorts the image of our Food for Peace program, it tends to make a political military tool out of it. But beyond that it results in the very thing that your commitee has pointed up here, the confusion as to what programs are really for. It just does not occur to either the public or members of the Congress that a program called food for peace has any bearing on military assistance. And I think that both in terms of what we are trying to do abroad—to strengthen the posture and the position of the United States with reference to the rest of the world—and also in terms of better understanding of our own people and the Congress of the United States of what these programs are, we should not have a program called food for peace

generating money to buy guns and armaments, even though this is a comparatively small part of the program limited to a very few countries.

Chairman PROXMIRE. I understand it is a very small part both of the total military assistance program and the Food for Peace program.

Senator MCGOVERN. Yes.

Chairman PROXMIRE. I think that Mr. Selden testified that it was some 9 or 10 percent of the food for peace program, perhaps less. At any rate it is a minor part. But that is another reason why it seemed to me to be much too high a price to pay in terms of credibility and in terms of the faith people have in the sincerity of government. You talk about the food for peace, and it goes for what purposes, it is just Orwellian, it just seems so ridiculous and contradictory.

And that is why I am inclined to introduce legislation which would just delete that part of the Food for Peace law, just change it.

Senator MCGOVERN. I think the Senator's point is well taken. And I would certainly support him in that effort.

Chairman PROXMIRE. We understand that since 1966 only Vietnam and Korea have used food for peace funds for military purposes. Can you explain why only two countries used the program in this way?

Senator MCGOVERN. Well, I suspect those were the priority countries as far as our Government was concerned. And it was the area where we felt that the military expenditures were especially important. In the other countries we tended to favor economic development. And I would further suspect that those other countries with which we had food agreements were more interested in economic development than they were in using these counterpart funds to purchase military equipment.

Chairman PROXMIRE. You favor a single annual report to the Congress on the entire military assistance programs, including the formal military assistance program of the State Department, the service funded programs, navy vessel loans, international military activities, transfer of excess property and sales?

Senator MCGOVERN. Yes; I do.

Chairman PROXMIRE. And then the service funded programs—because they are, as I understand it, simply direct funding from the Army, Navy, and Air Force directly to the country—started off, of course, with South Vietnam and spread to Thailand, and now it has spread to some six or seven Asian countries, including the Philippines, Korea, and others.

I just wonder how logical it is to continue programs of this kind with the services, the Army, the Navy, and the Air Force actually providing these funds to a foreign country rather than having the State Department do it, or AID do it instead.

Senator MCGOVERN. Well, I think you are right, Mr. Chairman. And that is why I suggest in my statement that all of these programs ought to be under the jurisdiction of the Secretary of State, that he is the one person that we ought to be able to call here to justify any kind of military assistance to any country, and that that ought not to be authorized until it is approved in total by the Foreign Relations Committee in the Senate and the Foreign Affairs Committee in the House, and by the Congress as a whole.

And I further suggest that it go through the appropriations process the same as other expenditures.

Chairman PROXMIRE. Aside and apart from the fact that you have the Army making foreign policy in a sense, and the Navy making foreign policy, and the Air Force making foreign policy, you have such a wide variety of agencies, none of which know what the others are doing, at least not very well, that you just do not have any efficient direction and coordination.

Under Secretary of State Nicholas Katzenbach, one of the ablest men I know, testified that after the President of the United States cut off military aid for Greece it continued without his knowledge, and presumably without the knowledge of the President of the United States, and it continued for several months. And then the State Department negotiated some kind of a treaty between the State Department and the Defense Department, and it continued anyway. But it was still funded by separate agencies.

So it seems to me that if we are going to get effective direction as well as efficiency, not to speak of the fact that we ought to have the State Department making foreign policy and not the military services, I just do not see how we can escape from pulling this together.

Senator MCGOVERN. I do want to say in all fairness to the administrator of this program over the years, Mr. Chairman, that the mood of both the Congress and the country, as you know, has changed very dramatically over the last 10 years. We are somewhat more critical and discriminating and selective in the way we hand out military assistance. At least there is a growing body of opinion in that direction.

I think it is fair to say that the Congress almost unanimously supported the original food programs, including the provision that when we sold food to a poor country on a concessional basis, that if our Department of State identified that country as a so-called free world ally, that it was good business to let them use part of the currency that they paid us for that food.

Chairman PROXMIRE. Of course, that goes back to a period of time when neither you nor I were in the Congress, 1954.

Senator MCGOVERN. That is correct. But even if I had been here at that time I would have probably supported it on the ground that we were at that time assisting any country that had an anticommunist lable. And we did not look too much into the way——

Chairman PROXMIRE. You may be too generous. I do not know if you would have supported it or not. I just wonder if you would not have had some trouble with that food-for-peace aspect of the program.

Senator MCGOVERN. I will say this. There was one part of it that I did not press at the time I was handling the programs. I always have felt, since I first became connected with that program in 1961, that it should be basically a humanitarian program, not humanitarian in any narrow sense—it is also a program of enlightened self-interest for us to do what we can to relieve hunger in the world, because that is the source of so much of the explosive tension that exists around the world—but that it should be used for one fundamental purpose. And that is to reduce the amount of malnutrition and hunger around the world, and then as these countries improve their standards of life, to move in on a normal basis of trade.

Now, that is what we did with many countries under the food-for-peace program. The ones that we used to either give food to or sell to on a concessional basis became very good commercial customers, Japan being the most dramatic case. Italy is another one, and Spain another. There are a good many countries that we once helped under the food-for-peace program that are now commercial customers of the United States.

I think that is the proper approach, rather than using this program to help them finance their military bucket.

I should point out that it is not the same as an outlay of dollars. We are using agricultural surpluses that we would not be able otherwise to use abroad. We accept payments in foreign currencies. When I use these dollar figures we are talking really about currencies that you could not exchange for American dollars.

Chairman PROXMIRE. There is one other aspect of this whole situation that has bothered me especially. And that is the fact that the breakdown in the allocation of funds in the military assistance programs is classified by country. It seems to me that this inhibits debate, discussion, challenge, any real effective oversight by the Congress.

Of course, it is true that any member of the Congress can get this information. We all have access to classified information. But we do not get it. And when we get it we cannot use it, we cannot use it in debate, or bring it out on the floor, or use it very well in an open committee hearing. And the result is that it is just forgotten about, ignored, and we do not have any systematic basis for logically analyzing the program and determining how much should be gone into it and whether it can be justified or not. And if we do not discuss it in terms of the country that is receiving it, it seems to me that there is really no logical basis on which we can determine whether we ought to have a certain amount provided.

So would you agree that we should do what we can to declassify this program?

Senator MCGOVERN. Yes; I would. I have always felt that was a difficult factor for the Congress and for the public. And I do not see any real justification for it. The argument to that has always been that it saves us some embarrassment. If country A discovers that country B is getting a little more, that this is embarrassing to us, and also increases pressure.

Chairman PROXMIRE. It is also declassified the next year, so the country finds out a little later.

Senator MCGOVERN. I know. I think they probably know a little more about it than Congress. We have to find out from Hong Kong and Japan what our troops are doing in Indochina. And I think that it is a kind of facade that we ought to remove, and Congress ought to have full access to this kind of information.

Chairman PROXMIRE. What do you think of removing this program as rapidly as possible to a sales basis, a credit sales basis, perhaps, and within a year or two trying to provide that military assistance shall be provided if the country pays for it? I say that because a number of witnesses have said that there is a tendency to provide military equipment and funds for military purposes to countries. And, of course, the country will take it if it is free. And then a

country with a very limited economy, which is true in most cases of course, has to devote their resources to balancing their military power. And the result is that the country tends to be impoverished, and it does not have the choice that it would have to make if it had to buy and pay cash, or even borrow, to pay for the equipment.

Senator McGovern. I agree fully with the thrust of that statement. I think many times by making military equipment so accessible we have actually encouraged countries to expend more of their own resources in order to sustain that military system.

If these countries are so poor that they require food assistance or other kinds of assistance from the United States, they ought to be very careful about investing a very high percentage of their resources in military purchases. That is a luxury that we have carried too far in our own society, and we ought not to inflict the same mistake on other people.

Chairman Proxmire. Senator McGovern, I thank you very, very much. This has been most helpful. No man in my view has been more closely associated with the best aspects of the food-for-peace program. We are very grateful to you for your testimony. I think it has cleared up some of the uncertainties in my mind and those of others, I am sure.

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

Chairman Proxmire. Our next witness is the Honorable John N. Irwin, Under Secretary of State.

We presented you once to this committee a week or so ago, Mr. Secretary, and you were called off on an important meeting overseas. I spoke at that time of the coincidence, when we had these witnesses up they were called away, and I did not mean to imply at all that this was not a necessary and desirable trip in the public interest. But it was a coincidence that the last three executive department witnesses we asked to come up had to go overseas.

We are happy to have you. You have a fine reputation. And I think your statement is going to be most interesting.

You have two statements here, an annex as well as a regular statement?

Mr. Irwin. Yes; there are two statements, a regular statement and an annex.

Chairman Proxmire. The statement is rather long and has a table. I might say that you may present it any way you wish. If you abbreviate any part of the statement, the entire statement will be printed in full in the record, including the table; and the annex will be printed in the record in full.

You may proceed.

STATEMENT OF HON. JOHN N. IRWIN II, UNDER SECRETARY OF STATE, ACCOMPANIED BY THOMAS R. PICKERING, DEPUTY DIRECTOR, BUREAU OF POLITICO-MILITARY AFFAIRS; AND CHRISTIAN CHAPMAN, DIRECTOR, OFFICE OF MILITARY ASSISTANCE AND SALES, BUREAU OF POLITICO-MILITARY AFFAIRS, DEPARTMENT OF STATE

Mr. Irwin. Mr. Chairman, it is helpful to have the opportunity to appear——

Chairman PROXMIRE. Would you identify the two distinguished men who are with you?

Mr. IRWIN. Yes, sir. Mr. Pickering is on my left, and Mr. Christian Chapman on my right. Both are from the Department of State and the Bureau of Politico-Military Affairs.

Chairman PROXMIRE. Proceed, sir.

Mr. IRWIN. It is helpful to have the opportunity to appear before this committee and to discuss with you various facets of the military aid program. Previous witnesses have discussed the nature of this program, as well as its complexities. I should like to examine with you this morning some of the security assistance problems that confront the Administration, together with plans for dealing with them in the future.

This Administration has recognized the need to adopt a different approach in the area of foreign assistance, one that takes into account the changes that have occurred in the international community over the past two decades. We make no claim to have come up with solutions to all of the problems that change and new circumstances have produced. But I have been struck, as a relative newcomer, by the attention this Administration has already devoted to the program. It has developed a new set of goals, and a way of evaluating security requirements that hopefully will better meet the needs of this nation and the nations we assist in the decade of the 1970's.

Let me turn first to the role of International Security Assistance. As indicated in the President's Budget, we are now using the term "Security Assistance," rather than "Military Assistance," in order to group together for planning and programming purposes, and for presentation to the Congress, the various components of the programs that contribute to our Security Assistance objectives abroad. Clearly, one cannot comprehend the full compass of the pertinent programs by looking only at the programs traditionally thought of as constituting "military assistance"—the grant Military Assistance Program —MAP—and Foreign Military Sales—FMS. As the new Budget shows the Administration has determined that it will seek a new approach to bring together for congressional consideration the additional elements which will make up our International Security Assistance program.

It is self-evident that the situation in the 1970's differs markedly from that in the late 1940's and early 1950's when our foreign military assistance programs were first conceived. The U.S.S.R. has become a major nuclear power. The Communist world is no longer a monolith. Western Europe and Japan have made remarkable economic recoveries since World War II. Moreover, while economic growth of the less developed countries has proved more complex and elusive than many originally anticipated, some notable successes have been recorded.

The dramatic changes since the early days of the Marshall plan unhappily have by no means resulted in a world determined to resolve disagreements through peaceful means. A number of contentious issues between this nation and others still exist, and armed conflict seems to remain the norm rather than the exception in many parts of the world. Security assistance, therefore, is still needed to help friendly governments maintain their independence and thereby to

help safeguard our own. Our goal continues to be to develop an environment in which nations can use their resources for economic and social progress. But we need to provide some nations with the instruments necessary to maintain a reasonable measure of security, while seeking at the same time to remove through negotiation the causes of tension that could lead to conflict.

These changes—and others as well—form the foundations for the Nixon doctrine, first enunciated at Guam and subsequently elaborated in the President's "Report to the Congress on U.S. Foreign Policy for the 1970's."

In this report President Nixon said that his administration's foreign policy would be guided by three principles: partnership, strength, and a willingness to negotiate. Within this context, the Nixon doctrine proposes an adjustment in both the security role and the responsibilities that the United States expects to assume in the years immediately ahead. What we seek is a reduction in U.S. military presence in certain areas, while at the same time helping our partners to develop their own self-defense capabilities. The two parts of the doctrine are interdependent: as allies improve their defense posture, the threshold at which U.S. forces are likely to be called upon for support under existing treaty commitments will be correspondingly raised.

We believe the Nixon doctrine is well adapted to the requirements of the 1970's and has broad support in this country and in Congress. The President's request for supplemental assistance, an important first step in the implementation of the Doctrine, recently received endorsement in Congress.

A further point needs to be made. We believe there is broad consensus in this country that the security of the United States does not begin at its shores but, rather, depends on peace, stability and an environment in which sustained economic growth is possible in the rest of the world. The value of security assistance lies in its contribution to these goals.

As regards internal security, the President has already indicated that the United States intends to exercise restraint in matters relating to the stability of friendly nations. The United States can assist governments that are attempting to cope constructively with their internal problems. In the final analysis, however, the internal security and stability of each of these governments will depend largely on its own actions. Where governments actively promote the interests of their people, security assistance can help foster an environment in which economic and political development can take place. Where governments do not do so, there is little the United States can do to bolster their staying power.

We also are conscious of the many and complex factors that should be taken into account before providing security assistance, whether in the form of equipment, training, or credit for sales. The Department of State makes every effort to analyze these factors as thoroughly and as objectively as possible. I believe it fair to say that this administration generally believes in and applies the criteria which Congress has enacted into legislation. Decisions are made carefully, with full awareness of their implications. Of course, planning and programing procedures can always be improved and, in this

respect, we welcome congressional interest and advice. The security assistance approach being launched by this administration is an effort at improvement. We believe it warrants congressional support.

Consonant with the Nixon doctrine, we have developed a security assistance approach that emphasizes the following:

As a basis for our assistance and advice to major recipient countries, we are attempting to develop force goals that reflect balanced consideration of such factors as threats, risks, costs, resource constraints, and manpower limitations. However, in keeping with the objective of greater self-reliance, we recognize that we cannot impose our goals on other countries. We are attempting to ensure that they understand the inter-relation of such factors and act realistically on them.

Particularly, we are devoting greater attention to the economic consequences of force modernization planned by other nations lest increased security expenditures undo the gains already registered in economic development.

We are attempting to engage the decisionmaking and budgetary processes of recipient countries by encouraging their leaders to recognize the total costs of their forces and to make, themselves, the hard choices for the allocation of limited resources.

Security assistance for each country is considered in conjunction with other forms of assistance. Our planning, including that of the country team, seeks to establish a resource mix that optimizes the achievement of U.S. objectives and interests in each recipient country.

Finally where grant aid recipients demonstrate a capacity to meet defense requirements out of their own resources, they are being urged to turn to credit programs and other channels to purchase military end items.

The record reflects progress. Over the past several years, grant materiel assistance, except training, to the overwhelming majority of African and Latin American former recipients has been phased out; Iran has shifted almost entirely to a credit program; Greece and the Republic of China now rely more heavily on credit than they do on MAP. We plan to continue along this path but believe the process must be orderly and well-planned to be effective.

Another important consideration that looms large in policy decisions is the effect our security assistance programs may have on regional arms races. This consideration can involve serious dilemmas. Many countries feel an acute need, both military and political, to modernize the equipment inventories of their forces. As we all know, the costs of each generation of military equipment have jumped geometrically. It has been a matter of long-standing policy within our own Government to seek to discourage countries from obtaining equipment by sale or grant which would prove an economic burden, or which, by its appearance in a particular country, would trigger a demand for comparable end items in neighboring countries.

The complex interrelationship among economic, military, political, and arms limitation factors, and the dilemmas posed, are illustrated by the situation in Latin America. Contrary to appearances, most of the countries of the Hemisphere do not allocate large sums to their military establishments. In fact, Latin America's defense to GNP ratio of about 2 percent is the lowest in the world. For many years

the United States has encouraged these countries to devote their resources principally to economic and social development. We have also sought to discourage them from seeking highly sophisticated weapons which were expensive and not required for defense purposes.

The record of Latin American countries has been generally good. If, however, instead of judging the situation from Washington, we place ourselves in Rio, or Buenos Aires, the problem is a painful one. Here are nations with proud services. They have had navies since they became independent. The Argentinians were pioneers in the air. Yet a significant amount of their equipment has become quite obsolete. To cite only one figure, in all of Latin America—excluding Cuba—there were last year less than 350 combat jet aircraft, including armed trainers, most of which were approximately 20 years old. The current fighter inventory of Brazil, for instance, does not include a single aircraft that can overtake a Boeing 707 jet liner.

In the last 3 years, the need to replace this equipment became such that, vexed by our delays and by our legislative restrictions which they consider demeaning, a number of Latin American countries turned to Europe for planes, tanks, and naval vessels. The points to be noted are that countries do have a different perception of their security requirements, that they will do what they consider necessary to protect that security, and that we are no longer the sole source of military supplies.

Let me turn now to the way in which our security assistance programs are planned and coordinated.

The Secretary of State is responsible under the terms of the Foreign Assistance Act for "the continuous supervision and general direction of economic assistance and military assistance programs * * * to the end that such programs are effectively integrated both at home and abroad and the foreign policy of the United States is best served thereby." A similar provision governs the administration of the Foreign Military Sales Act.

From 1961 to 1968 the Secretary's authority had been delegated to the Administrator of AID. In January 1968, in an effort to strengthen the Department of State's supervision and control of these programs, the Secretary took this authority back from the AID Administrator and redelegated part to the Under Secretary of State and part to the then Deputy Under Secretary of State for Political Affairs. The Under Secretary was given the general authority to supervise the effective integration of both the economic assistance and military assistance and sales programs within the context of U.S. foreign policy interests.

To the Deputy Under Secretary for Political Affairs was delegated—later redelegated to the Director for Politico-Military Affairs—the day-to-day responsibility for "the continuous supervision and general direction" of the military assistance and sales programs. The Director of Politico-Military Affairs is supported in the discharge of these duties by a small staff group which works full time on military assistance matters. The staff provides a central pool of expertise and enables the Department to analyze and review these programs in considerable detail and depth, and to shape them in a manner consistent with foreign policy.

The Under Secretary reviews and decides major policy issues submitted to him by the Director of Politico-Military Affairs, such as the Department's position concerning the level and content of the annual budget requests or major changes in the worldwide program during the fiscal year. In addition, major departmental decisions are discussed with and reviewed by the Secretary.

At all stages of the process the Bureau of Politico-Military Affairs, while providing the central staff support for military assistance matters, must, of course, work closely with the regional bureaus within State to insure that regional expertise and political considerations are considered. Similarly, as appropriate, AID is asked to give its views on the economic and development implications of the program.

Chairman PROXMIRE. May I ask, who is the Deputy Under Secretary for Political Affairs?

Mr. IRWIN. Alexis Johnson.

Thus, major decisions submitted to the Under Secretary will normally involve presentations by both the Director of Politico-Military Affairs and the appropriate regional Assistant Secretary on both the technical and broader political aspects of the matter.

As this committee is well aware, the Department of State does not and could not operate and manage the military assistance programs directly. Inevitably, therefore, there is a problem in applying State's policy guidance and views to the programs actually operated by the Defense Department. Furthermore, Presidential decisions and the Defense Department's own policy views must be meshed into the formulation of appropriate program guidance.

The principal mechanisms for the formulation and application of policy are as follows:

On the Presidential level, the major mechanisms are the preparation of the annual budget and Presidential decisions taken in the National Security Council (NSC) system. The President reviews and decides the worldwide program levels in the preparation of the annual budget. Presidential decisions on the budget are made on the basis of joint State-Defense budget requests and the separate recommendations of the Office of Management and Budget (OMB). Throughout the fiscal year the President continues to make major decisions revising and amending the program in light of international developments on the basis of reviews and recommendations developed in the NSC system or on an ad hoc basis in light of specific recommendations made by State and Defense.

The Department of State brings to bear its views not only through a continuous dialogue, at various levels, between State and Defense but also through a series of more formal mechanisms.

First, the annual program and budget submissions from the field are jointly reviewed by State and Defense.

Second, the annual budget requests to the President, following this review, are jointly submitted by the two Departments as are all other recommendations to the President for major program initiatives and changes originating with the Departments. On occasion the Under Secretary's committee is used to coordinate the positions of the two Departments. In the event of major disagreements, State and

Defense usually submit their views in separate memoranda for Presidential review.

Third, State and Defense prepare each year a classified joint memorandum which specifies program levels and major program content by country and region and sets out the major policy lines for military assistance, grant and credit; this document constitutes the basic planning guidance for all parties of the United States Government.

Fourth, the Department of State, jointly with the Department of Treasury and Defense, has issued comprehensive guidelines for both governmental and commercial sales of military equipment through a document entitled, "United States Government Policy and Responsibility for Military Export Sales."

Fifth, commercial sales of military equipment must be individualy licensed by the Department of State. Such action is taken after interdepartmental consultation and review.

Sixth, a control group organized in 1969 and composed of representatives from the State and Defense Departments provides guidance for the allocation of military stocks declared excess to the needs of the military services by the Department of Defense.

Seventh, the use of food for peace counterpart funds for defense purposes is regulated by agreements which are negotiated with the foreign governments concerned by the Department of State after consideration of the issues involved by State, AID, Defense, and Agriculture.

Finally, a committee chaired by AID, on which both State and Defense are represented, has developed techniques to measure each country's military expenditures in comparison with the other countries in the region on the basis of the proportion of GNP, national budget and total imports represented by defense costs. This committee provides reports of its findings to the Congress on a regular basis.

The Department of State has less influence with respect to programs in combat areas—such as those in Vietnam and Laos, and to a lesser extent in Thailand—which are funded in the Defense budget. There is considerable coordination of activities within the individual country team which is under the control of the Ambassador. Less than full control from Washington is to be expected in a situation involving active hostilities, which requires greater flexibility and responsiveness than can be provided by the procedures of the regular military assistance program. But as combat activity is diminished, the programs in Thailand, Laos and Veitnam now funded in the Defense budget should be shifted into the new security assistance program.

This leads me to this administration's plans for further strengthening the planning and coordination of our security assistance programs. Joint executive and legislative concern for this led to the appointment in September 1969 of a Presidential task force on international development chaired by Mr. Rudolph A. Peterson. In its report, the task force recommended the creation of separate and distinct programs for economic, humanitarian and security assistance. Based on this report, President Nixon's message of September 15, 1970, proposed a reorganization of foreign assistance. After further work by an interdepartmental task force on security assistance chaired by the Department of State, the President's budget

has now made clear the separate programs which will be included in the new Security Assistance program. As the budget message indicates, legislation to implement the international security assistance program will be submitted to the Congress early in the new session. The present military assistance program (MAP), Foreign Military Sales (FMS), supporting assistance, and public safety programs, will be brought together in the new program. The precise organizational framework for this program has not yet been finally decided, so that I am not able to discuss our organizational plans at this time.

We are hopeful, however, that with the Congress' support, we will be able to put together an international security assistance program that will be responsive to the concerns and criticisms which have been expressed during these and other hearings.

Mr. Chairman, you have asked for a breakdown of the amounts spent annually by the United States on grant and loan programs and the total amounts of cash and credit sales to foreign countries. We have prepared a table showing these program figures for fiscal years 1965 through 1971 on the same basis as that used by the President in his budget message. We have also added figures for some of the related programs discussed in these hearings which will not be an integral part of the security assistance program as presently conceived. This table is hereby submitted for the record.

Chairman PROXMIRE. Without objection, the table will be printed in full in the record.

(The table referred to follows:)

INTERNATIONAL SECURITY ASSISTANCE

[In millions of dollars]

	Fiscal year—						
	1965	1966	1967	1968	1969	1970	1971
Military assistance:							
Grant military assistance program	1,005.0	1,098.7	905.2	615.8	460.0	409.0	775.0
(Long supply and excess) [1]	(230.3)	(142.2)	(79.1)	(192.5)	(320.4)	(424.4)	(300.0)
Foreign military credit sales	110.6	317.7	323.1	263.7	280.8	70.0	[2] 750.0
Subtotals	1,115.6	1,416.4	1,228.3	879.5	740.8	479.0	1,525.0
Supporting assistance:							
Supporting assistance (including public safety for Vietnam, Laos, Thailand) [3]	438.7	702.7	718.4	594.5	464.4	518.1	600.0
Public Safety [3]	(18.7)	(31.1)	(35.5)	(46.6)	(24.3)	(16.3)	(23.6)
Contingency fund transfers into supporting assistance	10.4	15.0	8.8	7.4	6.7	6.9	[4] 5.8
Subtotals	46.9	189.9	39.6	19.3	2.7	3.9	----------
	496.0	907.6	766.8	621.2	473.8	528.9	605.8
International security assistance totals	1,611.6	2,324.0	1,995.1	1,500.7	1,214.6	1,007.9	2,130.8
OTHER RELATED PROGRAMS							
Defense funded:							
Military assistance service funded (Thailand, Laos, Vietnam)	34.1	835.5	1,496.0	1,591.7	1,965.6	2,174.4	2,177.3
Vessels in Ship Loans:							
(1) Combatant Ships	3.8	9.9	23.2	56.8	10.6	0	110.9
(2) Noncombatant vessels	2.2	5.7	3.5	1.0	0	23.8	55.2
International Military Activities:							
(1) International military headquarters	18.9	20.1	21.1	22.8	22.0	55.6	57.3
(2) NATO infrastructure	23.0	43.6	81.8	37.5	47.0	50.0	50.0
(3) Pay and allowances, MAAG and Mil group personnel	72.5	91.2	110.6	141.8	147.2	163.5	167.3
Residual or depreciated value of transferred property:							
(1) Real property [5]							
(2) Personal property [5]							

See footnotes at end of table

INTERNATIONAL SECURITY ASSISTANCE—Continued

[In millions of dollars]

	Fiscal year—						
	1965	1966	1967	1968	1969	1970	1971
OTHER RELATED PROGRAMS—Con.							
Sales:							
FMS cash sales	1,080.0	1,467.4	805.2	848.3	1,317.1	772.6	1,173.4
Commercial cash sales	274.4	312.3	344.5	334.8	328.9	567.2	416.1
Total (sales)	1,354.4	1,779.7	1,149.7	1,183.1	1,646.0	1,339.8	1,589.5
Public Law 480 funded: Common defense grant, sec. 104(c) of Public Law 480 [6]	101.2	135.8	105.0	150.3	92.8	108.0	143.8

[1] Valued at acquisition cost, but involve no budgetary expenditures. The Foreign Military Sales Act of 1971 sets a ceiling on these stocks of $100,000,000 (valued at 33⅓ percent of acquisition cost).
[2] Including $500,000,000 for Israel under sec. 501 of defense procurement bill.
[3] Public safety programs that are for internal security or paramilitary purposes, primarily in Vietnam, Laos, and Thailand, are funded by supporting assistance. All other public safety programs, which are development oriented, are funded by development grant assistance.
[4] Estimate.
[5] Provided by the Defense Department.
[6] Local currencies equivalent.

Mr. IRWIN. The overall levels of these programs are substantial. They would remain substantial even without the distorting effect of the war in Southeast Asia on both the security assistance program itself, as we presently conceive of it, and on the related programs, such as food-for-peace funds used for defense purposes, to say nothing of the very large amounts of service funded military assistance for South Vietnam, Laos, and Thailand to which I have alluded earlier.

Your letter of January 22, Mr. Chairman, raised a number of specific questions. Answers to these questions are provided in the annex to this statement which I am submitting for the record.

As indicated in the annex, complete answers to two of your questions asking for country-by-country breakdowns would run into the problem of a few country programs that have remained classified over the years. Full information on these programs has regularly been provided to the Foreign Relations, Foreign Affairs and Appropriations Committees on a classified basis and we would be happy to supply it to this committee. I understand, however, that the committee has indicated that it was not able and did not wish to receive classified information. The desirability of declassifying more of the information being submitted to Congress relating to security assistance has, I know, been raised already in these hearings. Declassification would have to take into account a number of factors, particularly the great sensitivity of some recipient countries to any public airing of their defense plans. On the other hand, I recognize there are arguments in favor of presenting fully unclassified documentation to the Congress. We are initiating a reexamination of our policy on this question.

In conclusion, Mr. Chairman, I appreciate the opportunity you have given me to present these views. If these hearings and the committee's report contribute to a better understanding of the rationale for our security assistance program and to a better implementation of the program, a valuable and commendable service to the country will have been rendered.

Chairman PROXMIRE. Thank you so much, Secretary Irwin, for a most interesting and useful statement.

(The prepared annex referred to in Mr. Irwin's statement follows:)

PREPARED ANNEX TO ORAL STATEMENT OF HON. JOHN N. IRWIN II

Set forth below are answers to the specific questions which Chairman Proxmire put to me in his letter of January 22, 1971.

1. What levels of assistance will be extended in fiscal years 1971 and 1972? How will this assistance be broken down among the various administering agencies?

The levels of International Security Assistance in new obligational authority that have been appropriated for FY 1971 and have been requested in the Budget for FY 1972 are as follows:

INTERNATIONAL SECURITY ASSISTANCE

[In millions of dollars]

	Budget authority	
	Fiscal year 1971	Fiscal year 1972
Military assistance:		
Grant MAP	750	705
Credit sales to Israel (DOD budget)	500	----------
Foreign military credit sales	200	510
Offsetting receipts, credit sales	−30	−85
Total	1,420	1,130
Supporting assistance	523	778

The military assistance programs are administered by the Defense Department under overall guidance laid down by the Department of State, or in some cases the President. Supporting assistance is now being administered by AID.

In addition to the figures cited above, $2.4 billion were appropriated in FY 1971 and are being requested for FY 1972 to cover the costs of military assistance to Laos, Thailand and Vietnam. These Service Funded Military Assistance programs are administered by the Department of Defense and funded in the Department's budget.

See response to next question for fuller answer on the administration of the programs.

2. How will the proposed separation of military assistance and economic development aid, as envisioned by the President in his message to the Congress last year, affect the administration and supervision of military aid programs?

As indicated in my statement, the organizational plans for the supervision of the new International Security Assistance program have not been made final. As the President's budget submission indicates, the new program will group together grant military assistance, foreign military credit sales, and supporting assistance, including the Public Safety Program. Military Assistance Service Funded to Laos, Thailand and Vietnam will continue to be carried in the Defense Department budget. We would expect that the Secretaries of State and Defense would maintain their present responsibilities. State would provide foreign policy guidance and supervision. Defense would administer the military assistance and sales programs. State would presumably take over the administration of the supporting assistance programs (including Public Safety) which is now being administered by AID.

3. What quantity and dollar value of agricultural commodities have been supplied to Peru over the past five years? What special assistance was given that nation under the Food for Peace, or other programs subsequent to the earthquakes that recently devastated much of the Andean area?

Over the past 5 years, some $34 million have been supplied to Peru under Title II grant program of PL–480. About 150,000 tons of agricultural commodities (wheat, flour, non-fat dry milk, bulgur, etc.) have been provided to more than 1 million people, mostly children, in the form of school lunches and food for work programs. Special assistance was given Peru subsequent to

the recent earthquakes in the amount of $5 million under the Title II grants, providing about 28,000 tons of wheat, oil, non-fat dry milk, and including ocean freight ($1 million). In addition to the Food for Peace program, $3.2 million of the FY 70 Foreign Assistance Act Contingency Fund was used to provide for emergency relief, lifesaving, evacuation, and medical care, plus reimbursement of US military forces for tents, blankets, field cooking units, and the services of helicopters, etc. In addition, $7.4 million of the FY Contingency Fund was made available for rehabilitation projects. These included provision of aluminum sheets for roofing, housing, rebuilding destroyed schools, water and irrigation systems, emergency generators, agricultural tools, equipment, etc.

4. To what extent have counterpart funds generated under the Food for Peace program been spent for military or internal security purposes in Peru—including counterpart resulting from special earthquake assistance?

No counterpart funds, or sales proceeds as they are known, generated under the Food for Peace program in Peru have been spent for military or internal security purposes. Special earthquake assistance, transferred on a grant basis, does not generate sales proceeds.

5. What has been the amount of Peruvian arms purchases over the past five years from the United States and from other countries?

From FY 1966 through FY 1970, Peru purchased $17.9 million worth of weapons in the United States of which $9.2 million were cash purchases under the Foreign Military Sales Act, $1.2 million were credit purchases under that Act and $7.5 million were commercial purchases. We estimate that from Calendar Year 1966 through Calendar Year 1970, Peru purchased $160.0 million worth of arms from Western Europe and Canada.

6. Please provide a country-by-country breakdown of the counterpart funds generated under the Food for Peace program for the purpose of military or internal security purposes for each recipient country in the program during the past six fiscal years.

This breakdown appears in Table I below.

7. Please provide country-by-country breakdowns of military assistance received under each of the various programs, including military assistance service funded and economic security assistance, for the past six fiscal years.

8. Supply a country-by-country breakdown of all foreign military sales through U.S. Government channels for each of the past six fiscal years.

Table II below provides a country-by-country breakdown (except for classified country programs which are included in regional totals) of military assistance program deliveries/expenditures for fiscal years 1965 through 1969. This table is taken from an unclassified booklet published by the Department of Defense entitled "Military Assistance and Foreign Military Sales Facts, March 1970" at pp. 12 and 13.

Table III below provides similar breakdowns for deliveries of excess stocks (*Ibid.*, at pp. 14–15) and Table IV for deliveries of foreign military sales (*Ibid.*, at pp. 24–25).

Information for FY 1970 for military assistance, excess stocks and military sales will be provided separately as soon as it can be assembled.

A country-by-country breakdown of the total figure for the Military Assistance Service Funded programs given in my statement could only be supplied on a classified basis.

The requested breakdown for economic security assistance will be provided separately as soon as possible.

9. Break down U.S. commercial sales of military articles showing the amount sold by each contractor for each of the past six fiscal years.

The semiannual reports by the Department of State to Congress on "Exports of Significant Defense Articles on the U.S. Munitions List" reflect actual exports that are significant in kind or in number. The data available to State is not yet automated. and in depth information—such as exports by commercial company—would have to be extracted by hand, a nearly impossible process which would take months.

An automated data processing system is expected to be operating by July. This system will allow easy extraction of a variety of information, including listings by contractor. If the Committee would still be interested, we would be prepared to supply this information at that time.

TABLE I.—PUBLIC LAW 480, TITLE I—104(c) LOCAL CURRENCY GRANTS FOR COMMON DEFENSE

[In millions of dollars]

Country	1965	1966	1967	1968	1969	1970
NESA						
Greece						
Iran						
Pakistan						
Turkey						
Vietnam	41.4	98.2	73.3	96.6	60.8	75.7
East Asia	55.9	37.6	31.7	53.7	32.0	
China (Taiwan)	20.2					
Indonesia						
Korea	34.0	37.6	31.7	53.7	32.0	32.3
Philippines	1.7					
Africa	3.9					
Congo	3.9					
World	101.2	135.8	105.0	150.3	92.8	108.0

TABLE II.—MILITARY ASSISTANCE PROGRAM DELIVERIES/EXPENDITURES BY FISCAL YEARS

[In millions of dollars]

Country	Fiscal year 1950–64	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1950–69
East Asia:							
Cambodia	86.8	0.3					87.1
China, Republic of	2,088.4	84.8	76.5	70.4	115.0	55.3	2,490.4
Indochina	709.6						709.6
Indonesia	60.4	2.1	.7	.7	3.1	3.8	70.7
Japan	790.8	29.6	1.2	29.1	3.6	.3	854.5
Korea	1,830.6	173.1	153.1	149.8	197.4	210.0	2,714.0
Malaysia		(1)	.2	.2	.2	.2	.8
Philippines	279.1	18.2	26.0	21.0	29.1	18.8	392.3
Thailand	467.7	36.4	40.8	44.6			589.4
Vietnam	1,031.7	274.7	169.9				1,476.3
East Asia area [2]	434.9	59.3	68.3	83.0	3.1	2.6	651.1
East Asia total	7,779.9	678.4	536.6	398.8	351.5	291.0	10,036.2
Near East and South Asia:							
Afghanistan	2.8	.1	.2	.1	.3	.3	3.8
Ceylon					(1)	.1	.1
Greece	1,128.0	104.0	78.7	44.0	45.0	56.2	1,456.0
India	(2)	(2)	(2)	2.1	.2	1.0	(2)
Iran	583.3	49.9	41.1	41.1	38.7	50.9	805.1
Iraq	46.1	.2	.2	.1	(1)		46.7
Jordan	28.7	4.6	2.8	11.9	2.1	1.8	52.0
Lebanon	8.5	.1	.1	.1	.1	.1	9.0
Nepal	(2)	(2)	(2)	.5	.5	.2	(2)
Pakistan	(2)	(2)	(2)	(1)	.1	.1	(2)
Saudi Arabia	29.9	.8	1.5	.8	1.0	.6	34.6
Syria	(1)	(1)	(1)	(1)	(1)		1
Turkey	2,095.8	118.4	100.5	118.5	130.9	108.8	2,672.8
Yemen		(1)					
NESA area	711.8	62.2	6.6	.2	.1	(1)	785.6
NESA total [2]	4,635.0	340.4	231.6	219.4	219.1	220.2	5,865.6
Europe:							
Austria	(2)	(2)	(1)	(1)	(1)	(1)	(2)
Belgium	1,292.2	4.8	1.6	.1	1.9	(1)	1,237.6
Denmark	542.1	48.1	20.1	6.2			616.6
France	4,149.7	3.5					4,153.2
Germany	900.7	.1					900.8
Italy	2,200.0	81.6	3.2	4.2			2,289.0
Luxembourg	8.2						8.2
Netherlands	1,164.4	49.7	(1)	2.8			1,217.0
Norway	742.2	35.3	42.8	32.6	24.2	11.0	888.2
Portugal	299.5	7.5	1.5	2.2	3.2	2.7	316.5
Spain	456.5	40.6	35.5	8.0	11.8	15.0	567.5
United Kingdom	1,034.3	.2					1,034.5
Yugoslavia	693.9						693.9
Europe area	299.0	3.9	1.4	.9	1.1	2.0	308.3
Europe total [2]	13,719.5	275.4	106.1	56.9	42.3	30.8	14,231.0

See footnotes at end of table, p. 310.

TABLE II.—MILITARY ASSISTANCE PROGRAM DELIVERIES/EXPENDITURES BY FISCAL YEARS—Continued

[In millions of dollars]

Country	Fiscal year 1950–64	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1950–69
Africa:							
Cameroon	0.2						0.2
Congo	5.1	2.3	3.6	5.1	3.8	2.1	21.9
Dahomey	.1						.1
Ethiopia	72.6	8.3	10.8	8.9	17.4	11.4	129.3
Ghana	(1)				(1)	(1)	.1
Guinea		(1)	.7	.2			.9
Ivory Coast	.1						.1
Liberia	2.7	.5	.5	1.3	1.1	.7	6.7
Libya	6.0	2.2	1.7	2.6	1.6	1.3	15.2
Mali	1.1	.5	.5	.7			2.8
Morocco	16.1	2.3	3.1	5.2	6.6	2.0	35.3
Niger	.1						.1
Nigeria	.1	.3	.4	.2	.2	(1)	1.2
Senegal	2.2	.1	.1	.1	.2	.1	2.8
Sudan	.1	(1)	.3	.3	(1)		.7
Tunisia	14.2	.9	.6	.7	1.7	3.6	21.6
Upper Volta	.1	(1)	(1)				.1
Africa area					(1)	.1	.1
Africa total	120.6	17.3	22.2	25.2	32.6	21.3	239.2
Latin America:							
Argentina	4.3	6.0	6.4	6.8	10.9	5.8	40.2
Bolivia	8.7	1.9	2.4	2.8	3.5	1.6	21.0
Brazil	159.7	11.4	9.5	13.4	12.6	6.6	213.3
Chile	59.9	6.3	8.4	4.8	7.5	2.7	89.4
Colombia	45.6	5.7	8.3	7.9	12.2	6.7	86.4
Costa Rica	1.3	.2	.1	.1	.1		1.8
Cuba	10.6						10.6
Dominican Republic	9.7	1.2	1.6	3.4	2.3	2.2	20.5
Ecuador	24.8	2.3	3.9	3.1	2.8	2.0	39.0
El Salvador	2.6	.8	.7	.6	.6	.3	5.7
Guatemala	6.7	1.5	1.2	1.4	2.3	1.1	14.2
Haiti	3.2						3.2
Honduras	3.0	.7	.7	1.0	1.0	.6	7.0
Jamaica	.2	.4		.3	.3		1.1
Mexico	.9	.2	.2	.2	.1	.1	1.7
Nicaragua	5.7	1.2	1.0	1.0	1.3	.7	11.0
Panama	1.3	.2	.4	.5	.3	.4	3.0
Paraguay	2.1	.9	1.0	1.1	1.8	1.0	8.0
Peru	51.1	8.2	7.3	6.6	8.7	2.9	84.8
Uruguay	29.2	2.4	2.5	1.6	2.0	1.6	39.4
Venezuela	3.1	1.3	1.0	1.0	1.3	.9	8.6
Latin America area	7.4	3.0	1.8	1.3	1.0	.6	15.1
Latin America total	440.9	55.9	58.4	59.1	72.8	37.9	724.9
Nonregional	2,734.5	(131.7)	107.4	54.0	.4	(11.6)	2,753.1
Grand total	29,430.5	1,235.7	1,062.4	813.5	718.7	589.4	33,850.1

[1] Less than $50,000.
[2] Indicates classified data.

Note: Totals may not add due to rounding. ( ) Indicates negative amounts.

TABLE III.—DELIVERIES OF EXCESS DEFENSE ARTICLES BY FISCAL YEARS—UTILITY VALUE

[In millions of dollars]

Country	Fiscal year— 1950–64	1965	1966	1967	1968	1969	1950–69
East Asia:							
Cambodia	6.5						6.5
China, Republic of	212.8	1.8	6.5	1.1	11.4	29.9	263.6
Indochina	17.2						17.2
Indonesia	2.6			(1)	.1	.2	2.9
Japan	69.2	(1)	(1)	.1	.5		69.7
Korea	150.7	23.6	8.0	1.8	3.4	27.7	215.2
Philippines	37.5	.3	.6	1.2	2.0	1.3	42.9
Thailand	29.0	.9	1.2	2.6			33.6
Vietnam	70.3	29.9	.8				100.9
East Asia area [2]	25.1	6.7	1.9	1.2	(1)	(1)	34.9
East Asia total	620.8	63.2	18.9	8.0	17.4	59.1	787.5

See footnotes at end of table, p. 311.

TABLE III.—DELIVERIES OF EXCESS DEFENSE ARTICLES BY FISCAL YEARS—UTILITY VALUE—Continued

[In millions of dollars]

Country	Fiscal year— 1950–64	1965	1966	1967	1968	1969	1950–69
Near East and South Asia:							
Greece	60.5	5.6	2.7	4.2	2.5	25.6	101.0
India	(2)	(2)	(2)	1.6			(2)
Iran	38.1	.5	.6	.1	.9	1.9	42.0
Iraq	1.5						1.5
Jordan	.5	1.8	.1	1.0	.1	(1)	3.6
Lebanon	.3						.3
Nepal					(1)		(2)
Pakistan	(2)	(2)	(2)				(2)
Saudi Arabia	.6	(1)		.1			.7
Turkey	62.8	4.1	12.1	24.1	16.2	27.7	146.9
NESA area [2]	26.1	2.6	2.0		(1)		32.3
NESA total	190.4	14.7	17.4	31.1	19.6	55.2	328.3
Africa:							
Cameroon	(1)						(1)
Congo	.1	1.1	.3	.3	(1)	(1)	1.7
Ethiopia	5.7	.3	.8	.6	.8	.5	8.5
Guinea				(1)			(1)
Liberia	(1)	(1)	(1)	(1)	(1)	(1)	.1
Libya	.2	.2	.1	.1	.1	(1)	.7
Mali		(1)	(1)	.1			.1
Morocco	1.4	(1)	1.4	1.1	(1)	.1	4.2
Senegal	(1)	(1)			(1)		(1)
Tunisia	.2	(1)		(1)	(1)	.3	.6
Africa total	7.7	1.6	2.5	2.2	1.0	1.0	15.8
Europe:							
Belgium	6.2	.1	.6				6.9
Denmark	7.9	(1)		.1	(1)		7.9
France	102.8						102.9
Germany	.7						.7
Italy	63.6		2.8	(1)			66.4
Luxembourg	.1						.1
Netherlands	13.7	(1)		(1)			13.7
Norway	17.5	1.6	.1	.1	.2		19.5
Portugal	9.2	(1)	.1	.6	.1	.3	10.5
Spain	15.2	.3	(1)	1.0	.6	.5	17.7
United Kingdom	25.4	.8					26.2
Yugoslavia	15.1						15.1
Europe area [2]	4.3						4.3
Europe total	281.9	2.9	3.6	1.8	.9	.8	292.0
Latin America:							
Argentina	.3	.4	.2	.3	.3	(1)	1.7
Bolivia	1.1	.2	.1	.2	.2	.1	1.8
Brazil	23.9	.7	.8	1.2	1.5		28.1
Chile	9.1	.3	.2	(1)	.1	(1)	9.8
Colombia	4.2	.3	.4	.6	.5	.2	6.2
Costa Rica	.1	(1)			(1)		.1
Cuba	1.7						1.7
Dominican Republic	1.3	(1)	(1)	.1	(1)	.1	1.6
Ecuador	2.5	.4	.5	.3	.1	.1	3.9
El Salvador	.1	.1	(1)	(1)	(1)	(1)	.2
Guatemala	.7	.3	(1)	.2	.1	(1)	1.3
Haiti	.2						.2
Honduras	.2	(1)	.1	.1	(1)	.1	.5
Jamaica		(1)					(1)
Mexico	.1						.1
Nicaragua	.2	(1)	.1	(1)	(1)	(1)	.3
Panama	(1)	(1)		(1)	(1)	(1)	(1)
Paraguay	.4	(1)	(1)	.2	(1)	.1	.8
Peru	7.2	.3	.1	.1	.3	.3	8.3
Uruguay	2.8	.2	.1	.1	(1)	.2	3.4
Venezuela	.3						.3
Latin America total	56.5	3.2	2.7	3.5	3.3	1.2	70.4
Nonregional	273.3	(1)	15.3	.2	3.0		291.9
Grant total	1,430.5	85.6	60.4	46.7	45.3	117.3	1,785.8

[1] Less than $50,000.
[2] Includes classified data.

Note: Totals may not add due to rounding.

TABLE IV.—DELIVERIES OF FOREIGN MILITARY SALES BY FISCAL YEARS [1]

[In millions of dollars]

Country	Fiscal year— 1950–64	1965	1966	1967	1968	1969	1950–69
East Asia and Pacific:							
Australia	136.3	30.8	66.2	78.6	127.8	113.0	552.7
China, Republic of	1.2	.8	1.3	4.4	10.9	13.5	32.2
Indochina	7.9						7.9
Indonesia	.4		.2	(2)	(2)	(2)	.6
Japan	66.4	25.1	18.8	14.1	41.3	12.4	178.1
Korea	.3				1.5	.7	2.5
Malaysia	(2)		.1	.4	10.7	1.1	12.4
New Zealand	3.6	3.0	9.1	18.9	9.1	11.6	55.3
Philipppines	3.9	.5	.4	(2)	.4	.2	5.3
Singapore					.4	.5	.9
Thailand	1.2	(2)	(2)	(2)	(2)		1.3
Vietnam	(2)	(2)			(2)	(2)	(2)
East Asia area [3]	1.1	(2)	.1	.2	(2)	.1	1.5
East Asia total	222.3	60.2	96.2	116.7	202.1	153.3	850.8
Near East and South Asia:							
Ceylon	(2)				(2)	(2)	(2)
Greece	1.4	.4	.6	.8	3.5	11.4	18.1
India	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Iraq	1.9	.9	4.3	5.7	.2	(2)	13.1
Iran	1.2	12.9	52.2	38.9	56.7	94.9	256.8
Israel	4.3	(2)	(2)	(2)	(2)	(2)	(2)
Jordan	1.9	(2)	(2)	(2)	(2)	(2)	(2)
Lebanon	.3	(2)	(2)	(2)	(2)	(2)	(2)
Pakistan	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Saudi Arabia	75.9	(2)	(2)	(2)	(2)	(2)	(2)
Syria					(2)		(2)
Turkey	.2	(2)	.5	.3	.4	.4	1.8
NESA area [3]	84.0	26.8	40.2	88.1	78.4	156.7	559.5
NESA total	171.2	41.2	97.7	136.6	139.3	263.4	849.4
Africa:							
Congo			1.0	.1	.3	(2)	1.4
Ethiopia	.6		.1	(2)	(2)	(2)	.7
Ghana					(2)		(2)
Liberia	1.1	(2)	.1			(2)	1.2
Libya	.3	.1	.2	.2	6.2	10.5	17.4
Morocco			(2)	5.6	1.3	2.7	9.7
Nigeria	.2	.2	(2)	(2)	(2)	(2)	.4
South Africa	.5	.3	1.9	(2)	.2	(2)	2.8
Tunisia	2.7	.1	(2)	(2)	(2)		2.8
United Arab Republic	.3	(2)	(2)	(2)			.3
Africa total	5.6	.6	3.3	5.9	8.1	13.2	36.7
Europe:							
Austria	(3)	(3)	4.1	1.8	2.3	1.0	(3)
Belgium	77.1	7.0	6.6	9.3	6.5	.6	107.0
Denmark	25.3	4.0	5.1	8.1	7.3	8.6	58.4
France	124.2	76.5	45.8	15.7	12.6	25.1	299.9
Germany	1,565.3	300.5	373.8	309.1	156.3	207.5	2,912.6
Iceland	(2)				(2)		(2)
Ireland						(2)	(2)
Italy	98.1	39.3	57.2	29.3	50.1	50.4	324.5
Luxembourg	.5	.3	.3	.2	.2	.1	1.6
Netherlands	38.6	3.2	15.8	5.7	18.2	12.6	94.0
Norway	5.3	2.9	14.0	17.9	16.2	49.4	105.7
Portugal	4.0	.5	.2	.5	1.0	.6	6.9
Spain	2.6	5.2	12.0	15.5	13.5	14.6	63.4
Sweden	23.3	1.8	.9	1.9	8.4	1.0	37.3
Switzerland	13.0	21.8	7.9	3.1	5.7	8.7	60.1
United Kingdom	74.2	50.7	66.2	156.9	270.5	369.5	988.0
Yugoslavia	9.4	.6	.4	.3		11.3	21.9
Europe area [3]	14.3	19.6					43.1
Europe total	2,075.2	533.9	610.2	575.3	568.8	760.8	5,124.3

See footnotes at end of table, p. 313.

TABLE IV.—DELIVERIES OF FOREIGN MILITARY SALES BY FISCAL YEARS[1]—Continued

[In millions of dollars]

Country	Fiscal year— 1950–64	1965	1966	1967	1968	1969	1950–69
American Republics:							
Argentina	46.4	1.9	0.8	1.2	9.8	11.3	71.3
Bolivia	.5	(2)	.2	.1	(2)	(2)	.9
Brazil	17.0	3.5	13.3	6.1	15.7	17.7	73.2
Canada	588.4	45.0	37.7	30.7	17.9	28.0	747.6
Chile	14.0	.7	1.5	1.7	2.1	2.1	22.1
Colombia	10.1	.1	.2	.3	.1	.2	11.1
Costa Rica	.9			(2)			.9
Cuba	4.5						4.5
Dominican Republic	1.4	(2)	(2)	.2	.1		1.8
Ecuador	2.5	(2)	(2)	.1	1.0	.2	3.8
El Salvador	.9	(2)	(2)	(2)	(2)	.4	1.3
Guatemala	.9	.5	.4	.2	.4	.1	2.4
Haiti	.2						.2
Honduras	1.0	(2)	(2)	(2)	(2)	.1	1.1
Jamaica					(2)	(2)	(2)
Mexico	7.8	.5	.6	.5	.8	.1	10.4
Nicaragua	2.0	(2)	(2)	(2)	.1	(2)	2.2
Panama	(2)				(2)	(2)	(2)
Paraguay	.3		(2)	(2)	(2)		.4
Peru	20.5	1.0	3.5	1.6	4.7	.7	32.0
Uruguay	2.3	(2)			(2)	(2)	2.4
Venezuela	60.4	7.8	4.7	12.5	12.2	2.4	100.0
American Republics total	782.3	61.0	62.9	55.2	65.2	63.3	1,089.7
International organizations	88.4	6.1	4.1	17.8	26.1	47.9	190.3
Grand total	3,345.0	703.0	874.5	907.4	1,009.5	1,301.8	8,141.2

[1] Excludes commercial sales.
[2] Less than $50,000.
[3] Includes classified data.

Note: Totals may not add due to rounding.

TABLE V.—FISCAL YEAR 1970 INTERNATIONAL SECURITY ASSISTANCE

[In millions of dollars]

Country	Military assistance program deliveries/ expenditures	Deliveries of excess defense articles—legal value[1]	Deliveries of foreign military sales[2]
East Asia and Pacific:			
Australia			52.5
Cambodia	4.8	0.1	
China, Republic of	37.9	35.3	36.9
Indochina			
Indonesia	4.0	.4	
Japan	.6		19.4
Korea	216.3	44.3	1.0
Malaysia	.2		2.7
New Zealand			10.1
Philippines	15.7	.2	
Singapore			.8
Thailand			(3)
Vietnam			
Far East region	2.4		
East Asia area[4]		(3)	
Total	281.8	80.3	124.8

See footnotes at end of table, p. 315.

TABLE V.—FISCAL YEAR 1970 INTERNATIONAL SECURITY ASSISTANCE—Continued

[In millions of dollars]

Country	Military assistance program deliveries/ expenditures	Deliveries of excess defense articles—legal value[1]	Deliveries of foreign military sales[2]
Near East and South Asia:			
Afghanistan	0.2		
Ceylon	0.1		0.3
Greece	30.2	17.0	10.9
India	.7	(3)	(4)
Iran	15.2	.4	450.8
Iraq			12.9
Israel		(5)	(4)
Jordan	1.0	(4)	(4)
Lebanon	.1	(4)	(4)
Nepal	(3)		
Pakistan	.2		(4)
Saudi Arabia	.5		(4)
Syria			(4)
Turkey	116.6	33.6	3.4
Yemen			
NESA region			
Total	164.6	51.2	[6]537.8
Europe:			
Austria	(3)		8.7
Belgium			7.9
Denmark			10.9
France			12.4
Germany			226.2
Iceland			
Ireland			
Italy			50.4
Luxembourg			.3
Netherlands			6.4
Norway	.3	.1	40.4
Portugal	1.3	1.7	1.1
Spain	10.9		8.6
Sweden			.5
Switzerland			43.7
United Kingdom			221.5
Yugoslavia			.3
Europe region	.3	(3)	17.7
Total	12.8	1.8	639.4
Africa:			
Cameroon			
Congo	3.1	(4)	.1
Dahomey			
Ethiopia	11.2	.4	(3)
Ghana	.1		.1
Guinea			
Ivory Coast			
Liberia	.4	(4)	(3)
Libya	.3		6.1
Mali	(3)		.1
Morocco	1.2		1.1
Niger			(3)
Nigeria	(3)		
Senegal	(3)		
Sudan			
Tunesia	5.4	.6	(3)
United Arab Republic			(3)
Upper Volta			
Africa region	(3)		
Total	21.8	1.0	17.7

See footnotes at end of table, p. 315.

TABLE V.—FISCAL YEAR 1970 INTERNATIONAL SECURITY ASSISTANCE—Continued

[In millions of dollars]

Country	Military assistance program deliveries/ expenditures	Deliveries of excess defense articles—legal value [1]	Deliveries of foreign military sales [2]
Latin America-American Republics:			
Argentina	2.4	0.3	8.1
Bolivia	1.2	([5])	([3])
Brazil	4.3	([5])	11.7
Canada			49.7
Chile	2.0	([5])	9.9
Colombia	3.9	.4	.2
Costa Rica			
Cuba			
Dominican Republic	2.2	([5])	.1
Ecuador	2.0	.2	.5
El Salvador	.3		.1
Guatemala	2.0	([5])	.3
Haiti			
Honduras	.3	([5])	([5])
Jamaica			([3])
Mexico	.7		.4
Nicaragua	1.0	([5])	.1
Panama	.4	([5])	
Paraguay	.8	([5])	
Peru	1.9		2.0
Uruguay	1.7	3.	.2
Venezuela	.8		3.0
Latin America region	.2		
Total	27.4	1.6	86.2
Nonregional	13.2	7.2	
International organizations			23.8
Worldwide total	521.6	143.1	1,429.7

[1] Figures at 33⅓ percent of acquisition value, as stipulated by sec. 8(c) of the Foreign Military Sales Act of 1961, as amended.
[2] Excludes commercial sales.
[3] Less than $500,000.
[4] Contains classified data.
[5] Less than $100,000.

Note: Totals may not add due to rounding.

TABLE VI.—AID OBLIGATIONS FROM SUPPORTING ASSISTANCE APPROPRIATION (INCLUDING SUPPORTING ASSISTANCE-TYPE OBLIGATIONS FROM CONTINGENCY FUND) BY REGION AND COUNTRY, FISCAL YEARS 1965–70

[In thousands of dollars]

Region and country	Fiscal years					
	1965	1966	1967	1968	1969	1970
Grand total	$485,515	$892,600	$757,913	$613,815	$467,153	$522,047
Near East and South Asia	38,536	42,348	34,036	18,978	4,312	
Afghanistan					[1] 87	
Ceylon		7,500				
India				[1] 7,321	[1] 730	
Jordan	33,000	32,000	32,000	10,175		
Nepal				[1] 45	[1] 222	
Pakistan				[1] 782	[1] 2,297	
Yemen	4,520	2,848	2,036			
CENTO	1,016					
Regional				[1] 655	[1] 976	

See footnote at end of table, page 316.

TABLE VI.—AID OBLIGATIONS FROM SUPPORTING ASSISTANCE APPROPRIATION (INCLUDING SUPPORTING ASSISTANCE-TYPE OBLIGATIONS FROM CONTINGENCY FUND) BY REGION AND COUNTRY, FISCAL YEARS 1965–70—Continued

[In thousands of dollars]

Region and country	Fiscal years					
	1965	1966	1967	1968	1969	1970
Latin America	62,544	100,153	50,312	26,103	2,321	3,912
Bolivia	4,752	3,200	450	4,950		
Colombia		1,475				
Dominican Republic	40,350	72,463	32,175	16,420	40	
Ecuador		10,000				
Guatemala			1,099		295	788
Guyana	5,800	1,278		2,500	115	
Haiti	1,397	2,386	1,400	2,000	1,871	1,570
Mexico	245					1,000
Panama	4,000	3,500	10,188	233		
Peru		836				
Surinam	1,000					
Trinidad and Tobago	5,000	5,000	5,000			
Regional		15				554
Vietnam	216,475	582,168	489,787	393,942	308,570	361,151
East Asia	124,777,	137,312	158,501	140,207	97,583	72,528
Burma	3,510					
Indonesia			31,065	12,500	[1] 1,500	
Korea	70,428	61,260	45,000	36,491	21,200	10,000
Laos	38,774	46,045	46,104	53,200	42,076	43,666
Philippines					[1] 1,400	
Thailand	12,065	30,008	36,332	36,691	26,298	18,862
Regional				[1] 1,325	5,108	
Africa	36,985	23,490	18,681	16,625	29,582	28,042
Congo (Kinshasa)	15,000	19,000	17,200	15,325	3,000	
Ethiopia	3,000			300		
Ghana					[1] 119	
Guinea	7,060					
Ivory Coast			275			
Kenya					[1] 133	
Liberia					[1] 279	
Morocco	10,000				[1] 156	
Nigeria—International relief effort					24,441	27,442
Rwanda		1,025	106			
Senegal		124				
Tunisia					[1] 223	
Uganda					[1] 73	
Central and West Africa regional					[1] 36	
Africa regional	1,925	3,340	1,100	1,000	1,121	600
Nonregional	6,198	7,134	6,598	17,960	24,785	56,414
U.N. relief and works agency						13,300
U.N. peacekeeping in Cyrpus	5,053			6,813		6,000
U.N. population program					[1] 2,500	[1] 4,000
Program support costs		957	280	[1] 405	[1] 1,431	1,982
Research					[1] 6,770	12,217
General technical services				5,741	7,640	6,441
Private resources						5,000
Participant services	195	327	444	343	555	
Dependent schools for construction			164	158		
Inspector general foreign assistant	100	103	100			175
Special programs (classified projects)	850	5,747	5,610	4,500	5,889	7,299

[1] Country or program utilized supporting assistance funds only or population programs authorized under title X of the Foreign Assistance Act.

Chairman PROXMIRE. In your statement you talk about developing force goals. How are those force goals developed? They were developed, as I understand in the past, at least, by the Joint Chiefs of Staff. Or were you referring to other goals?

Mr. IRWIN. The Joint Chiefs of Staff provide their JSOP each year, which is, in effect, their judgment as to the maximum security

posture needs of the military establishment of that particular country. The actual force goals are worked out in guidelines, both financial and general policy guidelines, from the Departments of State and Defense. The Country Teams translate that into what they think is the proper program for the country. Their recommendations come back to Washington, through usually the unified commands, and then are reviewed in Washington, and any changes required either on military or budget or policy grounds are made. Finally overall program figures are presented to the White House for review before going into the budget and then to the Congress.

Maybe Mr. Pickering would like to go into more specifics. He is more familiar with many of the details than I have been able to become.

Chairman PROXMIRE. I think that is a pretty good general response.

Does the Office of Management and Budget have a substantial voice in effecting these goals? Do they go into detail as to how much individual countries might receive, or do they simply say the amount is too much and has to be reduced?

Mr. IRWIN. My understanding is that they review it in some detail.

Chairman PROXMIRE. How many people are allocated by the Office of Management and Budget to this function, do you know?

Mr. IRWIN. I do not know, Mr. Chairman. We can inquire.

Chairman PROXMIRE. Can you give us a guess on that?

Mr. IRWIN. My colleague suggests five or six.

Chairman PROXMIRE. This is on a full-time basis throughout the year?

Mr. IRWIN. Yes.

Chairman PROXMIRE. You say that you do your best to ask countries to make hard choices for a balanced economy. What better way is there to make sure that there is a discipline of making a hard choice than to provide that so-called military assistance will be converted from a grant to a sales program? After all, then they have to make a hard choice. You can talk all you want to about a hard choice, but if you are going to give it to them, they are less likely to make it.

Mr. IRWIN. That is the ideal, Mr. Chairman. And I believe in past years the government has been moving toward that. They have phased out military grant assistance in most instances to the Middle East, Africa, Latin America, and even those areas that had in the past been heavy recipients of military assistance, grant military assistance, are gradually shifting more to credit sales. So I think the ultimate would be what you suggest.

Chairman PROXMIRE. We forever seem to try to reach the ultimate. We have all kinds of ultimates we would like to reach. We would like to withdraw troops from Europe some day, but it is always the next year or 3 or 4 years down the pike. We never seem to get there. What justification is there for providing grant funds for military purposes to a country if it is not under siege, or is just involved in some kind of conflict with a Communistt nation, such as South Vietnam is? I can understand that, of course.

Mr. IRWIN. Well, it is a judgment based on political and security grounds that it would be helpful to U.S. interests. For example, the

NATO countries which have had a great amount of grant aid would be Greece and Turkey, or in Asia it would be Iran and Taiwan.

Chairman PROXMIRE. We have had testimony from very competent witnesses who have said that it was almost impossible to envision a grant aid that would be adequate to enable Greece or Turkey to resist any kind of a military action from the Soviet Union, and that the motivation on the part of both Greece and Turkey for getting military assistance was so that they would be able to engage in military activities against each other.

Mr. IRWIN. That is not the basis on which the U.S. Government has made it available.

Chairman PROXMIRE. Do we calculate that we can give them conventional military assistance that would enable them to engage in an effective combat conflict with the Soviet Union?

Mr. IRWIN. We would assume that it would not be an effective combat just with the Soviet Union per se. We assume that if the Soviet Union were going to attack it would be on a broader front than just against one particular country. I think it is fair to say that the Government has assumed in the past, and I assume will assume in the future, that assistance to NATO countries is based on an overall NATO-Warsaw Pact relationship and not on what one individual country could do vis-a-vis the Soviet Union.

Chairman PROXMIRE. Has there been any participation in military assistance by any country other than the United States? Have we got any assistance from some very affluent, productive, prosperous country like Germany?

Mr. IRWIN. My colleagues say that Germany has; you are speaking of NATO or worldwide, sir?

Chairman PROXMIRE. I am talking about any country except the United States providing grant military assistance. In view of the fact that other free countries are prosperous, why haven't they been doing this?

Mr. IRWIN. You have Great Britain to some of the Commonwealth, and France to some of their former colonies, and I think Germany.

Chairman PROXMIRE. Germany has provided assistance, provides assistance now, or did this year or last year.

Mr. CHAPMAN. Germany has been providing aid to Turkey and Greece for a number of years.

Chairman PROXMIRE. On a grant basis?

Mr. CHAPMAN. On a grant basis.

And France to its former colonies.

Chairman PROXMIRE. How much?

Mr. CHAPMAN. The last figure for German military assistance I have in mind is $78 million.

Chairman PROXMIRE. To which country?

Mr. CHAPMAN. To Turkey.

Chairman PROXMIRE. And how much to Greece?

Mr. CHAPMAN. To Greece, I do not have that figure.

Chairman PROXMIRE. Is that for 1971?

Mr. CHAPMAN. That is for 1971.

Chairman PROXMIRE. Is this the only example?

Mr. CHAPMAN. France is providing assistance to her former colonies in Africa, the United Kingdom to members of the Commonwealth, and Belgium to the Congo.

Chairman PROXMIRE. So except for the assistance by France and the United Kingdom to their former colonies, the only example is Germany providing some assistance to Greece and Turkey, is that right?

Mr. CHAPMAN. That is right.

Mr. IRWIN. That is in the free world, of course.

Mr. PICKERING. I think you cannot ignore all the common defense arrangements in NATO, in which member countries make contributions to NATO which results in providing the material for all the NATO partners.

Chairman PROXMIRE. Can you supply those figures breaking down the contributions to NATO by the various countries? We would like to have that for the record.

(The following information was subsequently supplied for the record:)

There are NATO agreements on infrastructure for the following cost-sharing periods:

Cost-sharing period 1965–69	[1] $556.6 million
Cost-sharing period 1970–74	$700.0 million

[1] The amount originally agreed upon ($638 million) was reduced by 13%, the French share. The 13% share was redistributed proportionately when the French withdrew from the military alliance in 1967.

The agreed cost-sharing formula is:

	In percent		*In percent*
Belgium	5. 30	Norway	2. 98
Canada	6. 31	Portugal	. 35
Denmark	3. 54	Turkey	1. 26
Germany	25. 18	United Kingdom	12. 00
Greece	. 76	United States	29. 67
Italy	7. 58		
Luxembourg	. 20	Total	100. 00
Netherlands	4. 87		

In addition, expenses for the NATO Military Headquarters Budget run at present about $100 million per year, and for the NATO Civil Budget about $18 million per year. The U.S. contributes 30% and 24% respectively, with the Allies (except France) paying 70% of the Military Headquarters Budget and 76% (including France) of the Civil Budget.

It should be recognized, of course, that our NATO Allies also spend approximately $24 billion annually for defense purposes, most of it for defense in Western Europe.

This compares with the $3 billion a year that it costs the U.S. to maintain its current level of forces in Europe.

Chairman PROXMIRE. You talk about the proud military record of a country like Brazil—and we ought to look at it from the standpoint of Brazil—that they have slow planes and obsolete ships, and if we do not provide that assistance, provide the sales, at least, they will get it from other countries. Number one, I presume that is on a sales basis, is that right?

Mr. IRWIN. This has been; yes.

Chairman PROXMIRE. Is it now?

Mr. IRWIN. There is no grant assistance planned for Brazil that I know of.

Chairman PROXMIRE. What difference does it make whether we sell them the arms or not? Senator Fulbright pointed out that we are the principal provider of arms for other nations in the world. I am not so sure that this is a particularly proud first for the United States.

Why should we want to provide arms to Brazil so that free countries like France and other free countries of that kind do not provide them?

Mr. IRWIN. Under congressional limitations, we have limited the sale of arms to Latin America. And in consequence, some of the countries have turned and bought military equipment from France and perhaps other suppliers.

Chairman PROXMIRE. My question is, Why is that bad?

Mr. IRWIN. I do not know that it is bad. There is a certain amount of paternalism in saying that if you want to buy something, you should not do that. It puts the United States in a paternalistic position. And it also deprives the United States of sales and balance-of-payments earnings that might otherwise have been made available. But whether it is bad or not really depends on what purposes you wish to achieve. I think there is a dilemma, because it does seem foolish in many instances that a country wishes to have weapons that are more sophisticated than it perhaps needs. But there again the question is who should decide that, the country or the United States.

Chairman PROXMIRE. It would just seem to me that to the extent that we provide arms for a country like Brazil, that we tend to build up an understandable attitude on the part of the ambassador and others. We have to work after all with the heads of the government and do our best to be on their good side. And we have had examples given to us in which the Ambassador is very anxious to provide military sales or grant to a country that they cannot justify militarily.

What I am getting at is, as long as we get into this business it seems to me it is likely to inhibit more constructive relations with the country and an influence that can be more constructive and peaceful on the part of the United States. And unless there is a clearcut liability in our refusing to sell to a country like Brazil, it seems to me we just should not do it. The case ought to be very strong, the presumption ought to be very clear on the side of engaging either in grant or sale for us to go ahead with it, it seems to me.

Mr. IRWIN. The Government tries to take all those aspects into account. They try to take into account the effect on the economic or social development, the capability of a particular country to man and service and maintain the equipment. But at times there are judgments that the military or the political, as the case may be, reasons override, and it seems more advantageous to proceed along a particular course.

Chairman PROXMIRE. Before I yield to Congressman Conable, which I am going to do in just a minute, he has very kindly permitted me to ask another question. Does the Nixon doctrine require in your view an increase in military assistance; is it likely to?

Mr. IRWIN. It is likely to; yes.

Chairman PROXMIRE. Can you give us any notion of how much?

Mr. IRWIN. No, sir; I really cannot.

Chairman PROXMIRE. What is the reason behind that? I can understand that the Nixon doctrine did indicate that we would try our best not to involve our troops, we want to reduce the potential casualties, we want to have other countries do their fighting and dying. But I do not see how this necessarily implies that we would have to expend

more in the way of equipment or more in the way of funds. I would hope that it might result in our having to expend less.

Mr. IRWIN. I think in total amount we believe it will be less in the sense of measuring the cost of maintaining U.S. forces overseas and the equipment they might have and use.

Chairman PROXMIRE. I am just thinking of the military assistance aspect of it. After all, you might argue that in Vietnam we were following a doctrine which preceded the Nixon Doctrine, or whatever you want to call it, a doctrine of maximum involvement of American troops, we had over 500,000 troops. I think we will all agree that we had a massive military assistance program that was increased while the troop involvement was. It seems to me that if we push down the involvement of men, of American troops, we should also be able to reduce the funding. By far the largest part of our military assistance program has gone to countries where we have been militarily involved with our own troops.

Mr. IRWIN. The Nixon doctrine envisages a partnership still. And it still envisages the United States meeting its commitments. But as the United States lessens its involvement overseas, there will be instances, and quite a few instances, in which additional funds must be made available.

Chairman PROXMIRE. Would you give us an example of how this would work out?

Mr. IRWIN. Well, take Korea. We have withdrawn one of our divisions, and the Koreans have moved their forces to replace it. It is now a question of modernizing their forces, keeping them modern. If we are going to withdraw—for example, in the future if aircraft were able to be withdrawn—it might require additional aircraft to the South Korean Air Force. As we withdraw from Vietnam, if the South Vietnamese are able to maintain themselves and their present government, they will need equipment, and perhaps need a modernization of equipment. So it will increase the amount of military assistance. But overall we believe it will decrease the amount of total cost to the United States.

Chairman PROXMIRE. Let me take a good hard clear look at that. I might say, before I yield to Congressman Conable, I agreed yesterday with the chairman of the Senate Appropriations Committee that I would give up, reluctantly, the chairmanship of the District of Columbia Appropriations Subcommittee and take over the Foreign Aid Subcommittee. So I will be working closely with you. And I am looking forward to that.

Mr. IRWIN. Good.

Chairman PROXMIRE. Congressman Conable.

Representative CONABLE. Thank you, Mr. Chairman.

Mr. Irwin, do you see any real alternative to the Nixon doctrine and what it implies in terms of a continuing effective aid of various sorts, to the two extreme courses of sending the Marines ashore in order to maintain our influence in the world, or of retreating to Fortress America? Aren't we running some risk if we assume that the Nixon doctrine is going to involve a substantial reduction of foreign aid? Doesn't it, in fact, imply a continued high level of foreign aid, and hadn't we better make that message fairly clear to the American people at the time the Nixon doctrine is being ac-

claimed as a substitute for American bodies being shipped home from abroad?

Mr. IRWIN. You have stated it very well.

Representative CONABLE. I am concerned about the implication that somehow the Nixon doctrine is going to result in a substantially reduced foreign aid effort.

Mr. IRWIN. It certainly will not. As I say, we anticipate the military assistance foreign effort will increase in cost, but that the total overall cost, if you considered American forces abroad, et cetera, would decrease. And it is a matter of trying to get to the position that you say of avoiding having to put the United States into the degree that it has been in the past and on the other side retreating into the isolation of fortress America. So it is this middle course that will require large amounts of additional military assistance and economic aid.

Representative CONABLE. I do not see much alternative to it. I hope the government will constantly stress this as an alternative to the kind of thing that has happened in Vietnam. Despite the popularity of the Nixon doctrine, at this point, as an alternative to American troops being involved, after the troops come home we are going to have a pretty hard time maintaining the level of aid that is implied by this doctrine.

I am sorry to have been late in appearing this morning. I think there were more Congressmen than I who were delayed by an unnecessarily protracted participation in the congressional prayer breakfast.

I would like to ask you—I have been looking through your testimony here. At various points in your testimony you speak of MAP programs, sales of excess equipment, foreign military credit sales, economic supporting assistance, public safety grant assistance, service funded assistance, ship loans, activities of NATO, cash sales of military equipment, and P.L. 480 defense grants as well as transfers from the contingency fund. That is quite an impressive list. Is this the total of the forms of military assistance which we give?

Mr. IRWIN. Mr. Congressman, wo do not consider them all military assistance. The administration, in its new budget, will include in its international security assistance program: the military assistance program per se, which includes foreign military sales; supporting assistance, which includes public safety; and, of course, any contingency funds that are transferred. And then related to that, but not a part of the budget presentation, are the military assistance service funded activities in Thailand, Laos, and Vietnam, and possibly ship loans. And that would be where we would really stop with security assistance. The reason we have given figures on international military activities, such as military headquarters and NATO infrastructure, is because these figures have been referred to in this committee and have been asked for. And similarly with P.L. 480 and the transfer of real and personal property.

Representative CONABLE. Do surplus equipment transfers show up anywhere as a budgetary item?

Mr. IRWIN. No, sir; they do not appear in the budget, because they have already been purchased.

Representative CONABLE. That is an item, then, that it is going to be difficult for Congress to keep track of it unless there is some record of it somewhere?

Mr. IRWIN. There has been a restriction placed on the amount of excess that can be given. In 1971 it amounted to $100 million at one-third of acquisition cost, which permits under the regulation $300 million worth of equipment at acquisition cost.

Representative CONABLE. Are the totals of all these programs kept on a country-by-country basis and on an overall basis, too?

Mr. IRWIN. They have not been; no, sir.

Representative CONABLE. They have not been. Will they be kept in that way, or is there any way in which Congress can inform itself some way at a glance as to the total we have been talking about?

Mr. IRWIN. It has been my understanding in the past that they have not been able to. In our budget presentation, as I say, we do include a broader scope when we speak of international security assistance. That still would not include all the items that would be related to that. But we have pulled together some of the figures, and I think it can be pulled together, if that is the congressional wish.

Representative CONABLE. Is there anywhere in the government one person who would be aware of the extent of all the programs taking place?

Mr. IRWIN. There would be people aware of the extent of each of the individual programs. But they may not have totaled up the sum total at a particular moment in time.

Representative CONABLE. One of our great problems here is to get some overview of the total impact of programs for which we have to bear some ultimate responsibility. And the great problem in as far-flung a government as ours is to try to achieve that overview in a form Congress can understand and use. Any way we can get together this kind of information is, of course, helpful to us.

Mr. IRWIN. Of course, all of the information is available in Congress. It isn't, of course, pulled together in a sum total by any one committee, nor is it given that way by the executive.

Representative CONABLE. I think that is the difficulty this committee has had in trying to get a complete picture of the total amount of aid that has been given. That difficulty has, of course, affected the credibility of government in this respect simply because it has been so apparent that nobody really knows what the total is. That is the reason I raise the issue as to whether or not it would not be desirable to try to have someone bring this stuff together so that we could take a look at the total dimension.

I realize, as I think responsible Congressmen must at this point, the commitment implicit in the Nixon doctrine, and the need to understand the dimensions of that commitment. One of our problems in the past here has been that we have made commitments which we thereafter were unwilling to describe, or were unwilling to confront. And it has seriously affected the credibility of government, not only in this field but in many other fields of commitment as well.

Mr. Chairman, that is all I have, sir.

Chairman PROXMIRE. I would like to follow up on what Congressman Conable has talked about, because we get an entirely different figure from you than we got from the Defense Department and from

other witnesses who appeared. I am inclined to accept your information as the best, partly because it is the latest and particularly because I think you are in the most authoritative position to give us an answer. According to the figures in your statement military assistance will total about $5 billion in the fiscal year 1971, excluding sales and excluding the give-aways that Congressman Conable referred to; that is, the giveaways of military equipment in Thailand and Vietnam.

Representative CONABLE. Call it something else, Mr. Chairman, besides that classic word "giveaways."

Chairman PROXMIRE. All right, the donations to our staunch allies in Southeast Asia, whatever you want to call them.

At any rate, you call it military assistance—and I am referring to your table that you submitted in your statement—you call it military assistance—the international security assistance totals $2,130 million for this year.

Mr. IRWIN. Yes, sir.

Chairman PROXMIRE. And then you have an item called military assistance service funded. Why in the world shouldn't that be called military assistance? Because the State Department does not provide it, the Army, Navy and Air Force do, to foreign countries. It is for the purpose of military defense. Why shouldn't that be considered military assistance?

Mr. IRWIN. Well, it is presented in two different budget items. The international security assistance program is presented—the $2,130 million is presented in the foreign assistance budget, and the other in defense. But I think it perfectly proper to total them.

Chairman PROXMIRE. Add $2,130 million to $2,177 million. That takes aid up to $4,307 million.

Mr. IRWIN. And then if you add the $100 million up in the second line as the excess, you would really come to the total of just over $4.5 billion.

Chairman PROXMIRE. The reason I would go higher than $4.5 billion is because of vessels and ship loans, combatant ships and noncombantant vessels, why isn't that part of the military assistance?

Mr. IRWIN. I think that would be perfectly feasible to include too.

Chairman PROXMIRE. I can understand why you would not include international military activities, international military headquarters, NATO infrastructure and pay allowances. But I would disagree with you. I take it your position is that our forces are involved too?

Mr. IRWIN. That is correct.

Chairman PROXMIRE. And at the same time foreign forces are involved in large numbers, and this is for the purpose of combined operation. And maybe that is in a twilight position, but if you add it in, at any rate it would add up to a total of $5 billion, and if you do not add it in it adds up to a total of $4½ or $4.6 billion?

Mr. IRWIN. That is right.

Chairman PROXMIRE. So it is in that area of $4½ to $5 billion in your view.

This does not include, however, either military sales or the value of the equipment that is given away, which would not exceed $300 million?

Mr. IRWIN. I included in that total figure the $300 million. But we included it, I think, at $100 million.

Chairman PROXMIRE. According to my figures it should be $4.8 and $5.3 billion.

Mr. IRWIN. It would be included at $100 million, which is what the Congress authorized. The military headquarters would not be included for two reasons. First, we are paying a portion of it and using that portion, and the other countries are paying a portion and using the other portion.

Chairman PROXMIRE. Isn't the budget deceptive when it does not include the defense military assistance? You have just conceded that it can be properly classified in that category, and yet the budget does not include it. We would like a budget that is complete and accurate.

Mr. IRWIN. In my statement I did mention that we were expecting that, as the war phased down in Southeast Asia and additional funds in the future were needed, they would come back into the regular military assistance program.

Chairman PROXMIRE. I understand that military assistance service funded—it does not go just to Vietnam, but it goes to Thailand, and as I understand it, to South Korea, the Philippines and other countries?

Mr. IRWIN. No, just to Laos, Thailand, and Vietnam.

Chairman PROXMIRE. Laos, Thailand, and Vietnam. Of course, we are giving military support to a military action by the South Vietnamese in Laos, so I can understand why Laos would be included. Why Thailand?

Mr. IRWIN. I think because our forces have been working very closely with Thai forces, and our air forces have been using Thai territory for bases. And there are Thai forces in Vietnam.

Chairman PROXMIRE. Why did we have such a sharp increase in 1971? The figures that you have here, if we add them up for 1970, show the military assistance as $3.2 billion, and it just goes to $5 billion, and any way you figure it it is an increase of about 70 percent or so. And the program has grown substantially over the past 5 years. I think that fact has not been generally understood either in the public or Congress, and the previous reports and insertions in the budget document created the impression that military assistance has been going down. That was accomplished, of course, by reporting only the MAP portion of military aid, which was a small fraction of the total program. Why has that been going up so sharply, especially the last year?

Mr. IRWIN. This last year I think $500 million was authorized for Israel. There have been additional amounts because of Cambodia, and additional amounts because of Korea, where we are pulling out our forces and trying to upgrade their equipment.

Chairman PROXMIRE. This year it would account for part of it, $500 million. What is the rest of it?

Mr. IRWIN. Cambodia and Korea. There may be other items too, but those are the principal items.

Chairman PROXMIRE. Can you supply the committee with estimates of the total military assistance program, including all the components itemized in the annex statement for the next 5 years?

Mr. IRWIN. For the next 5 years?

Chairman PROXMIRE. For the next 5 years. I am asking for estimates. I hope you are closer than the present assessment was last year of the surplus in the budget that was anticipated for 1971.

Mr. IRWIN. Frankly, I do not know, Mr. Chairman. I will have to take a look at how far out we can really go with any reasonable estimates.

Chairman PROXMIRE. You see, it is just of critical importance for us to know what the Nixon doctrine really means in terms of dollars and cents. I think Mr. Conable made a very strong and persuasive argument that it might well cost more. We would like to know how much more. And I think this is one of the functions of the Department of State, to give us their best estimates. Again, I would not expect you to be precise. But it would be very, very helpful if you could tell us what you had in mind. And the best way to do it is to give us the hard figures.

Mr. IRWIN. The only way to get a true balance would be not only to give you the true figures of how much in military assistance, but how much less in overall U.S. military expenditures. And this is very difficult to do. And so the implication of it depends on how one uses it, whether it is overall savings or just military assistance to allies.

Chairman PROXMIRE. I just hope that we do not fall into the trap of feeling that because the Vietnam war is winding down—and I give the President strong credit for it, he reversed what the Johnson administration did—that is going to save not only in money, but more importantly in lives and many other ways. But I would hope that because of this we do not feel automatically that we can justify a big increase in military foreign assistance. That has to be justified on the basis of its own merits.

Mr. IRWIN. I agree.

Chairman PROXMIRE. And it may be very hard to do that. And maybe we should go another way.

Mr. IRWIN. It certainly should be justified on its merits and should be looked at very closely.

Chairman PROXMIRE. You gave a very interesting statement which includes figures for fiscal 1971. I want to ask you some questions about those figures later on. But first I want to ask you about the classification problem. Why should any portion of the military assistance program included in the service funded parts be hidden from public view? You said you are going to review that.

Mr. IRWIN. Yes.

Chairman PROXMIRE. Do you have any arguments other than the ones that General Warren and others have given to us?

Mr. IRWIN. I think there are other arguments than have been given. It deals with the strategy of the country, it deals with their force postures, it deals with their total overall strategic strength.

Chairman PROXMIRE. How would the overall national security be endangered if the American taxpayers were allowed to know what foreign governments were receiving military aid, and the amount from the United States?

Mr. IRWIN. They do know that. They do not know it in detail. They do know it a year after it has been authorized. I think the country figures are declassified a year later. So the question you are weighing

is—is it needed to be known a year sooner, or is a year's time so important—weighing that against the sensitivity of the foreign country.

Chairman PROXMIRE. It is absolutely vital, if we are going to control the program, we have to know the details of the program, and we have to be able to justify the program and whether or not we should give this huge amount to Thailand and this huge amount to Korea.

Mr. IRWIN. It is completely known to Congress, Mr. Chairman.

Chairman PROXMIRE. It is known, but it cannot be debated or discussed or examined or considered in the newspapers. We have an open society and an open Congress. It is much easier to get the attention of our colleagues if we can get it in the paper than make a speech on the floor. If you want to keep it a secret, say it on the floor. But if we can get it in the newspapers and have it discussed publicly—and, of course, if you want to keep it in the committee, very few people can attend, because in the Senate we have so many responsibilities. And if you are not on that particular committee your chances of knowing how much goes to these various countries is very small, not because you cannot find out if you want, but because you have heavy responsibilities in your own area of assignment.

I have gone over my time, and I apologize to my colleagues.

Congressman Brown has come in. He has not asked, but I will yield to Congressman Brown first.

Representative CONABLE. Will you yield to me first?

Chairman PROXMIRE. Yes.

Representative CONABLE. I would like to say that I understand the need for some sensitivity on this classification business. And I think you can make the same arguments for any classification, or against any classification that have been made here.

I question whether in every case it would be desirable to declassify information wanted by an advisory committee of this sort if it is available to the committee directly responsible. And I think that is one of the questions of judgment that we have to face up to here in Congress constantly.

Chairman PROXMIRE. May I say it is available to this advisory committee. All we have to do is get it. My argument is that it is not available to the public, and until it is we just won't go into it, for many reasons.

Representative BROWN. I will ask Mr. Irwin to comment on that. Do you think it is appropriate that these things be debated in the Washington Post, or more appropriate that they be debated in the Congress? I am trying to figure out what the delicate lines of responsibility are here. And it seems to me it is a military responsibility to set the policy and a congressional responsibility to inform ourselves, even though it may be difficult sometimes and require a little extra effort; but to inform ourselves of what the administration policies are and try to comment on them within the framework of the system as set up.

Now, is there some way that we can invite Walter Lippmann and others to take up the cudgels on these things so that we can get the attention of those members who prefer to read the Washington Post or the Congressional Record?

Mr. IRWIN. Heretofore, of course, all the past administrations have ultimately opted for the need for keeping the information classified. And from time to time there have been reviews. And as I said in my statement, we are going to reexamine this question within the administration and come up either with a change or a reaffirmation that we feel it should remain classified.

Representative BROWN. I concur in the Chairman's comment. I think there is a tendency in the Congress to be more attentive to the press than to our jobs. And, I think, it is a shame, frankly, because, I think, it has lowered the quality of the service that members of Congress perform, hopefully for their constituents, in the operation of the government. But the press is very influential. I think it is apparent from the fact that your appearance at this hearing is not getting quite the attention that some of the other testimony before this hearing got.

But, of course, you are advocating the Administration's position, I understand that.

Chairman PROXMIRE. Will you yield just on that point. I hesitate to interrupt, but I point out that if Mr. Irwin had been able to come when we asked him to come, when Congress was not in session, you would have television cameras and all the works. You still have the quality of the press here this morning, but you would have had the mass of the press here. You are just scheduled so that you do not have a lot of things.

Mr. IRWIN. I am grateful for the low profile.

Representative BROWN. Where were you when you could not be here before, Mr. Irwin?

Mr. IRWIN. I was flying to Iran. I was on a trip to the Middle East.

Representative BROWN. For any good purpose?

Mr. IRWIN. That yet remains to be seen. It was on the question of this oil negotiation in Iran.

Representative BROWN. I am sorry I missed the opportunity to give it to the Washington press.

May I ask you, what are the alternatives to the military assistance program as envisioned by the Nixon doctrine? Has there been any development of thought within the administration and/or the State Department—I am not sure those two things are the same—with reference to the Nixon doctrine as it applies to military assistance programs, the alternatives? What are the other choices that we have as to military assistance programs?

Mr. IRWIN. Well, on the broad basis, Mr. Conable spoke of the choice between either greater involvement of American forces, as in the past, or withdrawing to isolation. The hope and expectation of the Nixon doctrine is that the United States can assume a lower profile, less participation than in the past, and compensate for that by the less costly way of more costly military assistance.

Representative BROWN. For the benefit of the press, are there any other advantages to this program? In other words, it may be more costly in dollars, but less costly in long-range costs, is that what you are saying?

Mr. IRWIN. Yes, sir.

Representative BROWN. And in American lives?

Mr. IRWIN. Yes, sir.

Representative BROWN. Does it offer any other advantages, the possibility, for one, of having the time to exercise options? Don't we have a little time when somebody has to meet the brunt of the challenge as to whether or not we are going to commit American troops or not commit them, whether we are going to offer additional assistance in a military or financial sense, or not commit them?

Mr. IRWIN. I think that would be a very good one.

Representative BROWN. And if, in fact, we are faced with worldwide confrontation, what is the disadvantage there?

Mr. IRWIN. I would think the American forces could be much better deployed for such an emergency. Rather than having to withdraw back to the United States because they are deployed in scattered areas of the world, they would be deployed to the individual countries, so that they would be in a better posture to defend those countries or participate in their defense.

Representative BROWN. In the case of a world war confrontation, assuming it is not nuclear at the outset, we have the opportunity, not only to determine whether to respond, but the nature of that response; and to prepare for the response which we make, not what the other countries make. There is necessarily here some loss of total control on our part of all of the reactions, I gather; some loss of control of what the reaction might be in the case of an attack on the periphery of the free world; is that right? Assuming that the country is the beneficiary of military assistance I assume that that country has the option of the use of that resource?

Mr. IRWIN. There might be some loss, but I think even now it would be a question of consultation. And so I would think consultation in the future might give the United States an opportunity at least to have a voice in any circumstance. It might have less of a voice if it had no troops in the country than if it had a division of troops. But it seems to me that that is well worth the cost.

Representative BROWN. So you are telling me that the military assistance program provides the opportunity for a liaison with that country with reference to the use of that program, but also I gather with reference to other policies that the recipient country may be——

Mr. IRWIN. It would not necessarily be a requirement, but I think it would be a practice worked out. In fact, I think as it is worked out there have been consultations.

Representative BROWN. Getting from the general philosophy of the program, then, to the specific nature of our assistance to certain countries, has the liaison been, from your standpoint as a representative of the State Department, well balanced between the interests of the State Dpartment and the military where they are in conflict, let us say?

Mr. IRWIN. I am not sure I understand your question.

Representative BROWN. Has the liaison with the recipient country from the United States been well balanced between the interests of the State Department and the interests of the defense establishment in this country?

Mr. IRWIN. I think generally so. I am sure if you look you could pick out examples that might be less well balanced, but I would think generally speaking it has been well balanced.

Representative BROWN. Has there been a general superiority of one of the departments over the other in the determination of our military assistance programs and the liaison maintained with the countries with reference to the use of those programs?

Mr. IRWIN. No; I would think not, Mr. Congressman. I think the State Department has set policy over the years, and the Department of Defense has administered the program. But I think the ultimate policy has been in accord with the overall administration policy. You are speaking more of history.

Representative BROWN. We had one historical presentation here from the Honorable Chester Bowles who suggested that our relationship with Pakistan and India has been unfortunate historically; and that we had provided Pakistan with military assistance which could only, in a practical sense, be used against India, and that this had caused a deterioration in our relationships in—I do not know what you call it—the Central East, or the southern part of the Asian Continent. Would you care to comment on that?

Mr. IRWIN. I would prefer not to, not having been in the Government for these past 10 years.

Representative BROWN. I do not want to be facetious entirely about the problem of the relationship between our foreign policy and the methods of its presentation to the country and to the Congress. But there has been a line that has run through this whole hearing. I wonder if you have any positive suggestions as to how the Congress might be brought more directly into a consideration of these matters and better informed, on the assumption that we are not as well informed as we would like to be, as the Chairman pointed out, regarding American foreign policy and its development. Is this the kind of thing that can be laid out on a continuing and successful basis in a public forum?

Mr. IRWIN. No; I think it is not, Mr. Congressman. I think the committees that are concerned in Congress are fully informed on these aspects, on both a classified and in some cases an unclassified basis. But there are many aspects of the overall security assistance and military assistance and foreign policy that of necessity must be dealt with in classified form with the congressional committees.

Representative BROWN. I have observed in a limited period of time in Washington that there are specialty areas within the executive branch of the Government that deal with specific problems, even as the State Department has a specialized area in foreign relations. And there are specialized areas within the Congress, the committee system, which has as its responsibilities the accumulation of sophisticated knowledge and background about our relationships. And then this is presented from the committees to the Congress at large. I observe in the press from time to time—and I do not mean to be taking off on the press, that is what I do in real life—but I have observed in the press from time to time that those who are not necessarily specialists in the area on which they express their viewpoints get about as much ink as the people in the system who are supposed to be the specialists and are supposed to be those who either determine policy or implement it through the congressional process authorized and appropriate for it. And I do not know how we can resolve that problem in our society. I am not sure we can, can we?

Mr. IRWIN. I think it is very difficult to have everyone completely expert on all the different matters that come before Congress or come before the executive. And, I think, you have to have some specialization. And that, I understand, is the basis for the congressional committee system and the responsiveness of the executive to those committees.

Representative BROWN. So those of us in the Congress generally who are not on the committees of expert knowledge, presumed expert knowledge, I guess just have to sort of criticize from a distance from time to time unless we are willing to get in and dig ahead of time and have our inputs from the committee assistance and the executive branch when the considerations are being made.

Thank you very much.

Chairman PROXMIRE. Mr. Irwin, under the law the committees of Congress are authorized to request departments of the Government 5-year projections of our programs. We raised this question with the full committee last year on military and related budgets. We were told that the information had not been asked for by the relevant committees. Let me state for the record now that as chairman of the Subcommittee on Foreign Aid of the Senate Appropriations Committee I will request from you and expect to receive those 5-year estimates for programs that in my view are related to the Nixon doctrine, specifically the military foreign assistance programs. And as I say, the law is very explicit and clear on that. And, I think, it is useful now to have as much notice as possible, because I am sure that it will take some time to put that together if you have not already done it.

Have you done it already?

Mr. IRWIN. Not to my knowledge.

My colleague says there has been some background work done on it.

Chairman PROXMIRE. Fine. That is most helpful.

Then I take it that it would be practical to have that available in the next 3 months?

Mr. IRWIN. We will do our best to furnish it, Mr. Chairman.[1]

Chairman PROXMIRE. What troubles me most about your arguments against declassification of this information is that there is not any argument that I have heard against it. Of course, there are very strong arguments about declassifying some of the information on our weapons systems, the deployment of some of our troops, and many other military aspects simply have to be kept secret. They would be of great value to a foreign country if they knew. But in this case we disclosed all of the financial information, all of the cost of our own defense program. Nobody has questioned it. We disclose that. And yet we do not disclose the amount that we provide to foreign countries for their defenses. This just does not make sense. If our funding of our own defense can be disclosed in detail, in minute detail, in our budget, at least in the appendix to the budget, why shouldn't we disclose financial information about our American aid to foreign countries? Are there any additional thoughts you have on that?

Mr. IRWIN. Basically it is the sensitivity of the foreign countries. And the question is whether or not we should say that other countries should not be sensitive just because we are not. But there are other practical difficulties.

[1] The information referred to by Mr. Irwin for inclusion in the record was not available at the time of printing the hearings.

Chairman PROXMIRE. The U.S. taxpayer is pretty sensitive about these billions of dollars going into this program.

In the annex to your statement you include a table showing food for peace programs uses for common defense or military purposes. Has this country-by-country breakdown been made public before today? I have not seen it.

Mr. IRWIN. You refer to table I?

Chairman PROXMIRE. Is that the country-by-country breakdown?

Mr. IRWIN. It is headed at the top "table I, Public Law 480, title I." It shows $75.7 million for Vietnam in 1970 and $32.3 million for Korea.

Chairman PROXMIRE. Has that been made public before today?

Mr. IRWIN. Mr. Chapman says it is provided in an annual report on Public Law 480 that is made public.

Chairman PROXMIRE. According to this breakdown only two countries have used food for peace for military purposes since 1966, is that correct?

Mr. IRWIN. That is my understanding, Mr. Chairman.

Chairman PROXMIRE. How do you explain the fact that only two countries in the entire world have used food for peace for military purposes in the past 5 years?

Mr. IRWIN. Both of them had true security problems. Why the others may not have sought it is difficult to determine. I think the basic problem in both countries was the need for food, which the program provided. But then they used the local currency funds for defense purposes, in most cases not for weapons.

Chairman PROXMIRE. I understand that.

Mr. IRWIN. When I was sitting in the back I heard the preceding witness speak of using food for peace for weapons. Of the total amount of the food for peace under this defense section it is my understanding that 96 percent of it has gone for items other than weapons. So a very small portion goes for weapons.

Chairman PROXMIRE. In other words, in the proposal which Senator McGovern and I both approve, which is to delete from the law the provision that part of the funds generated for food for peace would go for common defense purposes, it does not seem to me that would be any problem. We do have problems getting funds for military assistance. And if any other country wanted to come into the program for military assistance, presumably it should be paid on the basis of getting military assistance. This other provision for using the program for food seems contradictory.

Mr. IRWIN. The first requirement is that they need the food. Then there is an amount of local currency that is available, that is either available for the United States or the particular country. And the country decides what it may best use to support its own security and stability, how best to use those funds. Most countries have not needed it for security purposes.

Chairman PROXMIRE. My point is that if it needs it for security purposes it should make a case on that basis rather than in my view perverting the food for peace for war.

Mr. IRWIN. It has made a case on that basis, Mr. Chairman, although it has made the case within the context of those particular funds.

Chairman PROXMIRE. Does the administration or the State Department object to putting all military assistance information in a single annual report to Congress?

Mr. IRWIN. No; I think it is a question of pulling it all together.

Chairman PROXMIRE. Wouldn't it be valuable to do that so that we would have it together?

Mr. IRWIN. I think it would be a useful figure.

Chairman PROXMIRE. Would you object to such a report on the comprehensive and unclassified basis?

Mr. IRWIN. No; not as far as my knowledge of it goes, Mr. Chairman. This is what we tried to pull together this morning, this $2.1 or $4.5 or $6.6 billion, depending on how one calculates it.

Chairman PROXMIRE. You oppose prohibiting the use of food for peace programs for military purposes, or have you not decided on that and you are considering it now?

Mr. IRWIN. I would, at the moment, tend to oppose it. But I think it is something that should be studied, and probably one should not comment on it until one knows more of the specifics of such a prohibition.

Chairman PROXMIRE. In response to a request for a breakdown of U.S. commercial military sales by contract, you replied that the data available to the State Department is not yet automated. In other words, you cannot give us the breakdown. Why not?

Mr. IRWIN. Too many man-hours, I believe, Mr. Chairman. Once we get it—if we do get it—automated, then these figures would be more easily obtained.

Chairman PROXMIRE. How would that be such a big man-hour problem? I think that could be done very easily.

Mr. PICKERING. I might mention that there are something like 30,000 licenses a year processed, and over the years this amounts to a tremendous number of individual cases.

Chairman PROXMIRE. Would it be better to take the first hundred firms?

Mr. PICKERING. We would have to first determine what are the first hundred. We hope to be able to do that when we have this process completed.

Chairman PROXMIRE. All firms that have more than a million dollars, something of that kind. That would eliminate 96 or 97 percent of your contractors.

Mr. PICKERING. I don't know the individual volumes. There are some problems here about the contractor's privacy of business relations and that kind of thing that we have to consider as well.

Chairman PROXMIRE. A practical approach of any kind—even if you could only give us the biggest contractors—would be most useful, I think.

Mr. PICKERING. As you know, we do provide both classified and unclassified data on the total of U.S. military exports. And that is available to the Congress.

Chairman PROXMIRE. It seems contradictory for the State Department to license commercial military sales to foreign governments but

not keep any record on the sales themselves. As I understand it you cannot report on the annual sales of any given contract or to any recipient country; is that right?

Mr. PICKERING. We can report on the annual sales to any recipient country, but not by contractor, because of the problem that Mr. Irwin mentioned in regard to man-hours.

Chairman PROXMIRE. But I cannot see any other reason. We know how much each contractor sells to this country, we know the biggest ones, at least, we know how much Lockheed sells and the various other contractors sell.

Mr. PICKERING. I presume so. This involves the sheer volume of the licensing business. There are 30,000 or more issued annually.

Chairman PROXMIRE. Your statement makes no mention of the economic impacts of military aid on the recipient countries. This was specifically requested in my letter to the State Department. We were led to believe that you would be testifying on this matter. How do you explain its omission?

Mr. IRWIN. I covered it very generally in the sense that the——

Chairman PROXMIRE. You said you did your best to avoid an adverse impact. You did not give us what we asked for, which is the economic impact on the countries, no specifics at all, not even an example.

Mr. IRWIN. I regret not having met your wishes.

Chairman PROXMIRE. Will you see what you can do for the record and see if you can at least give us some examples or some of the leading countries that do receive military assistance and some judgment as to economic impacts?

Mr. IRWIN. Yes, sir.

(The following information was subsequently supplied for the record:)

There is a variety of analyses which we undertake or have made and which from different approaches seek to insure that military assistance does not have an adverse effect on the economic development of recipient countries:

Both AID and military missions provide in their annual country program submissions an analysis of the state of the recipient country's economy and a judgment of the impact of aid programs.

In the context of country studies in the NSC system, the economies of the countries are analyzed to ascertain how much of a defense burden they can assume, and how much assistance is required.

Ad hoc studies within the Executive and by outside consultants are undertaken to examine special aspects of our programs.

We attempt to monitor ongoing programs to see that military expenditures of recipient countries are not out of line with those of other countries in the area and do not have an unexpected adverse effect on economic development. This is done primarily by keeping up-to-date statistics on the relevant economic indicators: GNP, defense budget, military imports, etc. We recognize that this method has limitations because many statistics are lacking and many are uncertain. Nevertheless, from experience, we believe they do provide a kind of alert system that permits further examinations of cases which markedly exceed the norms.

While a full study is not available on an unclassified basis, the following are examples of studies and analyses which have been done as well as some illustrative excerpts which we have declassified:

Korea.—Some months ago we undertook a major study on Korea to determine its defense requirements and to relate these to its economic capabilities projected over five years. With the force modernization program now underway, we continue to review Korea's national income, GNP, level of defense budget, pattern of spending as between defense and economic/social purposes,

and foreign exchange position to ascertain what impact the program will have on the economy and what resources Korea will have available for all its needs.

Ethiopia.—In 1968, a special team undertook a study of the military and economic aid programs to Ethiopia to determine how these might best be used to assist in the achievement of a more rapid and/or a more effective rate of development. Following is a sanitized version of the section on Economic Growth and Defense Expenditures:

"The economic growth rate in Ethiopia, measured in GDP terms, was about 4.5% per annum between 1966 and 1969, which while not striking probably is reasonable, given the fact that Ethiopia is at an early stage of growth. In this regard the question we asked ourselves was: Is it reasonable to expect a continuation of a 4.5% rate of growth over the succeeding five-year interval, 1970–1974, given the expected level of defense expenditures? If the answer to this question were "yes", as is probable, then we would conclude that Ethiopian performance would be considered understandable.

"The defense expenditures for 1963–1970 and the 1971 budget estimate are as follows:

"Defense expenditures [1] *(million Ethiopian dollars)*

1963	50.8	1968	86.8
1964	84.8	1969	86.8
1965	95.9	1970	85.3
1966	118.6	1971	89.1
1967	98.4		

[1] From Imperial Ethiopian Government "Statistical Abstract".

"A breakdown of the 1968 and 1969 Ethiopian figures is as follows:

"DEFENSE EXPENDITURE BREAKDOWN

[Million in Ethiopian dollars]

	1968	1969
Personnel	60.1	65.8
Commodities	20.3	17.5
Other	6.4	3.5
Total	86.8	86.8

"Defense expenditures by the Ethiopian government in the next few years are estimated to increase about 4% annually. This projection assumes that the 2nd Ethiopian Army division in Eritrea will remain in a combat-ready stage throughout the period, that the overall force level will remain at 40,000, and that the Military Assistance Program will continue to provide a large portion of the military's offshore needs. Clearly the (Ethiopian) defense expenditures estimates would have to be adjusted upward . . . if the troop level exceeded 40,000 significantly, or if the U.S. ceased to provide offshore needs and an alternative grant supplier could not be found."

Turkey.—In the past year, we undertook a major study on Turkey to try to determine what our future programs to this country should be. The study necessarily includes a fairly extensive analysis of the economy. In 1968, the Rand Corporation prepared a study of "Issues in Turkish-American Relations". Following are unclassified extracts from an appendix to that study related to the economic impact of military assistance:

"In this appendix we attempt to determine the likely economic impact of a cut in Turkish military aid programs. For purposes of analysis, we must separate this impact into two components: (1) the budgetary impact, the cost in lira of the greater Turkish defense expenditures motivated by the cut: and (2) the foreign exchange impact, the cost in foreign exchange of the greater imports of military hardware resulting from the cut.

"The budgetary impact of the MAP cut appears relatively small and probably could be borne by the Turkish economy. Yet, an attempt by Turkey to redress the cut from its own resources would add to already substantial inflationary pressures in Turkey. These, in turn, could increase opposition

to the present government similar to opposition that led to the overthrow of the Menderes regime in 1960. For this reason, one should not altogether dismiss the possible budgetary consequences of the cut.

"BALANCE OF PAYMENTS IMPACT

"For forty years Turkey has, in effect, followed a policy of autarky, encouraging import-competing industries and discouraging export industries. The principal means by which Turkey has maintained this policy include a persistently overvalued rate of exchange, prohibitions on capital outflow, and a variety of trade controls, the most important being import quotas and absolute prohibitions on most imports for which Turkey has a domestic production capability. One result of this policy is that foreign transactions are now an exceptionally low proportion of gross national product for a country of Turkey's size and level of economic development.[1] It is a common judgment that a major constraint on Turkey's economic growth resulting from trade controls has been a shortage of certain types of imports, especially of raw materials and spare parts.[2] If true, a cutback in MAP, by increasing demands on Turkey's free foreign exchange and incentives for greater import restrictions, could adversely affect the Turkish economy.

"Beginning in 1964, Turkish exports have increased yearly at an annual rate of 8.3%.[3] This growth has occurred almost entirely in Turkey's traditional exports—cotton, tobacco, hazelnuts, and raisins. If Turkish exports continue to grow at this rate they would reach $779 million by 1972.

"A part of this increase in exports can be attributed to greater sales to the Soviet Union and eastern European countries.[4] One might object that these exports do not earn convertible currencies needed to purchase military hardware from the West. To the extent that imports from the Soviet bloc are substitutes for imports previously obtained from hard currency countries, greater exports to bloc countries would permit greater military imports from western Europe and the United States. In other words, imports are, to some extent, fungible. In any event, most of the increase in Turkish imports reflects improved markets in western Europe, Japan, and North America. Roughly 70% of the increase in Turkish export earnings after 1963 resulted from sales to hard currency countries.[5] This suggests that the growth in Turkish exports also reflects a more favorable competitive position for Turkey's traditional agricultural exports and, possibly, Turkey's increasing ability to assume the balance of payments burden of a MAP cut.

"One might also object to a 1972 export projection of $779 million on the grounds that Turkish exports have apparently stagnated since 1967. The principal reason for the negligible increase in exports between 1967 and 1968 was a 27% drop in tobacco sales abroad resulting primarily from a decline in demand in the United States.[6] The decrease in Turkey's tobacco export earnings has offset increases in other agricultural export earnings. For this reason, we are reluctant to assume continued growth of Turkish exports at the same rate achieved during the last four years. To obtain a more modest estimate of exports in 1972, we assume that tobacco earnings will remain constant while other exports increase at eight percent a year.[7] This would involve an overall increase in Turkish exports of about 6.3% a year and would yield a projection of export earnings of $709 million. In subsequent

---

[1] Johnson and Johnson, p. 26. See also Krueger, pp. 466–470.

[2] For example, see Aliber, pp. 1–2. A survey of Turkish firms by USAID/Ankara, while giving support to this view, finds that many Turkish firms have been able to adjust to import shortages and that other factors also seem to have inhibited Turkish industrial growth. USAID/Ankara, *Turkey's Import Control System and Its Effect Upon the Private Industrial Sector*, October 1966 (Unclassified).

[3] Turkey's exports were $523 million (fob) in 1967.

[4] See Tables 2 and 3. The increase in the Soviet bloc share of Turkish exports from a low of 7% in 1962 to nearly 17% in 1967 resulted from conclusion of several bilateral trade agreements between Turkey and bloc countries, one result of Turkey's improved relations with these countries. It should be noted, however, that exports to the Soviet bloc fell from over $50MM in 1958 to the 1962 low of $26.6MM. The early 1960's provide an abnormally low base for measuring the rate of increase in the bloc's share of total Turkish exports.

[5] This percentage varies quite widely depending on the base year chosen.

[6] International Monetary Fund, *International Financial Statistics*, October 1968. See also *Cumhuriyet*, August 20, 1968; and *Yeni Gazete*, July 30, 1968.

[7] The annual rate of increase in Turkish exports other than tobacco between 1964 and 1967.

analysis we assume $779 million as an upper estimate and $709 million as a lower estimate of foreign exchange earnings from exports in 1972.

"Even though Turkey's recent performance in exports has, on the whole, been encouraging, with some change in existing policies, Turkey could probably increase its exports at an even more rapid rate. Possible policy changes include devaluation and a more aggressive program for export promotion, perhaps by means of export subsidies. Various government actions have also tended to discourage mineral and lumber exports.[8] Were Turkey's foreign exchange position put under pressure by a cutback in economic and military assistance, the government might be willing to alter some of its policies. If so, exports could conceivably reach $1.0 billion by the middle 1970's.[9]

"In only three years, workers' remittances rose from a negligible level to become Turkey's largest source of foreign exchange other than exports. These emittances are the repatriated savings of about 175,000 Turkish workers in western Europe, roughly 80% of them in West Germany. In late 1966, however, concern in northern European countries over the growing number of workers from the Mediterranean and a slowdown in the West German economy resulted in reduced hiring and termination of the visas of many Turkish workers. Emigrants' remittances peaked at $115 million in 1966; in 1967 they fell to $93 million, and data for the first half of 1968 indicate that remittances are continuing to fall.[10]

"However, recent developments may indicate future growth in foreign exchange earnings from this source. The number of workers going abroad began to increase in 1968. If this trend continues and, equally important, if the special rate of exchange for Turkish workers abroad remains effective in moving remittances through official channels,[11] the fall in remittances could cease and may even be reversed. In subsequent analysis, we assume that remittances will equal $100 million in 1972. This is substantially lower than Turkish government and AID estimates made two years ago when prospects for continued high rates of growth in remittances seemed considerably brighter.[12]

"Despite modest efforts by the Turkish government to encourage tourism, Turkey has had the same negative balance on travel account year after year. Turkey's problem has been, in part, its inability to attract the large number of tourists visiting neighboring Mediterranean countries. Even then, there has been some increase in visitors to Turkey during this foreign exchange earnings from tourism. The reason is that, until recently, it was relatively easy and lucrative for the tourist dollar to enter the black market.[13]

"In 1968, however, the Government of Turkey enacted a special rate of exchange for tourists, and several months later extended this rate to all foreigners in Turkey, including foreign embassy and military personnel. The Government of Turkey also allowed Turkish banks to open foreign exchange accounts. The initial results of these policy changes appear to have been favorable. By September, it was reported that foreign exchange earnings from tourism, when seasonally adjusted, had more than doubled. Probable 1968 earnings from tourism were put at $40–$45 million, compared with $19 million the previous year. In addition, in the two months following the government's decision to permit foreign exchange accounts in Turkish banks, these accounts allegedly reached $20 million.[14] If they continue to grow, they could become a major source of foreign exchange credits for the Turkish nation. It is probably too soon to tell what the long-run impact of these policy changes will be. Again, much will depend on whether the tourist rate of exchange remains competitive. In the expectation that these policy changes

---

[8] For a more detailed discussion of policies affecting Turkish exports, see USAID/Ankara, "Turkish Exports", mimeographed paper, circa 1965.

[9] One official at AID/Ankara has estimated that European demand for hardwood is sufficient for Turkey to earn at least $200 M per annum from this export alone.

[10] Turkiye Is Bankasi A. S., *General Economic Conditions in Turkey in 1967*, Ankara, Turkiye Is Bankasi, 1968, p. 22. See also Turkiye Is Bankasi A. S., *Review of Economic Conditions*, May–June 1968, p. 5. By June 1968, workers' remittances for the year were $36 million, off more than 10% from the previous year. If this rate continues through the second half of 1968, workers' remittances would fall to about $83 million for the entire year.

[11] By means of a speial bonus on repatriated savings, Turkey, in effect, maintains a separate rate of exchange for emigrants equal to about TL 11 to the dollar.

[12] See Table 4.

[13] Johnson and Johnson, pp. 17–18.

[14] *Cumhuriyet*, Sept. 13, 1968 and *Milliyet*, Sept. 13 & 29, 1968.

will not be reversed in one way or another, in subsequent analysis we accept AID's projection of earnings from tourism in 1972—$115 million.[15]

"We assume that insurance and freight will amount to 6% of the 1972 level of exports. We also assume, arbitrarily, that other current account receipts will continue at the 1966 level, $108 million. In the absence of evidence that Turkey will make a special effort to attract foreign private capital, we project that foreign exchange earned in 1972 from this source will continue at its 1963–1965 level, $30 million. This compares to $75 million projected by AID and Turkey's State Planning Organization. Finally, AID's current plans are for Turkish economic aid obligations to terminate by 1972 if Congress does not force termination sooner. We therefore assume that Turkey will receive no compensatory foreign assistance in 1972, even though Turkey may continue to receive some foreign aid in the form of third country assistance, residual U.S. expenditures, or the aid component of concessional credit sales.

"In Table 4 we make a projection of Turkey's foreign exchange earnings in 1972. Our projection, $1,106 to $1,176 million, is roughly comparable to projections by Turkey's State Planning Organization and the U.S. Agency for International Development. The less optimistic assumptions we make about future remittances and private investment in Turkey are offset by our more optimistic assumptions about future exports.

"In 1967 Turkey had an external public debt of $1.7 billion.[16] Scheduled repayments during the Second Plan period are expected to total $430 million, with an additional $250 million in interest charges; in 1972, annual debt repayment is expected to be about $70 million.[17] The present schedule of repayments is not likely to result in an intolerable drain on Turkey's future foreign exchange earnings.

"Military credit sales could result in an increase in Turkey's external debt of between 3 and 8% a year assuming, as a base, the 1967 debt level. Autonomous foreign exchange earnings have grown by 12% a year since 1963,[18] and will probably continue to increase by at least 7%. Therefore, the increase in Turkey's external debt would be manageable as long as other external obligations are incurred at a negligible rate. This, however, is not very likely, especially in view of the simultaneous increase in foreign indebtedness likely to follow the cessation of economic aid.

"Repayments would pose a severe problem if credit sales are of relatively short term. Under present credit sales programs, the balance of payments impact would be deferred five years at most and would be only slightly less burdensome than if Turkey had paid for military imports from its own foreign exchange earnings. Annual debt repayments could treble by the mid-1970s, with most of the annual increase in Turkey's exchange earnings having to be allocated to repayment of debts acquired because of military purchases.

"All things considered, the balance of payments impact appears likely to be the most severe consequence of the MAP cut as far as the Turkish economy is concerned.

---

[15] AID's estimate was based on the assumption that the government would adopt a special rate for tourists.
[16] Turkiye Is Bankasi A. S., *Economic Indicators of Turkey, 1963–1967*, p. 8.
[17] USAID/Ankara, *Draft Multi-Year Strategy Statement—Turkey*, pp. 6–8.
[18] Computed from data presented in Table 1.

"POSSIBLE CHANGES IN TURKEY'S ECONOMIC POLICY

"The Turkish government could obtain the needed foreign exchange in several ways:

(1) Greater Tightening of Trade Controls

"Perhaps the most likely immediate response by the government would be its traditional response to foreign exchange crises—a tightening of controls over imports. Turkey maintains a number of trade controls, including tariffs and an import deposit scheme. However, the major vehicle of Turkish trade control has been quantitative limitation on imports by means of three basic lists: the liberalized list, the quota list, and the "yok" or prohibited list.[19] Commodities on the liberalized list can be imported freely. Commodities on the quota list can be imported subject to receipt of an exchange license. Importation of all other commodities is prohibited. A major distinction among commodities on the three lists is whether or not they are produced in Turkey. can be produced in limited amount, or can be produced in an amount sufficient to satisy domestic demand. Until recently, commodities were frequently transferred from one list to another in response to the easing or tightening of Turkey's foreign exchange position. One of AID's accomplishments has been to get Turkish agreement to suspend this practice.

"The Turkish economy has accommodated itself to the import control regime. Most Turkish firms have been able to find domestic alternatives to unavailable imports, although they have often done so at relatively high cost. Yet, cost may be of little matter because trade controls also keep more competitive imports out of the country. The Turkish population, having learned to live with the regime, may find it relatively easy to bear the additional restrictions required to divert foreign exchange from non-military to military imports.

(2) Greater Promotion of Exports, Tourism and Foreign Private Investment

"On the more positive side, the cuts may encourage Turkey's efforts to increase its foreign exchange earnings. The Turkish government has resisted policies that would stimulate exports of minerals and timber. Underlying this attitude has been the belief that exports of timber and minerals would deprive the nation of irreplaceable assets and would amount to 'capitulations.'

"The Turkish government's resistance to policy changes that would increase foreign exchange earnings should not be underestimated. Yet the pressures on Turkey's balance of payments may be sufficient to overcome some of this resistance. Turkey's recent adoption of a special rate of exchange for tourists is a case in point. For years, even though the government was willing to give Turkish nationals working abroad a special rate of exchange, it was unwilling to extend this rate to foreign tourists in Turkey. One factor in overcoming opposition within the government may have been the likelihood of diminishing aid levels."

---

[19] In practice, the "yok" list does not exist. It is simply a common designation for all commodities not included on the other two lists. There are, in addition, special lists for imports under barter agreements, program assistance, and other special arrangements.

TABLE 1.—TURKEY'S BALANCE OF PAYMENTS, 1960–66

[In millions of dollars]

	1960	1961	1962	1963	1964	1965	1966
AUTONOMOUS TRANSACTIONS							
Current account expenditures:							
Imports (f.o.b.)	−422	−448	−567	−588	−475	−505	−639
Insurance and freight	−53	−61	−82	−79	−75	−72	−79
Travel	−8	−12	−18	−21	−22	−24	−26
Investment income [1]	−31	−37	−35	−40	−42	−45	−43
Other services and transfers [2]	−44	−51	−56	−54	−56	−60	−67
Total	−558	−609	−758	−782	−670	−706	−854
Current account receipts:							
Exports (f.o.b.)	336	365	399	395	433	479	494
Insurance and freight	19	18	23	31	25	23	34
Travel	[3] 5	[3] 5	8	8	8	14	12
Workers' remittances	[4]	[4]	[4]	[4]	8	70	115
U.S. Government common defense and off-shore purchases	40	34	23	22	23	7	17
Additional expenditures by U.S. and other foreign governments [5]	11	29	35	31	41	53	47
Other services and tranfers [6]	32	38	35	46	43	45	54
Total	443	489	523	533	581	691	773
Current account balance	−115	−120	−235	+249	−89	−15	−81
Capital account transactions:							
Private long-term capital [7]	16	36	43	29	30	29	20
Repayment of debts [8]	−42	−53	−54	−54	−68	−68	−70
Other capital transactions [9]	24	−70	11	−24	26	−55	−53
Total	−2	−87	-------	−49	−12	−94	−103
Net errors and omissions	31	33	−31	−2	−12	−29	−15
Autonomous transactions balance	−86	−174	−266	−300	−113	−138	−199
COMPENSATORY TRANSACTIONS							
Foreign assistance [10]	141	189	226	227	161	203	203
Monetary movements [11]	−55	−15	40	73	−48	−65	−4

[1] Includes income and profits remitted abroad, income paid into blocked accounts, and interest paid on external obligations.

[2] Includes miscellaneous external payments by the Turkish Government, nonmerchandise insurance, private transfers, and central government transfers.

[3] Tourism only. Data obtained from USAID/Ankara, "Economic and Social Indicators—Turkey," Ankara, June 1966, p. 29 (unclassified).

[4] Indicates negligible amount.

[5] Includes all U.S. Government expenditures, other than receipts from the United States for common defense and off-shore purchases, and all foreign embassy and consular expenditures in Turkey. U.S. Government expenditures from holdings of Turkish lira are also included.

[6] Includes investment income remitted from abroad, income paid into blocked accounts, private transfer payments (including U.S. surplus agricultural commodity grants through private agencies), and Government transfer payments (including some U.S. and other Government grants for defense support and economic and technical assistance).

[7] Includes direct foreign investment, foreign holdings of Turkish bonds, and net drawings on U.S. Government loans.

[8] Includes repayments on post-EPU debts and loan repayments by the central government.

[9] Commercial arrears (net) and miscellaneous trade credits (net).

[10] Includes most U.S. Government grants for defense support and economic and technical assistance and technical assistance grants from other sources, drawings on foreign government or international agency loans, and changes in foreign government, and international agencies' holdings of Turkish lira.

[11] Includes gold movements, changes in central and commercial bank assets and liabilities, and adjustments in IMF accounts.

Source: Unless otherwise specified, data are estimated from International Monetary Fund, "Balance of Payments Yearbook—Turkey," vol. 19, Washington, 1968.

TABLE 2.—DESTINATION OF TURKISH EXPORTS, 1960–67

[Millions of dollars; in parentheses, percentage of DOT total exports]

	1960	1961	1962	1963	1964	1965	1966	1967
Total exports (direction of trade data)	319.2	345.8	380.9	367.9	410.9	454.2	490.6	522.5
Soviet bloc and Communist China	39.0 (12.2)	30.0 (8.7)	26.6 (7.0)	35.4 (9.6)	37.8 (9.2)	67.6 (14.9)	74.5 (15.2)	87.8 (16.8)
United States and Canada	58.9 (18.5)	65.8 (19.0)	75.8 (19.9)	50.7 (13.8)	73.7 (17.9)	81.7 (18.0)	81.1 (16.5)	94.1 (18.0)
Common Market	107.4 (33.6)	128.6 (37.2)	154.1 (40.5)	139.9 (38.0)	137.6 (33.5)	153.9 (33.9)	171.5 (35.0)	176.6 (33.8)
Other Western Europe	73.3 (23.0)	73.0 (21.1)	89.4 (23.5)	106.4 (28.9)	118.4 (28.8)	102.6 (22.6)	114.5 (23.3)	101.1 (19.3)
Middle East	35.1 (11.0)	41.7 (12.1)	31.4 (8.2)	30.6 (8.3)	37.8 (9.2)	38.0 (8.4)	35.9 (7.3)	32.0 (6.1)
Japan	1.3 (0.4)	2.1 (0.6)	1.7 (0.4)	3.0 (0.8)	1.8 (0.4)	5.2 (1.1)	8.2 (1.7)	26.5 (5.1)
Other	4.2 (1.3)	4.6 (1.3)	1.9 (0.5)	1.9 (0.5)	3.8 (0.9)	5.2 (1.1)	4.9 (1.0)	4.4 (0.8)

Sources: International monetary fund, "Direction of Trade: A Supplement to International Financial Statistics," Washington, IMF, annual 1958–62, annual 1962–66, and monthly, March 1968. Direction of trade data may differ slightly from "Balance of Payments Yearbook" data presented in table 1.

TABLE 3.—TOTAL INCREASE IN TURKISH EXPORTS, 1964 THROUGH 1967, ACCORDING TO DESTINATION

	Increase in exports over the average of 1960 through 1962	
	Millions of dollars	Percentage
Total increase in exports (direction of trade)	493.8	100.0
Soviet bloc and Communist China	140.1	28.4
United States and Canada	63.4	12.8
Common Market	119.6	24.2
Other Western Europe	122.2	24.7
Middle East	−0.7	−0.1
Japan	34.9	7.1
Other	14.3	2.9

Source: Computed from data contained in table 2.

TABLE 4.—PROJECTED TURKISH FOREIGN EXCHANGE EARNINGS IN 1972

[In millions of dollars]

	RAND [1]	SPO [1]	USAID/ Ankara [2]
Exports (f.o.b.)	709–779	720	625–755
Workers' remittances	100	170	170
Tourism	115	115	115
Insurance and freight	44	(3)	(3)
Private long-term capital	30	75	75
Other autonomous receipts	108	(3)	(3)
Total autonomous receipts	1,106–1,176		

[1] See text of sec. VI.
[2] USAID/Ankara, "Draft Multi-Year Strategy Statement—Turkey," memorandum to AID/Washington, Apr. 26, 1967 pp. 6–12.
[3] Not available.

Chairman PROXMIRE. Have any studies been made to your knowledge in the State Department of the economic impact? It seems to me absolutely crucial that those studies should be made.

Mr. CHAPMAN. There are statistics compiled by a committee under the chairmanship of AID to try to arrive at a judgment on the impact of military expenditures of individual recipient countries on their economic development. So there is a continuing effort in this regard.

Chairman PROXMIRE. Can you submit any analysis?

Mr. CHAPMAN. Yes.[1]

Chairman PROXMIRE. We would like to have that, because in judging this program it seems to me it is essential to have that element. We have spoken of it again and again. And Mr. Irwin did speak of it very well in general terms. But there were no specifics at all, and until we have that we cannot evaluate this, we have to guess at it.

Mr. Brown.

Representative BROWN. This is a lower level function, isn't it? Doesn't AID require its field officers to make comments on the economic impact of military assistance programs to the host countries, the recipient countries, and criticize them if they feel it is an undesirable impact?

Mr. CHAPMAN. There is a continuing requirement on the missions and the embassies abroad to assure that there is no adverse economic impact because of military expenditures.

Representative BROWN. Is that what you are going to supply to the committee, an example of this kind of critique?

Mr. CHAPMAN. Of statistics that have been compiled on countries.

Representative BROWN. Presumably that is resolved in each individual instance, is it not, when the critique comes in then the issue is resolved prior to the military assistance program fund advancing?

Mr. CHAPMAN. That is right.

Mr. IRWIN. That would be so.

Representative BROWN. Table II in the annex that you have submitted, Mr. Irwin, I gather is really a reading in the 1960 to 1964 category of the distribution of funds based on the threat that the State Department has asserted existed in those countries during that period of time; is it not?

Mr. IRWIN. Yes, sir; on the basis of both State and Defense planning.

Representative BROWN. And the response of the country as to its willingness to participate in the program of mutual assistance.

Mr. IRWIN. That would be true, although all of the countries would not necessarily be in an alliance with the United States.

Representative BROWN. I understand.

Mr. IRWIN. But they would have had to have agreed with the mutual security agreement.

Representative BROWN. They are not going to get the material unless they have had some kind of liaison agreement with this country on its receipt and its utilization under certain circumstances.

Now, may I ask whether the understandings on utilization—first, whether there are specific understandings that do exist, either formal or informal, on the utilization of military assistance equipment?

Mr. IRWIN. Yes; there are.

---

[1] See response on p. 334.

Representative BROWN. And how are these arrived at?

Mr. IRWIN. They would be arrived at by negotiation between the United States and the particular country.

Representative BROWN. And to what extent are they reviewed and updated in terms of the host country or in terms of the State Department or the Defense Department?

Mr. IRWIN. They would be updated annually in the sense that each program would be an adjustment of what had gone before.

Representative BROWN. And are they updated only by Defense, or only by State, or who carries the American interests in this kind of negotiation?

Mr. IRWIN. It would be State, Defense, and AID, all three would have a measure of input into it. And there may be others too, but those would be the principal ones.

Representative BROWN. And where there would have been or might be some—I do not know whether to call it a violation of the agreements reached or some concern expressed on the United States' side of the ledger about the utilization of this equipment—how has that generally been handled? Is that handled on a country-by-country basis? Is there a general policy of responding to that kind of concern about the use outside the agreed area?

Mr. IRWIN. I think it would be handled on an individual basis, country-by-country.

Representative BROWN. With reference to classification on these tables, can you comment on that classification?

Mr. IRWIN. These are unclassified.

Representative BROWN. I find in table II a triangle indicating classified data.

Mr. IRWIN. That is omitted. But the figures that are furnished are obviously unclassified.

Representative BROWN. My question is, Can you give me some indication as to the parameters of the classification, why the classification is included here?

Mr. CHAPMAN. I think there are very few programs that remain classified today. But in the past for differing reasons programs of certain countries were kept classified. There was in the past a country that attached a good deal of importance to its reputation for neutrality, and yet was receiving aid. And it was considered at that time on balance well worthwhile, providing them assistance and yet helping them preserve their neutrality.

Representative BROWN. I have no further questions, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Irwin. You have been most helpful. I would appreciate it very much if you could respond for the record in the respect we have asked you in the committee.

Our final witness this morning is Mr. Charles Wolf, Jr., Chairman of the economics department of Rand Corp., a man with a fine background and a man who can help us very greatly in this respect.

Mr. Wolf, I want to apologize for having detained you. You were most courteous to wait so patiently. We are looking forward to your testimony. So you may proceed in any way you wish. If you skip any material your entire prepared statement is to be placed in the record.

STATEMENT OF CHARLES WOLF, JR., CHAIRMAN, DEPARTMENT OF ECONOMICS, RAND CORP.

Mr. WOLF. Thank you, Mr. Chairman, and Congressman Brown.

It is a privilege for me to appear before you to discuss the military assistance program.

I think you have copies of my prepared statement, so I will not read it. But what I would propose doing, if this is agreeable to you, is to touch on some of the major points and perhaps to elaborate on those that may be a little bit obscure or terse in the body of the prepared statement.

Let me start with a couple of introductory comments about my own qualifications and disqualifications to talk with you about this subject. I have been interested in and fairly familiar with these programs for some considerable number of years. I served on the Asian Subcommittee of the Draper Committee in 1959, which was the presidential committee to study the military assistance program at that time. And I have been engaged in a number of studies before and since then of various problems, some of which I will allude to in the course of my remarks.

On the other hand, during the last couple or 3 years I have not been closely associated with these programs. So I may have to respond to some of your questions either with ignorance or obsolete information. And I hope you will bear with me if that situation arises.

As I understand it from your letter of invitation, Mr. Chairman, there are three principal questions that you are concerned with, specifically, the costs, the organization and management, and the economic impacts of military assistance programs. I understand further from your letter and from a brief conversation with the committee staff that it might be most helpful if I were to concentrate on the last of these issues of economic impacts of military assistance in recipient countries. And that is what I propose to do.

Let me turn, then, to this specific question and say quite frankly that there are two sharply contrasted views as to the effects on economic development in recipient countries of military assistance programs.

The first view, which I refer to in this prepared statement as the "Resource Diversion," or RD view, is essentially that military assistance takes resources away from economic development. This happens or can happen in the case of resources and funds that are required for operation and maintenance expenditures connected with the hardware, the equipment we provide. It can also happen with respect to the time and attention of key policymakers and decisionmakers in the recipient countries, so that they have less time and attention to devote to development programs.

So, according to this RD view, the effects of military assistance tend to slow down development as well as to distort the composition of development that occurs.

The second opposed view, which I refer to as the "Resource Addition" view, argues that military assistance has the effect of augmenting resources that are available to recipient countries. These increments can become available either directly in the form of roads,

bridges, depots, harbors, or even jeeps, and trucks, or they can become available indirectly in the form of enhanced literacy and semiskilled and skilled training of military manpower, which then turns over into the civilian economy. But in either or both cases the effect essentially is to augment the resources available for the recipient country's economic progress. And as a consequence, the RA, "resource addition" view, suggests that, in fact, military assistance has the consequence of accelerating economic development in recipient countries.

Now, I think it is worth mentioning in passing, that there is no necessary connection between the position one takes with respect to resource addition or resource diversion, and the position one takes with respect to military assistance. One could take the resource diversion view and still say that military assistance was desirable and warranted because of other benefits, for example, security benefits, that ensue from it. One could take the "resource addition" point of view, and still argue that military assistance is not warranted because it is too costly or because it has other undesirable side effects.

I might say frankly that I think the "resource diversion" view is probably more typical or more frequently encountered. And from some of the testimony that I have had an opportunity to glance at before this committee, I think that view has been more frequently presented. My own opinion, which is a minority one, which I will try to justify in a few minutes, runs more toward the "resource addition" view. And I will try to explain why soon.

But I think rather than talking in generalities about one view or the other, it may be more useful to do two different things. One is to look at particular country examples that seem to corroborate one view or the other view. And the other is to look for those conditions under which one might anticipate that the RA view or the RD view would be more likely to apply to the future, on the assumption that the world is complex and varied and there is not likely to be one of these views that exhausts the possible or likely consequences.

My own view would be that if one is looking for examples of the RD model, a number come to mind. And as I say in my prepared statement, the cases of India and Pakistan, which I gather Ambassador Bowles also referred to, as well as Castro's Cuba, are examples. My judgment on these cases—this would be with respect to the 1960's—would be that had we provided less assistance to India and Pakistan, with the diminution allocated in a balanced way—not less to one and the same to the other, but less to both and perhaps none to both—that in fact the consequences would have been for development expenditures to be larger and security related expenditures to be smaller, and for the development record of those two countries to have been more favorable.

I think similarly in the case of Soviet military assistance, which has not been alluded to before, had that assistance to Cuba in the 1960's been less munificent than it was, the economic record of Cuba would have been less dismal than in fact it has turned out to be.

On the other hand, I think there are examples one can cite of countries that conform more closely to the "resource addition" view. And I think of three: Korea, Taiwan, and Thailand. I have had some direct experience over a number of years in Korea, which I

refer to in this prepared statement, and somewhat less in the other two countries. So the judgment is perhaps less competent in the two latter cases. But it is my feeling, especially in Korea, that security assistance has made a considerable contribution to the quite remarkable record of economic growth of that country over the last half a dozen years, which has been the highest rate of growth in real terms, both aggreate and per capita, of any country in the developing world. I think Taiwan and Thailand also provide examples of this model.

Now, in general, if one looks at the conditions under which one or the other models would be likely to apply, it seems to me that the view one chooses to adopt in particular cases is likely to depend on the answers that one gives to two critical questions relating to the alternative uses to which resources would have been put, or would in fact be put, looking forward, in the absence of military assistance.

The first alternative-use question concerns what use we ourselves would make of the resources that we devote to military assistance: would those resources in fact be appropriated for development purposes? I think your judgment is obviously much more qualified on that question than mine, because it relates essentially to the question of predicting what the Congress would enact. My own judgment would be rather negative on that question: had we appropriated, or if we in fact appropriate less for security assistance, the diminution would not be available for developmental purposes.

The second question relates to the alternative use to which the recipient country's own resources would be put in the absence of our own military assistance; in other words, would they diminish their own military allocations if we were to diminish ours? My judgment on this question, based on experience in a number of countries that I have referred to, and some that I have not, is really quite strongly negative. The reason essentially is that military security expenditures frequently command a very high priority in these countries, frequently a higher priority than development programs. In other words, it is often the development programs that are the marginal ones, rather than the defense programs.

I think we can perhaps more easily understand the question of which is the marginal or lower priority claimant on resources, in countries like Israel, Korea, or Thailand which are faced with a more evident threat. But I think the fact of the matter is that it is also an important reality in the national priorities of other small and insecure countries around the world. So that again as a matter of fact, rather than of preference, the effect of military aid may well be to release resources for development purposes. And conversely, reductions in military aid may well result in reducing resources for development.

Let me then just summarize what I have said. My own reasons for favoring the RA view over the "resource diversion" view are based both on the direct experiences that I have had in the countries that I have mentioned, as well as the generally negative answers that I would give to those two questions concerning alternative resource use.

Let me turn now from the specific question of the impact of military assistance on development, to the broader, but closely related, question of whether a high rate of defense burden tends to be as-

sociated with a low rate of economic growth. To get at some sort of relevant data from the standpoint of providing an answer to this question, I borrowed from some work done by a colleague of mine at Rand a couple of years ago, which updated some work I had done a number of years before that, to try to answer that question. And I have summarized these numbers in the table of my prepared statement, which I might try to elaborate on, because it may not be entirely clear. This is the table labeled "Is a Heavy Arms Burden Associated With a Low Growth Rate?"

What I have tried to do in this table is to arrange the 19 countries of Latin America—and Latin America was chosen simply because of data availability considerations—to arrange those countries, excluding Cuba, on a two-way scale, in terms of two diffferent metrics. One measure is the arms burden, the proportion of defense expenditures, over the 1950's and mid-1960's, to gross national product. And that is the horizontal ordering. So that the row labeled "High" and "Low" show respectively those countries that have had an arms burden in percent of defense expenditures to GNP above the median or below the median respectively, with respect to the entire set of 19 countries.

The upper half, those in the top row, are the countries whose arms burdens have been higher than the median. The lower row, labeled "Low," are the countries whose defense burden has been below the median.

The second metric is the growth rate during the corresponding period. And again the ordering shows that, for the left-hand column, the countries that appear there under "High" are those countries whose GNP growth rate was at or above the median. And the countries that appear in the second column labeled "Low" are the countries where the gross domestic product growth rate was below the median.

On the two figures in parenthesis next to each country separated by a semicolon, the first figure represents the first of these two scales, that is, the defense burden, and the second figure following the semicolon shows the rate of growth in national product.

Now, if I could just try to distill from this some partial answer to the question that the table poses: Is a heavy arms burden associated with a low-growth rate? As far as these data show, the answer to that question is emphatically negative. Countries with heavy arms expenditures in relative terms are not countries by and large with low-growth rates. Countries with low arms burdens are not by and large countries with high-growth rates. In fact, the data suggest that there is some warrant for an alternative hypothesis: namely, the hypothesis that high-defense burdens and high-growth rates tend to be associated, and low-defense burdens and low-growth rates also tend to be associated.

I want to emphasize, in case there is any chance of my being misunderstood, that I am not in any sense implying causation. In fact, I would be happy to go into some explanation of these results, which I do not think are really as surprising on second thought as they may seem on first glance. This does not, however, imply causation running in either direction. It does not imply that high arms ex-

penditures lead to rapid growth, nor does it imply that rapid growth leads to high-arms expenditures.

But notwithstanding that caution, and some other cautionary remarks that I make in the prepared statement, about these data and about the unwarranted inferences that one should avoid drawing from them, I think the data are at least of interest in testing the intuitions or preconceptions about the relationships that are involved.

I do not want to be misunderstood in what I have said so far. Specifically I do not want to be interpreted as saying that military programs, either ours or those of other countries, should be justified by virtue of their favorable economic impact. Even if there are such favorable impacts, it seems to me that military programs are a high cost way of buying development. There are more efficient ways of doing this.

The primary justification for military assistance or security assistance programs, I think, must be found in other directions than in terms of their economic impact.

It seems to me this justification lies in helping other countries to meet reasonable defense goals based on two considerations: one based on their own demonstrated credentials for helping themselves; and the other based on the premise of some diminuation, some reduction, in our own involvement abroad. It seems to me, against that background, the justification for security assistance stems basically from the principle of comparative advantage. Where the United States and another country or countries have some security goals in common, it makes sense (a) for us to contribute to some extent at least, to those goals, and (b) to provide that contribution in forms that are efficient for us to provide, to provide it in a relatively efficient way, such as military equipment and technical advice. And it makes equal sense for the other partner country or countries to make their contributions in ways, such as military manpower, that are more efficient for them to provide. In the example of Korea that I cite in my prepared statement, it turns out that the operating costs of ground forces in general, are something like one-twentieth to one-thirtieth as much for Korean forces as for our own forces, whereas in very gross terms, the effectiveness of those forces is perhaps one-third the effectiveness of our own. So there is a leverage factor of somewhere between seven and 10 against which to trade off some reductions in our expenditures and forces and manpower against some increases in theirs.

I think this general principle of comparative advantage has provided the underlying rationale for most of our military assistance in the past several decades. And I believe this is also the rationale at the core of the Nixon doctrine that Mr. Irwin has referred to in his statement.

Let me say finally that it seems to me if handled properly security assistance programs can be quite generally complementary rather than conflicting with international development programs. There are a number of ways in which each of these programs can help to advance the purposes of the other program. For example, economic development programs can raise the effectiveness of military security programs by increasing the resources on which local defense budgets can draw, and thereby diminishing the need for U.S. assistance, as

well as raising the educational and literacy levels on which the military can draw.

On the other hand, if development is to move forward in these countries, security has an important role to play. It is important that the environment be more predictable for savers, investors, workers, and other economic decisionmakers. And security programs that contribute to improved law and order and reduced insecurity, have this effect.

Furthermore, military programs can complement and advance economic development programs by adding to the stock of joint civil and military infrastructure, and also by raising the quality of human resources through military service and training that then is turned over to the civilian economy. I think something of this sort has had a very major effect in the case of Korea's economic development as I mentioned earlier.

So, in conclusion, I think one point that has not come up, at least in the testimony that I have had the privilege of reading before coming, is that potential complementarities between these two programs are considerable. They ought to be more carefully identified and more fully exploited than they may have been in the past.

Thank you very much.

Chairman PROXMIRE. Thank you, Mr. Wolf.

We will place your prepared statement in the record at this point.

(The prepared statement of Mr. Wolf follows:)

PREPARED STATEMENT OF CHARLES WOLF, JR.[1]

Mr. Chairman and members of the committee, it is a pleasure to appear before this Committee in response to the Chairman's letter of invitation of January 11, 1971.

Of the three subjects that I understand these Hearings to be principally concerned with (namely, the costs, management, and impact of U.S. military assistance programs), the Committee staff has asked me to concentrate on the third, and more particularly to concentrate on the impacts of these programs on the economic development of recipient countries.

The remarks I will make are based on more than a dozen years of familiarity with these programs. In 1959, I served on the Asian Subcommittee of President Eisenhower's committee to study the Military Assistance Program, under the Chairmanship of William Draper. (As you may recall, the Draper Committee was one of the nine presidential committees that have been organized within the past two decades to investigate and report on various aspects of U.S. foreign assistance programs, economic as well as military, and on the relationships between them.) Since my association with the Draper Committee, I have from time to time done analytical studies on various aspects of these programs. However, I would ask the Committee to bear in mind that I have not been in close touch with these programs for the past two or three years.

Let me turn to the specific question you have raised. There are two sharply contrasting views of the effects of military assistance on development in the recipient countries.

One view, which I shall refer to as the "resource diversion" (RD) view, is that military assistance diverts resources from economic development. Both local resources and foreign exchange may be diverted by the recipient, for example, in order to operate and maintain the equipment received under the military assistance program. The diverted resources may also include the time and attention of top decisionmakers, as well as non-negligible fractions of the limited supply of administrators and skilled technologists in these countries.

[1] The author is head of the Rand Corporation's Economics Department. Any views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of The Rand Corporation or the official opinion or policy of any of its governmental or private research sponsors. Papers are reproduced by The Rand Corporation as a courtesy to members of its staff.

According to the resource-diversion view, military assistance therefore tends to retard development, as well as to distort it by increasing the relative size of the military sector, and by reducing the margin available for civilian capital formation and skill formation.

The second position, which I shall refer to as the "resource addition" (RA) view, argues that resources provided through military assistance represent additions to the recipient's economic base that are likely to advance its development. These resource additions include not only such increments as roads, harbors, warehousing, trucks, jeeps, and power generators, which may directly augment what is available to the rest of the economy. They also include such increments as may become available indirectly through increased supplies of better trained and more productive manpower coming into the civilian economy after receiving military training. The resource-addition view suggests that military assistance is likely to accelerate economic development and technological progress in recipient countries.

Incidentally, it is worth noting that logically, rather than ideologically, neither of these two views implies any conclusion with respect to the desirability or "value" of military assistance. One might adhere to the resource-diversion view, but nevertheless argue that the programs were fully justifiable on *other* grounds, despite these adverse effects. Or, one might adhere to the resource-addition view, but still contend that the programs are too costly for the benefits they provide, or that they are accompanied by other undesirable side-effects.

I would guess that the resource-diversion (RD) view is probably more frequently encountered, although my own opinion runs along the resource-addition (RA) line, for reasons I will explain in a moment. In any event, choosing between the two views is better approached on the basis of specific country experience rather than general theorizing. Instead of thus "choosing" a single "view," we might search for the conditions under which the one and the other, respectively, hold; recognizing that the *world* is unlikely to conform to only one pattern of this kind.

Turning to specific countries, one can cite examples that appear to sustain each of the two views. For example, my own judgment would be that the resource-diversion view would apply during the 1960's in India and Pakistan, as well as in Castro's Cuba. If the U.S. had provided less military assistance to India and Pakistan (that is, less to *both*, with the reductions applied in a balanced way, or had provided none to either country), competition for constrained resources within those two countries would have been altered in such a way that defense programs probably would have been smaller, development efforts larger, and the countries' rates of economic growth probably higher. And similarly, if Soviet military assistance to Cuba, following the missile crisis of 1962, had been appreciably less, I would conjecture that that country's rather dismal development record would have been improved.

On the other hand, there are a number of cases in which the resource-addition model seems to be a more realistic interpretation of events. As examples, I would cite the cases of Korea, Taiwan, and Thailand. Over the past ten years, I have had an opportunity to do a fair amount of work on the Korean economy, beginning in 1961, when I assisted that country's Economic Development Council in structuring its first development plan. It is my considered judgment, which has been elaborated more fully elsewhere,[2] that security assistance has had a substantial and beneficial impact on the remarkable performance of the Korean economy. As you know, Korea's rate of growth in real national product, as well as in real product per capita, has in the past three or four years been the highest of any country in the entire developing world.

[2] See "On Aspects of Korea's Five-Year Development Plan," P–2288, The Rand Corporation, Santa Monica, April 1961, and "Economic Planning in Korea," *Asian Survey,* December 1962.

In my judgment, Taiwan provides a similar example of the resource-addition view, although the direct experience I've had in that country is less than in the case of Korea.[3]

Which of the two views, RD or RA, applies in any particular case, and which view one chooses to adopt in general, depends on the answers one gives to two critical questions:

1. Would the resources that are made available to security assistance programs by the United States be available for development purposes if the security programs were reduced?

2. Would the military expenditures made by the recipient country *not* be made if U.S. military aid were not forthcoming? (In other words, would all, or part, of the country's own defense expenditures be discontinued if foreign military assistance were not forthcoming?)

The answer to the first question is something which the members of this Committee are in a better position to provide than I am. To put it more bluntly, would in fact appropriations for foreign economic development aid (grants, loans, technical assistance, investment guaranties, etc.) be larger if military aid were reduced? I strongly suspect that the answer is negative; I would be interested in hearing the Committee's own judgment on this question.

The answer to the second question is, in the major military aid recipients that I'm familiar with, also negative. Partly because of genuine security concerns in these countries, and partly because of strong internal political and organizational realities, military programs in fact often command a higher priority than development programs. It is often the development programs, or parts thereof, that are the marginal claimants on resources, rather than the defense programs.

In countries like Israel or Korea or Thailand, the basis for the higher relative value placed on defense seems clearer and more convincing to us than in some other countries. Yet it is an important reality in the national priorities of many other small and insecure countries, too. In such cases, the effect of military aid may well be to *release* resources for development purposes. And reductions in military aid may well result in diminished resources for development.

Notwithstanding these observations, or perhaps because of them, I would like to endorse a point made by several others who have already appeared during the course of these Hearings: in reorganizing and refurbishing our security assistance programs, a strenuous effort should be made to ensure that these programs, as well as the related local resources within the recipient countries, are allocated and evaluated within the standard budgetary procedures of the recipient countries. To my knowledge, this is rarely if ever done in the conduct of our military assistance programs, although as I mentioned earlier my direct knowledge on this point is at least a couple of years out of date.

To summarize the preceding discussion, my reasons for favoring the RA view over the RD view are based both on direct experience in the countries I've referred to, as well as the negative answers that I would judge should be given to the two questions concerning resource availabilities.

Let me now turn from the specific question of the impact of military assistance programs on development, to the broader, but related, question of whether a *high* rate of defense expenditures tends to be associated with a *low* economic growth rate in the developing countries? In some empirical work done on Latin America by a colleague of mine at Rand two years ago, an effort was made to answer this question. The results are summarized in the following table.

---

[3] For a compatible, though not identical, view, see Neil H. Jacoby, *U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development*, New York, 1966, pp. 116–126. Jacoby's approach is rather different from that suggested in my statement in the text, since he considers the question of the "military burden" from the standpoint of whether, and by how much, Taiwan's growth would have been accelerated if *all* the country's resources that were devoted to defense purposes were instead to have been available for developmental uses. This assumption begs the fundamental question of whether that country's own priorities would have permitted such a reallocation. In any event, note the following interesting conclusion that Jacoby's study leads him to: The view has often been expressed that a ["semideveloped"] country cannot simultaneously maintain a powerful military force and also finance rapid economic growth. The case of the Republic of China suggests that both national purposes can be achieved simultaneously by a semideveloped country like Taiwan's in 1965 *provided that major military hardware is supplied by an external source.* (underscoring added) Ibid., p. 126.

IS A HEAVY ARMS BURDEN ASSOCIATED WITH A LOW GROWTH RATE?

Arms burden (percent of GNP; 1950–64)	GDP annual growth rate (1950–66; or other periods in certain cases)	
	High	Low
High	Dominican Republic (5.5 percent; 5.2 percent) Brazil (2.5 percent; 5.2 percent) Nicaragua (2.3 percent; 6.4 percent) Ecuador (2.2 percent; 4.7 percent). Venezuela (2.0 percent; 6.8 percent). Peru (1.9 percent; 5.7 percent).	Argentina (2.7 percent; 3.0 percent). Chile (2.5 percent; 4.1 percent). Paraguay (2.0 percent; 3.2 percent).
Low	El Salvador (1.4 percent; 5.4 percent) Bolivia (.8 percent; 5.0 percent) Mexico (.7 percent; 6.1 percent)	Haiti (1.8 percent; 2.0 percent). Colombia (1.6 percent; 4.5 percent). Honduras (1.4 percent; 3.7 percent). Guatemala (.9 percent; 4.3 percent). Uruguay (.9 percent; 0.0 percent). Costa Rica (.6 percent; 4.3 percent).

Source: Excerpted from Thomas A. Brown, "Statistical Indications of the Effect of Military Programs on Latin America, 1950–65," P–4144, The Rand Corp., Santa Monica, Calif., July 1969, p. 10. "Highs" and "lows" are divided at the respective medians.

The first figure opposite each country in the table shows that country's defense outlays as a percentage of GNP, while the second figure after the semicolon shows the country's annual growth rate in real terms, for approximately the period 1950-1966. What the table suggests is that the answer to the question is emphatically negative: high arms burdens do not seem to be associated with low growth rates. In fact, the data suggest just the reverse: most of the countries with relatively high defense budgets have relatively high growth rates as well, and most of the slowly-growing countries in Latin America have low defense budgets! Of course, such an apparent relationship certainly does not imply a casual connection in *either* direction. Nevertheless, the results are perhaps surprising, although not as surprising as might be immediately inferred. In fact, for a number of sociological, organizational, and psychological reasons, one might expect such a result. However, to conjecture about these reasons would be too time-consuming and would take me too far afield to warrant further discussion here.

In any event, I would urge extreme caution in drawing any inferences from these data. One reason for caution concerns the data themselves: intercountry and intertemporal comparisons of the sort summarized in the previous table are often unreliable. Another reason is that there are obviously several countries that don't fit the apparent result: for example, Mexico and Bolivia both have low defense budgets and high growth rates, while Argentina and Paraguay have relatively high defense budgets and low growth rates. Anyhow, the data are at least of interest in testing one's intuitions, or prejudices, about the relationships that are involved.

I do not want to be misunderstood in what I've said up to this point; specifically, I want to make quite clear that I am not suggesting that military programs—either ours or others—should be justified by virtue of their favorable economic impact. Even if there are such impacts, military programs seem to me a high-cost means of obtaining them. There are more efficient ways.

The primary justification for military assistance programs, and more broadly for security lies in other directions. This justification lies in helping other countries to meet reasonable defense goals, based on their demonstrated credentials for helping themselves, and based on the premise of some diminution in U.S. involvement and expenditures for national security purposes abroad. Basically, the justification for our security assistance programs lies in the principle of comparative advantage. Where the United States and another country or countries share common security objectives, it makes sense for the U.S. to concentrate its contributions to those joint objectives in forms which we can provide efficiently, such as military equipment. And it makes equal sense for the other partner country or countries to provide their contributions in forms, such as military manpower, which they can furnish more efficiently.

For example, in the case of Korea, it has been estimated that Korean forces are on the average perhaps one-third as effective as corresponding U.S. ground forces, yet their operating costs are one-twentieth, or a still lower fraction of U.S. operating costs. With the resulting leverage factor of 7 or more, it is efficient from both the U.S. and the Korean standpoints to substitute or upgrade Korean forces in place of higher-cost U.S. forces.

This principle has provided the underlying rationale for most of our military assistance in the past two decades. I believe it is also at the core of the Nixon Doctrine. I do not claim to understand fully that Doctrine, although I find such unclairities as persist to be quite *un*surprising. Clarifications are more likely to come in the execution than through additional verbiage. What the Nixon Doctrine means will depend on what is done to implement it. Practice makes "doctrine" as often as it follows from doctrine. A renovated, properly authorized, organized, and funded Security Assistance Program should, I believe, be at the core of a meaningful implementation of the Nixon Doctrine. And such implementation is a matter of great urgency and importance in the international arena.

Properly handled, security assistance programs can be made quite generally complementary, rather than conflicting with, international development efforts. Indeed, there are numerous ways in which the two types of programs should complement one another. Thus, economic development programs can raise the effectiveness of military programs by increasing the resources on which local defense budgets can draw, raising educational and literacy levels, and adding to the stock of skills that the military can use. On the other hand, for economic development to move forward in the less developed countries, it is essential that adequate security be maintained, and that the expectations of savers, investors, and workers be strengthened that security will continue to be maintained in the future.

Consequently, military and paramilitary programs that provide reasonable insurance against attack, and that help to control internal subversion and improve law and order, are essential for effective development programs. Moreover, military programs can also contribute to development by adding joint civil-military infrastructure, by technological transfer and training that raises the quality of human resources, and, in some cases, by providing a wider market for domestic production of goods and services, including but not confined to military equipment. Sometimes, the stimulus provided by reliable military demand may enable domestic producers to realize the economies of larger-scale operation that permit a lowering of costs and prices, and result eventually in access to new civilian markets as well.

Within the United States government, and especially within the recipient countries themselves, efforts to realize and exploit these potentially important complementarities between military programs and development programs should be encouraged.

Chairman PROXMIRE. Your timing could not be better. When we concluded the questioning of Mr. Irwin we pointed to his failure to respond on the economic impact of military assistance, and you have given us exactly that in a fascinating analysis. Frankly, I think it is somewhat simplistic. And I think you might agree with that. I notice, for example, the table in your prepared statement that with the exception of the Dominican Republic, every country has at the maximum 2.7 percent of their gross national product for defense. That is a pre-World War II level as far as we are concerned. We are spending now 7 or 8 percent of our GNP for our defense. And that is a very, very low level. And about all you can say is—my reaction would be that if defense is that small a proportion of GNP, that it may not be much of a factor at all. I would not look to an element in the gross national product that is less than 3 percent as a determining element in any sense in analyzing GNP, would you?

Mr. WOLF. I am not proposing to look at it as a determining element.

Chairman PROXMIRE. Or a really very significant element. There would be other elements that would be more important; would there not?

Mr. WOLF. Obviously there would be other elements that would be larger. But I think it is important to try to clarify the relationship that is frequently asserted on this matter. And that is what these

figures do. Now, they do not imply causation, as I said earlier. But I do not think that the causal nexus would be weaker because the amounts are smaller than they would be if the amounts were larger.

So I agree with you that the amounts are small. I think that Secretary Irwin's statement, if I heard or read it correctly, also alluded to the fact that military expenditures in Latin America were quite small. It turned out, however, that in some of the other cases that I have referred to where something of the same "resource addition" kind of view obtains, the proportions are considerably larger. In the case of Israel the defense budget is the largest proportion of any country in the world: somewhere between 27 and 25 percent of GNP. And in the case of Korea it is something like, if I remember correctly, 10 to 12 percent, or more. And in Taiwan, it is also very large.

Chairman PROXMIRE. That is right. In the case of this country it has varied in recent years between 7 and 9 percent, or something like that. At any rate, these are all very, very small compared with a country like Cuba. You cited Cuba. That is an interesting example, where you have had, as you point out, a substantial amount of military assistance from Russia, and that seems to have been negative in its effect on economic growth. There I do not know what the percentage is. I suppose we could not get it. Nobody knows. But I would presume that in the case of Cuba it is probably considerably higher than 3 percent.

Mr. WOLF. I believe that is correct.

Chairman PROXMIRE. And it may well be when you get up to a rather high point that then you might have begun to have your resource diversion. And the Dominican Republic is the highest of all here by quite a bit, twice as high as the next highest. But there are other factors involved there. Isn't that a big tourist country, or aren't there other elements involved that might even dwarf a 5½ percent factor?

Mr. WOLF. Yes; I would endorse the Chairman's initial remark that chided me on for simplicity or simple mindedness.

Chairman PROXMIRE. I surely would not call it simple mindedness.

Mr. WOLF. One does not want to look for simple explanations for complete phenomena. On the other hand, it is not easily verifiable that when some threshold of defense burden is reached, or exceeded, that then the effects on development tend to be severe or perverse. And I cite the examples of Korea, Taiwan, Thailand and Israel.

Chairman PROXMIRE. Let us take Korea as an example. You have had a lot of experience there, and you are familiar with it. My understanding is that the growth and development depend primarily on the natural resource base, the quantity and quality of labor, the abundance of capital goods, the quality of available technology, and various combinations of those factors. My question is, How do particular military programs affect any of these critical programs in the economic development problem? Taking Korea, where you have had experience, how do specific military assistance programs affect any of these variables? How would it affect, for example, the quantity and quality of labor? I presume one element would be that to the extent the United States provided troops the Koreans might have

fewer people in their military force, and therefore more manpower available. Would that be a proper conclusion?

Mr. WOLF. Not quite.

Chairman PROXMIRE. Troops and, of course, equipment, and so forth, would be more important.

Mr. WOLF. Yes; I think that is implying the diversion of resources or the freeing of resources.

There is another way this has worked in Korea. And let me preface this response to your question, Mr. Chairman, by saying, I am not advocating military assistance as an efficient way of advancing development, I am just saying that, given these programs, one should then ask what are their economic effects? And in the case of Korea, I would say with respect to the human element, the quality of the human input, the military programs have had a very substantial effect in the form of sustaining an awfully large military establishment. Korea's forces in being, in relation to its population, are the highest in the world except for Israel. And this has been sustained through a conscription program that is quite exacting, from the standpoint of involving the youth of a country in a 2-year period of service, during which they learn things, they learn discipline, they learn language, they learn some familiarity with equipment and hardware, and they are then turned over into the civilian economy in a way that enhances their earning power and productivity very substantially. That is one effect.

Chairman PROXMIRE. It is kind of a sad thought that what you do is militarize the country to enable it to advance technologically. And, I think, you will agree that if you are going to have the same degree of governmental controls and direction and input, perhaps there would be a better way, or a more efficient way, of providing these qualities than to militarize the country. But we all recognize that in Korea it is necessary to defend it against an aggressive northern neighbor.

Mr. WOLF. That it seems to me is the fundamental point. And as I said in my prepared statement, one should look for justification for these programs, not in terms of their economic effect, but in terms of the other common, shared security objectives. But given that, it is perfectly legitimate, it seems to me, to then look for, and indeed to try to enhance, the beneficial developmental side effect. Not that that is our preference, that is not our preferential way of doing things; but within the context of real work complexities, not simplicity, it may be that that is a relevant, here-and-now way of doing things in some of these countries. I do not think it should be ignored casually.

Chairman PROXMIRE. Let us assume, as I feel very strongly, that we should move away from military assistance as rapidly as we can consistent with security. And our major goal should be to pursue military assistance to help countries move toward a given degree of self-reliance in the area of security. One effect in this area will depend upon the degree of effectiveness in military assistance programs. Given your experience in this area, what can you recommend to Congress for improving the effectiveness of military assistance programs; that is, the move toward self-reliance?

Mr. WOLF. The move toward self-reliance on the part of recipient countries, or on the part of the developed?

Chairman PROXMIRE. On the part of the recipient countries. How can we improve the program's progress toward self-reliance?

Mr. WOLF. I think, as I said in my earlier remarks, I am not intimately familiar with the current status of the program, or the status for the last couple or three years. So I would like to place some reservations around this response. It seems to me that we could create incentives toward greater self-reliance in the form of providing a cutting edge for these self-help criteria. Instead of the sometimes perverse incentives that have characterized this program—and, I think, this is also true of economic assistance—where the less a country has done the more assistance we have provided—it seems to me we ought to bend some effort and ingenuity to reverse that perverse incentive structure, and provide somewhat greater assistance to countries that demonstrate that the effectiveness of their own efforts is considerable and is rising.

Chairman PROXMIRE. Of course, that is partly because as they become effective themselves you do not need as much assistance.

Mr. WOLF. Right.

Chairman PROXMIRE. But then it would seem to me we could move into economic assistance.

Mr. WOLF. There is a fundamental dilemma that I think you put your finger on, that if you use self-help in the military field—and for that matter also in the economic field—as a criteria for deciding on allocations of U.S. resources, you are really saying, we will provide assistance or more assistance as countries demonstrate their own capacity to help themselves to a greater extent. But, of course, at some point the demonstration of their capacity to help themselves implies that they can get along, and ought to be induced to get along, without our assistance. I think that is not just a passing difficulty, I think it is a fundamental one.

Chairman PROXMIRE. Isn't it true, then, that there is at least the saving grace of the desire for independence of our help? After all, countries do not want to have to depend on any other country, especially a big country that is involved in a confrontation with the Soviet Union so often, they would prefer not to have to rely on that, I am sure, in most cases.

Mr. WOLF. I subscribe to that completely. The possible redemption from that dilemma is our, at least occasional, unpopularity abroad.

Chairman PROXMIRE. To some extent the military assistance can take the form of a contribution of military hardware, planes, tanks, ships, and so forth, or the provision of education in military planning and intelligent activities, military organization. Your statement did not address the question of how different kinds of military assistance will affect economic development. Assuming that military assistance of a certain level will be granted, in the context of the objective of economic development, what kind of military assistance would you advocate?

Mr. WOLF. I think this is one of the questions that one really has to look at specific cases to answer, rather than having recourse to generalities. My general answer would be that we ought to ask, if one takes the example you pose, for a given amount of assistance, in what form should it be provided? I would say we should provide it in accordance with the principles of comparative advantage. How

one spells that out, it seems to me, might take the following form. One would say, in relation to those common objectives, and in terms of discussions and negotiations between ourselves and the recipient countries, and congressional decisions about appropriations and so forth, we are prepared to make available a certain amount of dollar resources. And then we look into the country's circumstances, what it can do, and what it can produce efficiently at comparatively lower costs, and what we can contribute efficiently. And in some cases that may take the form of technical advice, and in some cases it may take the form of equipment.

Chairman PROXMIRE. You see, we are in the position now, we are going to have just a whale of a lot of equipment, I presume, in Vietnam that we will not be using, and much of which we cannot turn over to the South Vietnamese. It may be available, and it may be a temptation on our part just to push that off on a country, whether they have the training and the capacity and supplemental forces to support the kind of ships, planes, and tanks. And at marked-down prices or at no cost at all, it will be a temptation for us to give hardware. How can we safeguard against that kind of mistake?

Mr. WOLF. I think you have implied the answer to the question by the suggestion that if their technology and their skills and their human resources do not provide high assurance of maintenance and operation of the equipment, then we should use that as a screening device as a criterion.

Chairman PROXMIRE. Wouldn't it be better to require at least some payment? Of course, we would not expect to sell these at acquisition costs, but at least at some relation to acquisition costs so that there would be some burden for them to bear in paying for equipment, so therefore they would have to make that tough choice?

Mr. WOLF. I refer to one of the comments that I neglected to repeat which is in the prepared statement. I do subscribe to the point you made earlier about bringing military assistance programs within the budget allocation process of recipient countries. I think that is very important. On the other hand, about attaching a sort of rationing price to the equipment we provide, I am really not sure of the proper answer, I am not even sure of my own answer to that question. Because there are here again some competing, some conflicting considerations. You would want countries to provide payment, or to recognize the price attached to different things we might provide. On the other hand, the higher the price, the more you run the risk of diverting resources from development. The RD view, it seems to me, would be more likely to apply then.

So I am not clear whether one does want to have a high price attached to it.

Chairman PROXMIRE. You see, if we require some price to be paid for this equipment we are forcing them to make a choice. They have to decide whether this fits in with their need or does not fit in. They have to decide whether or not they want to assume this. And it seems to me that choice is likely to be beneficial, because then they have to determine what their priorities really are.

Mr. WOLF. Yes; but doesn't it make sense that that choice be based on the real economic cost involved, which is certainly not acquisition cost?

Chairman PROXMIRE. Well, I am not so sure, in view of the fact that you have done something to make me question it. I still have haunting the back of my mind the motion that they can get a free jetplane, and it will make the government look good. And they like to have some of those fancy ships to ride around in, not only a PT boat but a cruiser. And the chiefs of the government begin to feel that they are admirals and generals, and so forth, and they would be more likely to take them if they were free. And they would do this even though the military equipment would require a utilization of their scarce resources to maintain these weapons, if they had to pay for them, even if the payment were relatively modest.

Mr. WOLF. I think the same thing applies to the prestige motivation for certain kinds of high technology development in the nonmilitary field too, whether it is nuclear reactors or advanced metallurgical processes, that there is a tendency to gravitate toward it because it carries with it some prestige value. And it seems to me the best principle in that case is to be sure that the costs attendant to the particular technology, or the embodiment of the technology and equipment, are a reflection of the real costs that are involved.

If I could make one comment on the cost question, which has come up in the discussion that you had with Mr. Irwin on the table, and some of the other testimony that I have looked at——

Chairman PROXMIRE. Yes; we would like that very much.

Mr. WOLF. It seems to me that there has been some—I would not want to call it simplistic, perhaps, but there has been a lack of discrimination or distinction among three very different cost concepts which will give you really very different numbers on the package of security assistance programs, each of which is an important number to have. But I think it is equally important to distinguish among them and to know the reasons you want one figure, one set of figures, rather than another. One figure is acquisition costs. And I think that is an important figure to have.

Chairman PROXMIRE. May I just interrupt you to say that you are talking about a very limited part of this total billion dollar budget.

Mr. WOLF. Precisely.

Chairman PROXMIRE. Now, it is limited to less than $300 million. Because they have decided as far as our surplus equipment is concerned that we will not provide more than $300 million in acquisitions cost value.

Mr. WOLF. I would suggest also that the distinction I will try to make among those three cost concepts will apply as well to other categories than equipment. It will apply, for example, to food-for-peace, where the acquistion cost, which is one concept, is very different from the economic cost, or the market value, the market value being, I would say, 20 percent less than the acquisition cost in terms of the way the agricultural price supports actually work. If you look at—let me just mention the three cost concepts and then explain them.

The first is acquisition costs; that is, what it has cost in the past to obtain these equipment stocks or to obtain stored grains. And one may want to know the acquisition costs and distribution of security assistance programs by acquisition costs simply to get some idea of where things have ended up. They were originally purchased, pro-

cured, and then ended up someplace, and you want to know where they have gone.

The second concept is appropriations cost: What does the program cost in new appropriations? And, I think, this is very important in terms of ways and means. It is important with respect to full-employment budgeting, and the current deficit financing, and so forth.

And the third concept is economic cost, which is the market value of the resources that are provided. Now, that is not only different from the acquisition cost in the case of equipment, it is also different in the case of agricultural commodities. And it is also very different in terms of credit sales. Credit sales should not properly be valued in terms of economic costs in terms of the amount of the credit that is extended. They should be properly evaluated in terms of the concessional element involved in the credit. In other words, if we are providing credit at 4 percent when commercial rates would be 8 percent or 10 percent, it is that margin that is the concession. And there are ways of handling that. That, in a hard sense, provides the economic cost of the programs.

Chairman PROXMIRE. Of course, you have the acquisition cost from the standpoint of the taxpayer and how much of his funds are going into this program.

I am going to yield to Senator Percy in just a minute. I would like to ask about a couple of other things very briefly.

We received previous testimony that the need for military advisory missions in developing countries has declined. Most of the countries discussed, it is argued, have military forces sophisticated enough to organize and implement the tools of contemporary warfare. You have had a lot of experience in this field in Korea and elsewhere. What do you think?

Mr. WOLF. As to the reasons for the decline?

Chairman PROXMIRE. As to whether there is a continued need for military advisory commissions or whether that should be phased down.

Mr. WOLF. I would like to plead obsolete information on that, or at least to make my response qualified by that cautionary observation. As of several years ago I would have responded by saying that (a) the provision of advisory technical assistance with military assistance is very important for precisely some of the reasons you alluded to before about assuring proper maintenance, or being able better to predict whether equipment will be maintained and operated efficiently, but (b) the quality of such advisory assistance could be diminished at the same time as its effectiveness was enhanced. And, I think, that gets into questions of personnel selection, and whether within the military service this is viewed as a credit toward advancement, or as a backwater type of service.

Chairman PROXMIRE. That is certainly one of the things we will look at.

The other was whether or not you have any views on the balance of payments effect of military assistance? Because this committee is very concerned with the balance-of-payments effect. It is a huge program with lots of money involved. And it would seem super-

ficially to have quite a profound effect on balance-of-payments figures.

Mr. WOLF. I have not looked at that. My hunch would be that because of the tying of much of the funds in all three of these concepts, or applying to any one of them, the tying to U.S. procurement—which is not a hard and reliable indicator of the balance of payment effects, because there can be substitutions, and so forth—but to the extent that one accepts that notion as a proxy, for what one would really like to know, what would countries have used their own foreign exchange for if we had not provided the assistance? Because there is such a close tying, I think that would be at least partly offsetting; because of the tying of the dollar appropriations or credits to U.S. procurement, there is perhaps a diminished balance of payments effect.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Wolf, I am sorry I was not here earlier but I had to attend a funeral this morning. We do appreciate your contribution in this field. The Draper Committee, I felt, made a very profound study and one that was very helpful.

I do wish to say I agree with what you said about India and Pakistan. I have observed there that military assistance could have been offered in many better ways, and wiser ways than we did offer it.

I would like to ask about your comment on the correlation between a very high defense budget and the high rate of economic growth that you point out in Latin America. The antithesis of this would be apparently Japan, which has had an astronomical growth rate with less than 1 percent put into defense. How do you account for the discrepancy here?

Mr. WOLF. I am not sure, Senator Percy, at exactly what point you came in. And maybe I neglected to cover this point, or perhaps I covered it.

Senator PERCY. If you have already covered it, I will go through the record.

Mr. WOLF. No; I was suggesting that we should avoid drawing any sort of causal inferences from what these data in Latin America in fact show. What they show, as the table in my prepared statement, I think, exemplifies, is that high arms burdens are not associated with low growth rates.

Chairman PROXMIRE. May I just interrupt at that point.

I want to say that the conclusion that I draw is that the arms burdens in South America have been very low, and that is one reason why you have had a high degree of GNP growth rate overall.

Mr. WOLF. Yes; but there are some counter examples to that.

But even within Latin America there are some examples that are in one sense like the Japanese case. That is to say, the lower left-hand corner, the lower left-hand box, El Salvador, Mexico, and Bolivia, are countries that have a high-growth rate and a very low-defense burden, which is essentially the Japanese case. My basic comment was really that one should not infer a causal connection in the sense of saying, therefore, from these data one can infer that higher military expenditures will lead to higher development expenditure. It seems to me that is quite wrong. In fact, my own hunch would be that

you can find both patterns, and you do find both patterns. You have high-defense budgets with high-growth rates, high-defense budgets with low-growth rates, and conversely. But what the data are important in suggesting is that the simple-minded view, that the connections are always inverse, ought to be viewed with particular scrutiny. And it seems to me that, in fact, what is more likely to be an underlying explanation is that countries that have the organization know-how and the dynamism and the industriousness to generate rapid growth are not inlikely to have, because of those same attributes, an interest in and a capacity for enhancing their security structures. And, I think, that the Japanese have not—which, I think, is fine and commendable, and I hope it will persist—I think that is due to a very substantial thing that we economists would call a discontinuity; namely, the war and their constitution.

Senator PERCY. My only other question has to do with resource additions. We have added such items as roads, harbors, and power generators, both through AID and through military programs. Is there any comparison you can make between the cost factors as to whether we should provide such roads, generators, harbors, and so forth, through AID or through military aid? Is one administered better than the other?

Mr. WOLF. That is a very insightful question, Senator Percy. I really think I would beg off on that. It is a pregnant question that ought to warrant some more than casual investigation, and I have not—I do not know of any comparative——

Senator PERCY. Do you know of any studies that have ever been made?

Mr. WOLF. No; this relates to a question that the chairman raised earlier, which I left partly unanswered with respect to Korea, the ways in which military assistance has, in fact, contributed to developmental progress. I referred to the turnover of military manpower into the civilian labor market.

Another type of contribution which, as I said earlier, should not be taken to justify military assistance, arises from the fact that the Korean Army has had a very large proportion of engineering battalions, they have had something like 32 engineering battalions, which is a very huge number, of quite well-equipped units that have contributed very substantially to road building and bridge building. This is another case where one might make some comparisons. But I have not seen them made.

Senator PERCY. Thank you very much.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Wolf, let me compliment you on what I think is a very good prepared statement. It raises two or three questions in my mind and I would like to pursue briefly with you, if I may.

First, in your prepared statement you say:

> In reorganizing and refurbishing our security assistance programs, a strenuous effort should be made to ensure that these programs, as well as the related local resources within the recipient countries, are allocated and evaluated within the standard budgetary procedures of the recipient countries.

Who is best equipped to do this, or how do you think that ought to be done? And I apologize if the question has been asked previously.

Mr. WOLF. I do not think it has been. But I am not sure that I can answer it too precisely. You mean who is best equipped within the recipient country, or within the United States Government to insist on this?

Representative BROWN. Both. I trust that the statement was made with reference to reorganizing or refurbishing our security assistance programs, in other words, with our interest in mind?

Mr. WOLF. Yes.

Representative BROWN. But in both instances what would you suggest as the source or the method by which this should be done?

Mr. WOLF. Well, I am not evading, I am just not clear in my own mind. It seems to me what one would like to see is a competition for resources among different parts of the claimant public sector in these countries, such as we have in this country, and such as this committee is contributing to. Now, my hunch would be that if one were really interested in encouraging this tendency in recipient countries, one would like to charge some agency of the Government with this responsibility to which things like budgets and allocations and alternative use of resources are meaningful. I am not sure that would be something that would be particularly consonant with the professional orientation of the military services. I think it is more likely to be the kind of orientation and sensitive concern that we have in our budget Bureau. How do you bring that to bear on this program? I am not sure whether you do it through the State Department or through the NSC. I am just not sure.

Representative BROWN. The suggestion of the State Department has been that that decision is made by a combination of State and Defense considerations and AID personnel on the scene in the recipient country. I gather that you feel that that is not really quite adequate under the circumstances. And then I would like to put another emphasis on the same question and say, how do we do it when we are dealing in a diplomatic sense with a country that does not have the institutions which our country has? And even though we may criticize those institutions, whatever they are, Congress, and this committee, the State Department and the Defense Department, where you have an autocratic government in a small country, you do not even have those institutions to work with in regard to the consideration of their resources and the allocation of those resources.

Mr. WOLF. That is a hard problem. I think what you do is, you try to build up those institutions. And how do you do that? Well, you might, for example, provide training programs or technical assistance, or fellowship programs to strengthen their budget bureau. You might provide Nieman fellowships for their news media so that they acquire some sense both of perception, discipline and concern for facts. But it seems to me you do have to do it, not dishonestly, but perhaps obliquely.

Representative BROWN. The opportunity for doing such things or having such influence of course depends, then, to some extent on the existence of a military assistance program.

Mr. WOLF. I think it provides such an opportunity.

Representative BROWN. Suffice it to say it is a chicken and egg problem, really, when you are dealing with an autocratic country as a recipient country.

In your prepared statement you have made one other statement which fascinates me. You say:

It has been estimated that Korean forces are on the average perhaps one-third as effective as corresponding U.S. ground forces.

Where does that kind of an assessment or that kind of an estimate of the effectiveness of foreign national forces come from? Is that something that Rand specializes in, or is that a Defense Department estimate, or a State Department estimate, or is that a Wolf estimate?

Mr. WOLF. I think it is the latter. But it is not completely pulled out of the air. There are a number of ways of making this sort of assessment empirically, all of which share the common characteristic of being inadequate. You look at the training that the forces have received. You look at the table of organization and equipment. You look at some measures of career incentive and morale, which become more fuzzy than the first two. And then you can make some kind of index which, as I say, is very fallible.

Representative BROWN. I might add that you also might look at the experience with which the responsibility they have in this area may have been exercised, right?

Mr. WOLF. Absolutely.

Representative BROWN. And once again we are in an area where it is a chicken and an egg proposition, one does not get that look unless the military assistance program exists, isn't that right?

Mr. WOLF. I think that is correct. If I understand the precise meaning of that metaphor, the programs provide an opportunity to do various things that can contribute to the advancement of mutual objectives that we would not otherwise have had.

Representative BROWN. Precisely. And you may be involved in a country that is an autocratic country in which you would like to encourage democratic institutions partly in order to encourage those democratic institutions, not just as a mutual security arangement. And likewise you might also be involved in a country on some tenuous basis in order to get a more effective evaluation of the role that area or its forces might play in security arrangements. Is that a fair statement?

Mr. WOLF. I think so.

Representative BROWN. And I am more specifically impressed with what seems to be the guts of your whole prepared statement. And that is the paragraph immediately above what I just read. And I would like just to reemphasize it, if I may, on my own time:

Basically, the justification for our security assistance program lies in the principle of comparative advantage. Where the United States and another country or countries share common security objectives, it makes sense for the U.S. to concentrate its contributions to those joint objectives in forms which we can provide efficiently, such as military equipment. And it makes equal sense for the other partner country or countries to provide their contributions in forms, such as military manpower, which they can furnish more efficiently.

The judgment of how that relationship must be operated, and how those various values can be ascribed, it seems to me, is a rather delicate operation which needs scrutiny continually; but which of necessity has to be done by somebody who is willing to concentrate a good part of their time on it.

Mr. WOLF. I agree with that, Congressman Brown.

Representative BROWN. Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you.

And thank you very much, Mr. Wolf, for an excellent job. I did not mean by saying you were simplistic to be critical. We thank you very, very much.

The subcommittee will stand adjourned.

The record will remain open for 2 weeks.

(Whereupon, at 12:55 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.)

APPENDIX

The General Accounting Office, over the past several years, has investigated selected aspects of the military assistance program. A list of the GAO reports during the period 1967–71 follows. One of those reports, "Need for Increased Control Over Local Currency Made Available to Republic of Vietnam for Support of Its Military and Civil Budgets," dated July 24, 1970, is reprinted below.

General Accounting Office's—

Report to the Congress entitled "Need for Improvement in the Management of Equipment for the Military Assistance Program," No. B–162479, dated November 14, 1967.

Report to the Congress entitled "Economic Assistance Provided to Korea by the Agency for International Development," No. B–164264, dated July 16, 1968.

Report to the Congress entitled "U.S. Construction Activities in Thailand, 1966 and 1967," No. B–159451, dated November 13, 1968.

Report to the Congress entitled "Difficulties Encountered in Arranging Air Support Services for United States Contractors in Vietnam," No. B–159451, dated November 14, 1968.

Report to the Secretary of Defense entitled "Survey of Selected Aspects of Administration of the Foreign Military Sales Fund," No. B–165731, dated April 16, 1969.

Review to the Secretary of Defense of the policies, procedures, and practices for administering U.S.-owned local currency (peso) funds generated from the sale of surplus agricultural commodities in the Republic of the Philippines and allocated for common defense purposes, No. B–146820, dated April 24, 1969.

Review to the Secretary of Defense of the participation by Greece and Turkey in an overhaul program for jet engines under the military assistance program (MAP), No. B–166986, dated June 2, 1969.

Review to the Secretary of Defense of selected contracts awarded by the military srevices and their prime contractors engaged in the support of military activities in Vietnam, No. B–159451, dated September 11, 1969.

Review to the Administrator, Agency for International Development, Department of State, of selected contracts awarded by the Agency for International Development (AID) in connection with its activities in Vietnam, No. B–159451, dated September 11, 1969.

Report to the Congress entitled "Omission of Significant Costs From Charges to the Federal Republic of Germany for Pilot Training," No. B–167363, dated November 19, 1969.

Report to the Congress entitled "Need for Increased Control Over Local Currency Made Available to Republic of Vietnam for Support of Its Military and Civil Budgets," No. B–159451, dated July 24, 1970.

Report to the Committee on Foreign Relations, United States Senate, entitled "Problems in Administration of the Military Assistance Training Program," No. B–163582, dated February 16, 1971.



REPORT TO THE CONGRESS

Need For Increased Control Over Local Currency Made Available To Republic Of Vietnam For Support Of Its Military And Civil Budgets B-159451

Department of Defense
Department of State
Agency for International Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159451

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the need for increased control over local currency made available to the Republic of Vietnam for support of its military and civil budgets.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are also being sent to the Director, Bureau of the Budget; the Secretary of Defense; the Secretary of State; and the Administrator of the Agency for International Development.

Comptroller General
of the United States

Contents

		Page
DIGEST		1
CHAPTER		
1	INTRODUCTION	4
2	NEED FOR INCREASED CONTROL OVER RELEASE AND UTILIZATION OF MILITARY BUDGET-SUPPORT FUNDS	7
	Need for U.S. verification of programs and GVN reports of expenditures	7
	Psychological warfare activities	9
	Military pay and allowances	12
	Construction program goals only partially achieved	15
	Conclusions and recommendations	20
3	NEED FOR INCREASED CONTROL OVER PROGRAMMING, RELEASE, AND UTILIZATION OF CIVIL BUDGET-SUPPORT FUNDS	22
	Programming and monitoring of local currency could be improved by increased use of project agreements	26
	Funds released prematurely to current known needs	31
	Need for U.S. verification of programs and GVN reports of obligations and expenditures	42
	Construction program not achieving objectives	47
	Need for improved maintenance and utilization of facilities	50
	Conclusions and recommendations	53
4	SCOPE OF REVIEW	55

APPENDIX		Page
I	Background information on Vietnam's military and civil budgets	59
II	Principal officials responsible for administration of the activities discussed in this report	68

ABBREVIATIONS AND GLOSSARY OF TERMS

AID	Agency for International Development. Refers only to the headquarters organization located in Washington, D.C.
Chieu Hoi	A program designed to convince the Viet Cong and North Vietnam's military personnel that they should join and support the Government of South Vietnam. (See app. I for a more complete description of this program.)
Commercial Import Program	Under this program, the United States Government pays the dollar costs of commodities imported to Vietnam for local consumption. (See p. 5 for additional information.)
DGFA	Director General for Finance and Audit. Responsible for budget and accounting functions in Vietnam's Ministry of Defense.
DOD	U.S. Department of Defense
GAO	General Accounting Office
GVN	Government of Vietnam
Local currency	As used in this report, the term applies to Vietnam currency.

ABBREVIATIONS AND GLOSSARY OF TERMS (continued)

MACV	U.S. Military Assistance Command, Vietnam. This organization controls all U.S. military activities in Vietnam.
MILCAP	Military Civil Assistance Program. Through MACV, financial assistance is provided to solace Vietnamese families who have suffered bodily injury, death, or property damage, resulting from combat activities or defoliation operations of friendly forces.
Piaster	A unit of Vietnam's currency. The value of the piaster as used in this report: 118 piasters equals one U.S. dollar.
Psywar	Psychological Warfare. Assistance for this program was channeled through MACV. (A more complete description of this program is shown in app. I.)
Revolutionary Development	This program is more commonly referred to as the pacification program. It is designed to bring about economic and social development in the rural areas of Vietnam. (See app. I for a more complete description of this program.)
USAID	United States Agency for International Development. The AID mission located in countries overseas are referred to as USAID.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

NEED FOR INCREASED CONTROL OVER LOCAL CURRENCY MADE AVAILABLE TO REPUBLIC OF VIETNAM FOR SUPPORT OF ITS MILITARY AND CIVIL BUDGETS
Department of Defense
Department of State, and Agency for International Development B-159451

D I G E S T

WHY THE REVIEW WAS MADE

The Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, investigated the U.S. military and economic assistance programs in the Republic of Vietnam in 1966. The Subcommittee found that the U.S. Agency for International Development (AID) mission in Vietnam had not established adequate controls over the budgeting, release, and use of U.S. owned or controlled local currency (piasters) made available for support of Vietnam's civil budget.

The Chairman of the Subcommittee subsequently requested the General Accounting Office (GAO) to follow up with a review of the effectiveness of corrective actions taken.

The GAO review covered primarily the way controls were exercised over the budgeting, release, and use of piasters.

FINDINGS AND CONCLUSIONS

The AID mission in Vietnam made available about 74.3 billion piasters (equivalent to about $629.7 million) to support Vietnam's military and civil budgets in calendar years 1966 through 1968. The U.S. Military Assistance Command in Vietnam was responsible for administration of 50.9 billion piasters designated for the military budget. AID mission was responsible for administration of 23.4 billion piasters assigned to the civil budget. (See pp. 4 and 6.)

Since 1966 the AID mission has strengthened its administration and controls by increasing its participation in the formulation of Vietnam's civil budget and by earmarking piasters for specific programs. The Military Assistance Command had also developed procedures which should provide a reasonable degree of control over the planning for and spending of funds for military budget support. (See pp. 7 and 23 to 25.)

Further strengthening is needed. Controls and procedures established would generally not detect or prevent improper payments by Government

of Vietnam personnel, such as payments for unauthorized activities or for padded payrolls. (See pp. 20 and 53.) Specifically:

--The AID mission released large sums for civil budget activities before the cash was needed. For example, a few of Vietnam's civil agencies had accumulated almost 3 billion piasters (equivalent to $25.4 million) by December 31, 1968, representing unspent funds released in 1968 and prior years. (See p. 22.)

--Piasters were released for both the military and civil budgets on the basis of unreliable and unverified Vietnam Government reports. (See pp. 7, 22, and 31.)

--The AID mission made few postaudits of civil expenditures made or reported by Vietnam. The Military Assistance Command did not make postaudits of military expenditures but relied upon an understaffed Government of Vietnam audit group. (See pp. 8 and 42.)

Facilities needed were not constructed on a timely basis. Some of the civil facilities were of poor quality, were in need of extensive maintenance, or were not being used. This occurred primarily because of failure to establish an adequate system for inspecting construction in process and upon completion. (See pp. 15 and 47.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of Defense and the Administrator of AID should establish a system in Vietnam for verifying and inspecting pertinent Government of Vietnam reports and activities. The Administrator should do as much as possible to ensure that Government of Vietnam reports of obligations and expenditures are more reliable. (See pp. 20 and 54.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) and AID advised GAO in July 1969 that actions had been and would be taken to strengthen controls over piasters for support of Vietnam's military and civil budgets.

DOD stated that some of the military budget-support problems resulted from the communist TET offensive which occurred only a few months before GAO's review. (See p. 17.)

AID stated that its Vietnam program is unlike any other as to both diversity of activities and the broad geographic coverage within the country. Under these circumstances and in light of massive Government of Vietnam budgetary deficits, AID believes that it is imperative to exercise only limited control over the release of local currency. (See p. 23.)

Both agencies believe that controls and review practices in use plus actions to be taken, including procedural changes and staff increases needed to monitor the funds and programs, will provide adequate control. (See pp. 20 and 24.)

GAO believes that the U.S. agencies have made some improvements in administration and control over the military and civil budget-support programs; but the improvements cited will still not provide adequate control. GAO believes that considerable improvements still are needed, especially with regard to verification or other measures to ensure that Vietnam's reports of obligations and expenditures are reliable.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The improvements needed and recommended in this report could be made by the responsible U.S. agencies. Nevertheless, the lack of effective control over piasters generated under U.S. economic assistance programs is of such magnitude as to be a matter for congressional concern.

CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed the manner in which United States Government agencies in the Republic of Vietnam were exercising management control over local currency (piasters) generated under U.S. assistance programs for use in support of Vietnam's military and civil budgets. The local currency made available for support of the Government of Vietnam (GVN) military budget was generally administered by the Military Assistance Command, Vietnam (MACV), Department of Defense. These funds were to help the GVN pay local costs of supplies, transportation, construction, psychological warfare, military payrolls, and other items in the military budget. The local currency made available for support of Vietnam's civil budget was administered by the Agency for International Development (AID), Department of State, and its mission in Vietnam (USAID). These funds were to help Vietnam pay local costs for construction of National Police activities, health and school facilities, salaries for revolutionary development (pacification) cadres, allowances for Viet Cong and North Vietnamese defectors under the Chieu Hoi program, and other items in the civil budget.

Our efforts were directed primarily toward evaluating management controls exercised by MACV and USAID over the programming, release, and utilization of local currency made available to the GVN for calendar year 1967. A limited amount of work was also performed on certain aspects of support to the GVN 1968 civil budget. Our review included a limited examination into certain key programs and onsite inspections of the effectiveness of utilization and maintenance of some facilities that had been constructed with this local currency.

The scope of our review is described on page 55 of this report. A list of the principal officials responsible for administration of the activities discussed in this report is included as appendix II.

The local currency made available for support of the GVN military and civil budgets, as discussed in this report, were generated by:

1. Sales of surplus agriculture commodities under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1701), otherwise known as Public Law 480. These commodities are sold to Vietnam, and the local currency proceeds from such sales become the property of the United States Government and are deposited in a U.S. Treasury account in the National Bank of Vietnam. Each sales agreement between the United States and Vietnam Governments is to set forth the general purpose for which the funds may be used.

2. Sales of commodities imported to Vietnam under the U.S.-financed Commercial Import Program, authorized by the Foreign Assistance Act of 1961, as amended. These imports to Vietnam are handled through commercial trade channels under the authority of import licenses issued by the GVN, but the suppliers of such commodities are paid by the United States. The Vietnamese importers are required to pay the GVN an amount of piasters equivalent to the dollar amounts paid by the United States. This local currency, known as "counterpart" funds, is deposited in a special counterpart account at the National Bank of Vietnam, in custody of the GVN. These funds, however, may be withdrawn only by mutual agreement of both the United States and Vietnam Governments.

USAID maintains fiscal control over all local currency generated under Public Law 480 and the Commercial Import Program until such time as the funds are released to the Vietnam Government for approved purposes.

The amounts of U.S. owned or controlled piasters to be made available for support of Vietnam's military and civil budgets were determined annually by mutual agreements between the two governments. During calendar years 1966 through 1968, about 74.3 billion piasters (equivalent to

$629.7 million based on 118 piasters to one U.S. dollar) was allocated to these budgets, as follows:

	Calendar years				Equivalent in U.S. dollars
	1966	1967	1968	Total	(millions)
	——(billions of piasters)——				
Military budget	15.1	18.3	17.5	50.9	$431.4
Civil budget	6.4	8.0	9.0	23.4	198.3
	21.5	26.3	26.5	74.3	$629.7

Additional background information concerning Vietnam's military and civil budgets, including information on the principal activities and programs discussed in this report and the utilization of local currency made available to those activities, is shown in appendix I.

CHAPTER 2

NEED FOR INCREASED CONTROL OVER RELEASE AND UTILIZATION OF MILITARY BUDGET-SUPPORT FUNDS

Our review of the manner in which MACV exercised management control over the programming, release, and utilization of local currency made available for support of the GVN military budget for calendar year 1967, indicated that MACV had developed procedures which should provide a reasonable degree of control over the programming and obligation of funds. We found, however, that MACV had not implemented verification procedures which would ensure that funds were (1) released for authorized purposes, (2) released in amounts needed for current known requirements, and (3) used for intended purposes. We found further that, although funds were made available for military construction, facilities were not constructed on a timely basis. Consequently, the construction program was only partially achieving its goal of providing facilities needed by Vietnam's armed forces.

NEED FOR U.S. VERIFICATION OF PROGRAMS AND GVN REPORTS OF EXPENDITURES

We found that MACV had authorized USAID to release large amounts of local currency to Vietnam without adequately assuring itself that the GVN documents requesting the release of funds were accurate and reliable. We found also that MACV had not conducted audits of funds already released and that GVN audit coverage of military pay and allowances was insufficient, especially in view of the large number of irregularities found in the limited coverage by an understaffed Vietnamese audit group. (See pp. 12 to 13.)

The Vietnam Defense Ministry submitted to MACV a cumulative monthly report entitled "Status of Obligations and Expenditures" showing the status of funds released under each chapter of the GVN budget, including information on total obligations and expenditures. This report, hereinafter referred to as an expenditure report, was also used to support the request for reimbursement of funds expended and

to cover estimated expenditures for the forthcoming month. On the basis of the expenditure data contained in these reports, MACV authorized USAID to release funds to Vietnam, adjusted to some extent for any variances between reported expenditures and releases for the prior period.

Our review showed that the MACV Comptroller, for calendar year 1967, approved the release of 16.7 billion piasters (equivalent to $141.5 million) to Vietnam on the basis of the expenditure reports; and, according to information provided by MACV officials, such funds were released without any checks or audits to verify the validity of the expenditures reported. We also noted that MACV did not possess an organic audit capability at the time of our review.

Agency comments and GAO evaluation

We were advised by the Department of Defense (DOD) in a letter dated July 23, 1969, that the MACV advisory network provided assurance that local currency made available was used for intended purposes. This was accomplished according to the reply by the assignment of MACV advisors to each budget chapter. Each advisor was given responsibility for administering the funds allocated to his chapter, including verifying expenditures as well as controlling obligations. We were also advised that MACV did not recommend the release of funds to Vietnam without first providing each advisor with a copy of the monthly GVN expenditure report. These advisors, according to DOD, review these reports to ensure that the expenditures reported have in fact been made.

We recognize that MACV had assigned advisors to monitor each chapter of Vietnam's military budget. There are advisors located at the MACV headquarters level who review the GVN expenditure reports prior to the release of funds. Such reports, however, showed only summary figures for a broad program area and did not contain any specific or backup documentation concerning the expenditures for which Vietnam requested reimbursement. Irrespective of the MACV advisor's personal familiarity with his assigned budget chapter and the purpose for which funds were initially obligated, we do not believe that the MACV review can be considered sufficient for ensuring that reported expenditures have, in

fact, been made and that the funds were used only for approved purposes.

We concluded, therefore, that the procedures followed by MACV as explained by DOD did not provide adequate assurances that funds were released only for authorized purposes and in amounts actually needed for current requirements and that they were used only for intended purposes. We believe the foregoing conclusions and our discussions in subsequent sections of this report concerning controls exercised over three major budget chapters, i.e., psychological warfare activities, military pay and allowances, and military construction illustrate the need for additional verification and audit by MACV.

Psychological warfare activities

Our inquiry into the Military Civil Assistance Program (MILCAP), a segment of the Psychological Warfare (Psywar) chapter of Vietnam's military budget, to which 543 million piasters was available from U.S.-support sources in calendar year 1967, included a review of minutes of meetings of the Central Consideration Committee. This committee consisted of GVN Defense Ministry and MACV officials responsible for the review of major individual war damage claims and for recommending the amount to be awarded under each claim.

The claims documents we reviewed pertained primarily to crops and property which had been damaged or destroyed as a result of allied combat and defoliation operations. We noted that a number of claims had been disapproved by the Central Consideration Committee and had been returned to the Provinces because of inadequate or conflicting information. We also noted that this committee had turned a number of claims over to Vietnam's Military Security for investigation because irregularities were suspected.

MACV procedures revolve primarily around the written MILCAP approval procedures which were basically as follows: When a Vietnamese submits a claim, the assessment committee which was supposed to include a U.S. advisor was required to make an on-the-spot inspection of the damage and prepare a written damage assessment report. This report was to be signed by the committee members and become a part of the

60-050 O - 71 - 25

payment voucher. The claim and damage assessment report was then to be sent to the Province headquarters level where it was to be reviewed and evaluated and an award amount recommended by a committee appointed by the Province chief. Applicable procedures required that the committee also include a U.S. advisor.

The Province committee had the authority to approve a claim for payment by a GVN disbursing center up to 200,000 piasters until September 1967 when the limit was reduced to 100,000 piasters per claim. Recommended awards in excess of these amounts were to be sent to Saigon for further review and approval by the Central Consideration Committee. The United States was represented on this committee by MACV Headquarters Psywar Advisory Division representatives, who had final veto power over any and all claims actions. We were advised by MACV Psywar Division officials, however, that the procedures were being rewritten to provide that all payment decisions be made at the Province level to speed up assistance to victims.

The checklist or procedures followed by the Central Consideration Committee in its review of claims required, in part, that an on-the-spot assessment of damage must have been made. However, the checklists we reviewed did not indicate whether U.S. advisors participated in assessing damages, and, since we did not have direct access to individual GVN claim files, we were not able to ascertain whether U.S. advisors had, in fact, been represented on these committees.

We noted, and MACV Psywar Division officials confirmed, that MACV had not implemented follow-up procedures to ensure that approved claims were properly paid. Therefore, as part of our review, we selected 177 of the 526 cases representing individual claims of 100,000 piasters or more that had been approved by the Central Consideration Committee under the calendar year 1967 budget. The 526 cases involved claims of 253.6 million piasters, and the 177 cases selected for review involved claims of 129.0 million piasters. Some of the earlier claims reviewed ranged up to 3 million piasters. However, the GVN established a maximum limit of 500,000 piasters per claim in September 1967.

Although we did not have direct access to payment records and files, U.S. officials were able to obtain certain payment information for us concerning the 177 claims. This information showed that 134 of the 177 claims had been cleared for payment by the GVN disbursing center but that checks had thus far been issued in only 89 cases. This information also showed that the claims were paid in the same amounts approved by the Central Consideration Committee, receipts were obtained from the claimant, and payments did not exceed the ceiling established by the GVN for an individual claim. It should be emphasized, however, that our tests were very limited in scope and involved only a small percentage of the more than 40,000 claims submitted under MILCAP at that time.

Agency comments and GAO evaluation

In a letter to us dated July 23, 1969, DOD essentially reiterated the procedures for the MILCAP program outlined above and stated that, although advisors might have indicated otherwise, there were no current plans to rewrite the MILCAP procedures since they were considered to be satisfactory. DOD also stated that, pursuant to a recent GVN decree, only claims for combat damages to common installations, religious headquarters, private schools, and hospitals were considered under MILCAP and that other types of claims would be paid under another program.

On the basis of our review, we do not believe that MACV had exercised an effective degree of management control over this program. As stated on page 9, we noted that a number of MILCAP claims approved for payment by the Provinces had been rejected for irregularities after review by the Central Consideration Committee at the Saigon level. These irregularities had occurred in both the damage assessment and evaluation phases which indicated that procedures and controls at the Province and lower levels of the GVN had not been implemented effectively. The absence of effective procedures and controls at these levels could be quite serious since a significant number of the claims were in small amounts (less than 200,000 piasters prior to September 1967 and 100,000 piasters after that date) and could be approved for payment by the Province without referral to the Central Consideration Committee in Saigon. Consequently,

irregularities existing in the assessment and evaluation phase for small claims would not generally be detected.

We noted during our review that MACV had not implemented a follow-up system to ensure that approved claims were paid in the proper amounts and that the funds paid were actually received by the claimants. Therefore, we believe that good financial management practice would dictate such a follow-up system.

Military pay and allowances

During our review of management controls exercised by MACV to ensure that proper use was made of local currency made available in calendar year 1967 (12.8 billion piasters) for support of the GVN military payrolls, we were advised by MACV officials that U.S. advisors had not been assigned to review applicable payrolls. We were advised also that payrolls were fully acceptable to MACV as long as they had been signed by the commander of a GVN disbursing center and by an official of Vietnam's Defense Ministry Directorate General for Finance and Audit (DGFA).

MACV officials informed us that, although a U.S. advisor had been located at each of the nine major GVN disbursing centers, the primary mission of these advisors was to provide advice to GVN officials on ways to improve financial administration. The advisors were not responsible for making detailed reviews of payroll documentation. Nevertheless, the advisors would continue to stress to the commanders of the disbursing centers the importance of proper signing and postaudits of payrolls toward the achievement of good financial administration. We found, however, that U.S. advisors had been assigned to the five disbursing centers located outside the Saigon area only since September 1967 and, at the time of our review in June 1968, one of these positions had not been occupied for about 6 months.

In addition to the general absence of postaudits by MACV personnel, we found that the DGFA was seriously understaffed. At the time of our review, for example, only 50 of the 125 positions authorized to the DGFA's Audit Division were filled. Irrespective of this fact, MACV officials provided us with information which showed that the number of

payroll irregularities disclosed by these auditors in calendar year 1967, involving about 42.4 million piasters, were double the number of irregularities disclosed in calendar year 1966. The increased number of irregularities disclosed by the DGFA were, in our opinion, indicative of the general need for increased control over funds made available for military pay and allowances.

Agency comments and GAO evaluation

DOD advised us in a letter dated July 23, 1969, that it believed that the military pay funds made available to the GVN had been and were being properly utilized. DOD stated that approved payrolls, certified by the commander of a GVN disbursing center, approved by an official of the Ministry of Finance's Obligation Comptroller, approved by an official of the DGFA, and postaudited by the disbursing center and the DGFA, were accepted by MACV. In view of these controls, DOD believes a detailed audit of payrolls by U.S. personnel prior to the release of cash to the GVN is considered unnecessary.

DOD commented further that the increased number of cases of irregularities involving military pay in 1967 was attributable to an increase in the actual number of audits performed from 269 in 1966 to 367 in 1968 and that the increasing strength and efficiency of the DGFA Audit Division resulted in fewer cases of irregularities remaining undetected. DOD also advised that actual strength of the DGFA Audit Division had been increased from 50 to 82 in an effort to increase audit effectiveness and that MACV advisors frequently accompanied the GVN auditors during audits. Additionally, the number of irregularities involving military pay, the amount involved, and the disposition of the cases are monitored on a monthly basis by personnel in the MACV Office of the Comptroller.

The above improvements cited by DOD should, we believe, substantially contribute to an improved degree of administration and control over military pay and allowances. The beneficial effects of the increased audit effort are evident and the increase of more than 60 percent in the GVN's audit capability, as cited by DOD, should result in improved administration of funds released. However, we believe also

that the results of the GVN audits in 1967 are indicative of the need for even tighter controls and improved administration by both MACV and the GVN and that substantial benefits can be derived from these additional efforts.

We believe further that MACV should give consideration to increasing the number of U.S. advisors to the Military-Pay-and-Allowances chapter of the budget. This would permit a greater degree of participation and coordination with GVN efforts in this area and would minimize the necessity for MACV to continue to rely so heavily on GVN audits and controls. We believe also that audits of payrolls should not be limited to postaudits but should include a significant number of documented onsite observations and verifications of payroll disbursements. In our opinion, this increased control should help to preclude or minimize the types and number of irregularities that have occurred, particularly the detection of payroll "ghosts"; i.e., the inclusion of a payee on the payroll who either performs no military duty or who is either dead or nonexistent.

CONSTRUCTION PROGRAM GOALS
ONLY PARTIALLY ACHIEVED

Our review indicates that the military budget-support construction program for calendar year 1967 had only partially achieved its goal of providing facilities needed by Vietnam's armed forces.

The GVN defense budget in calendar year 1967 included about 1.1 billion piasters for about 519 construction projects. This included 201 projects in which 354.7 million piasters, representing 50 percent of the estimated cost of each of the 201 projects, was to be made available from U.S. owned or controlled local currency. Although the implementing agreement with the GVN was quite general in nature and did not specify a time frame in which construction was to be completed, the approved calendar year 1967 budget, as agreed to by the GVN and MACV, was considered minimal for 1 year's requirements for construction of these projects, most of which were noncomplex and quite small in size.

Our review and analysis of reports showing the progress being made on the 201 construction projects showed that, at March 1968, only 56 were complete. Another 54 projects were in various stages of completion, for a total of 110 projects completed or under construction. Construction had not, at that date, started on the remaining 91 projects. We noted that construction time for most completed projects generally ranged from about 1 to 3 months and that many of the facilities under construction, such as prefabricated steel buildings for barracks, warehouses, and latrines, were not of a complex nature.

Additionally, we found indications that, due to understaffing, MACV had not been able to effectively monitor the approximately 1,714 projects under construction at various times during the period January 1, 1967 to March 1, 1968. MACV officials advised us that, for construction projects financed with U.S. military appropriations, they were required to maintain accountability records on completed projects; to participate in the turnover and acceptance of completed projects; and to ascertain through end-use inspections that such facilities were properly

constructed, maintained, and effectively utilized by the GVN. We were advised also by such officials that similar requirements did not exist for construction projects which were financed with the types of local currency discussed in this report.

The monitoring that does exist on new construction and major rehabilitation projects financed with U.S.-dollar appropriations and local currency generated under U.S. programs, for calendar years 1965 through 1968, had been the responsibility of MACV area engineer advisors assigned to Vietnam's 12 area construction offices located throughout Vietnam. At the time of our review in June 1968, however, there were only six advisors assigned to the 12 offices. These advisors, during the period from January 1, 1967, to March 1, 1968, had responsibility for monitoring a total of about 1,714 construction projects under various U.S.-funding programs throughout Vietnam, for an average of about 286 projects per advisor.

We reviewed the MACV advisor's "Weekly Activities Reports" for the period January 1, 1967, through March 23, 1968, for 29 major new construction projects completed with local currency made available under the calendar year 1967 military budget-support agreement. Although we were advised that there was no requirement for MACV advisors to inspect construction that was financed with these funds, the MACV handbook for guidance of its advisors appeared to require such inspections. We found indications, however, that some inspections had been made on 17 of the 29 projects but that onsite inspections had apparently not been made on the remaining 12 projects.

MACV officials advised us that a request for a change in the MACV table of distribution to increase the number of advisors from six to 12 had been submitted to the Commander in Chief, Pacific, for review and approval. MACV stated that the expected assignment of six additional advisors would allow U.S. participation in the acceptance and transfer of completed facilities and the establishment and maintenance of related accountability records.

On the basis of our review, we believe that MACV needs to implement procedures which will require physical

inspection and monitoring of all U.S.-supported construction projects whether financed by U.S. military appropriations or with local currency. The monitoring and inspection should be performed both during and after construction to ensure that these facilities are properly constructed, utilized, and maintained. We believe also that accountability records may become essential at some future date as they provide a permanent record of facilities financed under the U.S. assistance program and form an excellent management tool in the determination of future maintenance and facility requirements.

We believe further that such a program not only will serve to ensure the proper construction and maintenance of currently programmed facilities, but also will aid MACV in determining the need for future facilities on the basis of the utilization made of those already completed and consistent with the GVN's indicated in-country capability to complete and absorb further programs.

Agency comments and GAO evaluation

DOD advised us in a letter dated July 23, 1969, that it did not challenge the accuracy of the statistics regarding the 1967 new construction program, as cited in this section of our report, but that it did not concur in our statement that the 1967 construction program had only partially achieved its goals. DOD explained that the cited statistics were, as of March 1968, just subsequent to the TET offensive which disrupted all construction programs in Vietnam and that normal execution time for the construction program was 2-1/2 years. DOD added that, as of July 1969, the construction program consisted of 197 projects, of which 154 of the projects had been completed and 36 were nearing completion. These totals constituted an achievement level of 97 percent for the 1967 program. DOD also advised that continuing advisory effort was being expended to enhance program execution and that the use of management tools and indicators, such as automated data processing support for program monitoring, was increasing and would facilitate the identification and resolution of problem areas.

DOD stated that it concurred with our report statements regarding the importance of physical monitoring of

projects and in our conclusion regarding the need for additional U.S. advisors in this area. It stated (1) that six additional U.S. advisors had been assigned, (2) that, with 247 projects currently under construction, each advisor had an average of 20 projects to monitor, compared with approximately 53 projects per advisor at any one time in 1967, and (3) that the MACV Engineering Advisory Division design personnel were also available for technical assistance.

Concerning postconstruction monitoring of projects, DOD has advised that GVN funding of routine maintenance has been and continues to be far below an acceptable standard for efficient facilities maintenance but that MACV and the Mission Council have requested the GVN to substantially increase funds for this purpose. DOD has commented that Vietnam's armed forces are responsible for monitoring subsequent maintenance and utilization of construction projects and that understaffing of the GVN components specifically charged with this monitoring is a recognized problem. DOD has also stated, however, that MACV's Engineering Advisory Division also maintains an interest in these areas and may recommend withdrawal of U.S.-support funds for cause.

Perhaps more important, DOD advised that, prior to approval of new construction requirements for calendar years 1969 and 1970, a joint US/GVN committee, including base development, programming, and engineering representatives, visited the proposed project sites and, among other things, examined into the maintenance and utilization of existing facilities. DOD has advised that misused or poorly maintained facilities are identified to the respective Vietnamese authorities for recommended corrective action and that MACV is presently conducting a maintenance study of Vietnam's armed forces facilities. This study will cover all aspects of facilities management and maintenance and will include recommended courses of action to aid in ensuring proper utilization and maintenance of these facilities.

The improvements cited by DOD should, if fully implemented, effect a substantial degree of improvement in MACV's monitoring of the military construction program. The increased use of management tools and an increase in the number of U.S. advisors should improve U.S. monitoring of the execution phase of this program and, in particular, the

onsite inspections which were made prior to approving the construction programs for calendar years 1969 and 1970. We believe these changes will contribute measurably toward the realistic determination of future program levels and toward ensuring the proper maintenance and utilization of existing facilities.

We believe, however, that MACV's monitoring of the postconstruction phase should also include participation in the turnover and acceptance of completed facilities and a regular program of continual onsite observation of the maintenance and utilization of facilities rather than relying on one inspection to provide needed information. Continual monitoring will provide assurance that facilities financed with U.S.-support funds were properly constructed and completed and provide continuing assurance that facilities are being properly maintained and utilized.

The need for this monitoring is all the more evident in view of the stated understaffing of Vietnam's military commands specifically charged with these responsibilities. Moreover, in view of the stated need for additional funds for the maintenance of facilities, MACV should continue to stress to the GVN the need for such funding.

Regarding execution of the calendar year 1967 construction program, we recognize that the cited statistics were dated just subsequent to the TET offensive which occurred in the early part of calendar year 1968. However, we indicated on page 15 of this report that many of the facilities being constructed were not of a complex nature and construction times for most completed major facilities only required about 1 to 3 months. Nevertheless, at March 1968 or 1-1/4 years after the start of the calendar year 1967 GVN budget year, work had not started on about 45 percent of the programmed projects. We believe this to be indicative that the construction program financed under the military budget-support agreement was not progressing as rapidly as it should have been.

CONCLUSIONS AND RECOMMENDATIONS

We concluded that MACV had developed procedures which should ensure a reasonable degree of control over the programming and obligation of local currency made available by the United States for support of the GVN military budget. We found, however, that MACV had little control over funds after their release to the GVN and MACV had insufficient information concerning the actual utilization of those funds. In response to our draft report, DOD advised us by letter dated July 23, 1969, that substantial improvements in the control and monitoring of local currency had been or would be made by MACV. These improvements pertain primarily to procedures for release of funds to the GVN and to the administration and subsequent verification of funds released for payment of military pay and allowances and for support of the GVN military construction program.

We are of the opinion that the strengthened procedures should provide MACV with considerable information concerning local currency programs, but the procedures will still not provide sufficient information to ensure that funds are (1) released for authorized purposes, (2) released only in amounts needed for current requirements, and (3) used for intended purposes. Although our review was directed primarily toward an evaluation of controls exercised by MACV instead of identifying specific instances of irregularities in the GVN's use of funds, we have concluded, nevertheless, that MACV controls and monitoring practices generally were not sufficient to preclude or detect the existence of improper disbursements, such as payments for payroll ghosts.

We believe that additional monitoring, audits, and inspections are needed and, in particular, that some degree of verification of reported expenditures should be performed prior to releasing any additional cash funds to the GVN for its military budget.

Recommendations

We recommend that the Secretary of Defense take such steps as are necessary to ensure that MACV:

1. Implements procedures to verify the accuracy of figures shown in GVN monthly reports of obligations and expenditures. Since local currency for Vietnam military budget support was released on the basis of data shown in these reports, such verification seems essential to provide some assurance that funds are released in proper amounts and for valid purposes.

2. Establishes a systematic system for the continual monitoring and physical inspection of the various activities and programs financed with local currency made available under the military budget-support agreement. The system should, if properly implemented, ensure that current programs are properly implemented on a timely basis and perhaps more important, should provide MACV with sufficient data for determining future program levels consistent with the needs and capabilities of the GVN economy. This may require an increase in the number of U.S. advisors in some areas, especially with regard to the Military-Pay-and-Allowances chapter of the budget.

CHAPTER 3

NEED FOR INCREASED CONTROL OVER PROGRAMMING, RELEASE, AND UTILIZATION OF CIVIL BUDGET-SUPPORT FUNDS

Our review of the manner in which USAID exercised control over the programming, release, and utilization of local currency made available for support of Vietnam's civil budget, revealed that, although USAID's administrative and financial controls over these funds had improved somewhat, as described in the appropriate subsections of this chapter, the controls continued to remain weak and to need considerable strengthening.

We found, for example, that during calendar year 1968 USAID continued to release funds programmed for calendar year 1967 to activities that were not covered by required US/GVN implementing project agreements. Also, USAID continued to release local currency on the basis of GVN reports that were unreliable and had not been verified. Consequently, large amounts of local currency had been released prematurely to the actual needs of the Vietnam Government. These funds were not promptly utilized by the GVN but were instead accumulated under GVN control in a central construction account and in the provinces.

Although the absence of suitable records and information at USAID prevented us from determining the total amount of funds accumulated by the GVN, information was obtained that identified at least 1.16 billion piasters which was made available under the calendar year 1967 civil budget-support program but was still unexpended at June 30, 1968. Additional information was obtained in July 1969 that identified almost 3 billion piasters (equivalent to about $25.4 million) which had been released to the GVN in calendar years 1966 through 1968 but was still unexpended at December 31, 1968. In our opinion, good financial management would not permit these local currency funds to be removed from U.S. control and to then lie idle for long periods of time in accounts under the sole control of the

GVN. We also believe that, in view of the massive budget deficits existing in Vietnam at the time, these idle funds might possibly have been better utilized on other high-priority programs which were experiencing a shortage of financial resources.

We found further that USAID had not implemented adequate verification and monitoring procedures which would ensure the reasonableness of local currency amounts requested by the GVN and would ensure that funds are (1) released for authorized purposes, (2) released only in amounts needed for current known requirements, and (3) used for intended purposes. In addition, construction program goals financed under certain calendar year 1967 civil budget programs were not attained on a timely basis. Some of the facilities already constructed were of poor quality, were in need of extensive maintenance, or were not being utilized.

We found, however, that USAID's participation in formulation of the GVN civil budget for calendar year 1967 had increased over that of the prior year and, in contrast to 1966, local currency made available in calendar year 1967 was earmarked for specific programs.

Our review related primarily to calendar year 1967 programs and activities. In view of the seriousness of deficiencies described above, a limited amount of work was also performed on calendar year 1968 civil budget activities.

Agency comments and GAO evaluation

We brought the deficiencies summarized above (except that information obtained in July 1969), and which are explained in detail in subsequent sections of this report, to the attention of the Agency for International Development in a draft report in April 1969. In a letter to us dated July 18, 1969, the Auditor General of AID explained the problems discussed in our draft report by stating that the program in Vietnam was unlike any other AID country program as to both the diversity of activities and geographic coverage within the country. These factors are considered relevant by AID to the amount of audit and surveillance coverage

that can be accomplished. He advised that the Vietnam Government was being urged and encouraged to simplify its fiscal procedures and to accelerate its rural development expenditures in order to take the political initiative from the Communists. AID believes, therefore, that, under such circumstances and in light of massive GVN budgetary deficits, it becomes imperative to exercise only limited control over the release of counterpart funds lest the whole momentum be stifled. Furthermore, many of the geographic areas in which expenditures are made are insecure, at least part of the time.

USAID had previously advised us by letter dated June 2, 1969, that it did not consider that funds had been released in excess of Vietnam's current needs but that funds might have accumulated in some instances because of delays by the Provinces in reporting their expenditures and because of the extreme shortage of GVN financial resources. With respect to our comments regarding the need for verification of GVN reported expenditures prior to releasing additional funds, USAID believes that it is not feasible to retain the size staff which would be necessary to maintain the strict controls our report appears to recommend.

Nevertheless, USAID has cited a number of improvements that it made, or intends to make, to strengthen controls. These improvements include an increase in audit coverage of local currency projects, assignments of additional engineers to monitor construction projects, and the implementation of field reporting on expenditures of local currency. In addition, steps will be taken to improve the usage of these reports and to reiterate in writing to responsible officials their responsibility for project monitoring and reporting. USAID also has stated that discussions will be held with the GVN to develop procedures specifically designed for controlling overreleases of funds to the Provinces and the construction account. USAID believes that present procedures plus the above cited improvements will provide adequate control over the use of U.S.-controlled local currencies.

Although USAID has improved and continues to improve the administration and monitoring of local currency, we believe that significant improvements are still necessary

in order for USAID to attain an effective degree of control over this currency. In particular, our analysis of the new procedures (see pp. 39 to 40) developed by USAID for controlling fund releases indicates that these new procedures will only partially resolve the problem of overreleases to the Provinces and the construction account.

We believe further that effective controls need not impair or stifle the progress of programs, as indicated by AID, but should contribute to increased efficiency in program implementation. It seems that, in view of the massive budget deficits existing in Vietnam, effective financial management would help to ensure that maximum benefits are obtained for the limited resources available.

In the following sections of this chapter, we present in more detail the results of our review for calendar year 1967, including information pertaining to calendar year 1968, and USAID's comments concerning our findings. We have also included USAID's comments, where appropriate, regarding improvements made or to be made and certain additional information of a more current nature.

60-050 O - 71 - 26

PROGRAMMING AND MONITORING OF LOCAL CURRENCY COULD BE IMPROVED BY INCREASED USE OF PROJECT AGREEMENTS

Our review showed that USAID had released large amounts of local currency to the Vietnam Government for activities not covered under specific project agreements. We found, for example, that as of November 1967 such releases under the calendar year 1967 US/GVN civil budget-support master agreement amounted to a total of about 1.9 billion piasters. We believe that project agreements are an important control factor in that they not only provide a basis for tighter programming of the limited financial resources available but also provide the basis to verify actual expenditures. In our opinion, the use of project agreements also places USAID in a more knowledgeable position in dealing with Vietnam officials, especially if it should later become necessary to obtain reimbursement from Vietnam for funds which may have been released in amounts excess of current needs and/or for funds which may have been expended for unauthorized purposes.

Project agreements set forth the objectives, courses of action, and responsibilities of USAID and the Vietnam Government. These agreements are specific with regard to the amounts of funds to be made available and the uses to be made of such funds. In addition, the provisions of the agreements are monitored by project managers assigned both by USAID and the Vietnam Government. As an example, a project agreement for general agricultural support provided that USAID would finance a contract with the Republic of China Joint Commission on Rural Reconstruction to furnish 62 agricultural technicians to work with Vietnam's Ministry of Revolutionary Development pacification teams in selected hamlets to improve agricultural production.

The agreement provided that three of the technicians be assigned to Saigon and that 13 hamlet team leaders and 13 teams of three members each, backed up by seven roving team members, be assigned to hamlets selected by the Vietnamese Province chief. The Province chiefs were to assign the specific teams to the hamlet they selected. The Vietnam Government was to provide seeds, demonstration equipment, and materials; USAID would pay the dollar costs of the contract.

The Chinese technicians were to have been trained in general agriculture, were to be experienced in working with rural people, and were to be graduates of a vocational agriculture school.

The US/GVN civil budget-support master agreement for calendar year 1967 provided that after June 30, 1967, funds would not be released to any project not covered by a specific project agreement. Moreover, an April 1967 USAID memorandum to USAID divisions reiterates this policy. However, our review showed that USAID had, in some cases, released funds after June 30, 1967, for certain individual activities either not covered by specific project agreements or released in amounts excess to that specified in individual agreements. Release numbers 2, 3, and 5 of the following schedule of releases through May 1968 illustrate these facts.

Release number	Date	Cumulative amounts	
		Project agreements	Releases
		(billions of piasters)	
1	May 1967	-	1.4
2	Sept. 1967	1.0	3.0
3	Oct. 1967	3.1	3.7
4	Nov. 1967	4.8	4.8
5	May 1968	5.4	5.8

The first three releases include 1.5 billion piasters released for the Revolutionary Development program. Our review shows that a detailed project agreement for that program was not signed by USAID and Vietnam officials until June 1968.

We noted, however, that USAID had attempted, on at least one occasion, to limit the release of local currency to only those programs covered by project agreements. This occasion occurred in November 1967 when USAID limited the release of funds to about 1.1 billion piasters so that the cumulative releases would not exceed 4.8 billion piasters which was equivalent to the total amount of project agreements then in process. Since USAID followed the practice at that time of releasing funds on the basis of obligations as

reported by the GVN and total obligations under the project agreements amounted to only 2.9 billion piasters, USAID had, in effect, released a cumulative total of 1.9 billion piasters for activities not under project agreements.

We believe that, to maintain better control of local currency, USAID should implement procedures to require that local currency be released only to activities under project agreements. These agreements should be properly approved and monitored, and funds should be released to such projects only after the amounts requested have been verified and approved by the respective project managers.

Agency comments and GAO evaluation

USAID commented that it shared our view concerning the importance of specific project agreements but that the master agreement between the United States and Vietnam Governments and the jointly approved budget governing the use of local currency generated under U.S.-financed programs were the primary documents for controlling the expenditure of such currencies.

We were further advised that in 1967 USAID was in the process of reinstituting the use of project agreements. However, USAID personnel involved in the program at that time were, in a number of instances, not familiar with the use of project agreements. This necessitated that USAID provide a fair amount of training to such personnel. In addition, there were delays in drafting the project agreements because those personnel involved were concerned first with processing dollar-obligating documents and then with developing the fiscal year 1969 budget submissions.

In view of these problems and since there was a joint US/GVN master agreement on the use of local currency, USAID had agreed with Vietnam to continue releasing local currency through June 30, 1967, without requiring the existence of a specific signed project agreement. USAID also commented that, in its opinion, the schedule on page 27 overstated our position because the first three releases were for obligations incurred prior to June 30, 1967. On the basis of the circumstances stated above and the right to

postaudit, USAID stated the belief that it was exercising sufficient control to protect U.S. interests.

We recognize the importance of a joint US/GVN approved budget and master agreement, and the right to postaudit. We recognize also that in calendar year 1967 USAID was reinstituting the use of project agreements. We do not concur, however, with USAID's belief that these factors, coupled with their problems in reinstituting project agreements, indicate that USAID was exercising sufficient control to protect U.S. interests.

Information contained in the US/GVN master agreement for calendar year 1967, which includes amounts budgeted for specific programs, was quite general and broad in scope and did not include the details generally encompassed in project agreements for specific activities and programs. In contrast, project agreements are quite detailed in specifying the project goals, responsibilities of the United States and Vietnam Governments, purposes and limitations for which funds may be used, and various types of information to assist implementation of the project. In our opinion, these details provide both USAID and the Vietnam Government not only the basis for tighter programming and administration of civil budget activities but also the basis to better evaluate project implementation and verify the uses made of funds provided.

In connection with USAID's comment that the right to postaudit is one of the factors indicating that it had exercised a reasonable degree of financial control, we have explained on page 42 of this report that USAID had devoted an insufficient amount of audit effort toward audits of local currency during the period July 1967 to June 1968. Moreover, USAID agreed that it had long recognized the need for additional audit coverage of civil budget-support programs.

We also cannot agree with USAID's comment that the schedule on page 27 overstates our position in that the first three releases were for obligations incurred prior to June 30, 1967. We should first point out that the US/GVN master agreement for calendar year 1967, as well as other USAID instructions, stated that funds would not be released after June 30, 1967, to any activity not covered by a

project agreement. It seems, therefore, that obligation dates would have had no bearing on the releases since the controlling factor should have been the existence of project agreements at June 30, 1967. Nevertheless, we found that only the first two releases were for obligations reported as incurred by the GVN at June 30, 1967. Moreover, we found also that USAID had released 1.5 billion piasters for the important Revolutionary Development (pacification) program during the period from May to October 1967, although the applicable project agreement was not signed until June 1968.

FUNDS RELEASED PREMATURELY
TO CURRENT KNOWN NEEDS

We found that USAID had released large amounts of local currency under the civil budget-support agreements for calendar years 1967 and 1968 before the cash was actually needed. We ascertained that, as of June 30, 1968, at least 1.16 billion piasters released under the 1967 agreements had not been expended but had instead been accumulated in various accounts and Provinces under sole control of the GVN. Additional information was obtained from the GVN in July 1969 that identified almost 3 billion piasters (equivalent to $25.4 million) which was released by USAID in calendar years 1966 through 1968 under three U.S.-supported programs and construction projects and which had been accumulated by December 31, 1968.

Although the lack of information at USAID prevented us from determining with any degree of accuracy the total amount of funds that had been accumulated, the established GVN system of reporting obligations and expenditures was such that considerably more local currency may have been accumulated than that shown above. Also, the data supporting the foregoing amounts of premature releases did not include any statistics on some of the U.S.-supported programs. The premature release of funds was caused primarily by USAID's releasing funds on the basis of GVN reports of obligations and expenditures which generally overstated cash needs at the time. We also found that the data contained in the GVN reports had not been adequately verified by USAID. (See p. 42.)

USAID had released local currency for support of Vietnam's calendar year 1967 civil budget in five increments--May, September, October, and November 1967 and May 1968. These releases were based primarily on financial data prepared by Vietnam's budget bureau. The financial data submitted by the budget bureau, on which USAID relied in determining the amounts to be released, was a cumulative monthly report showing total amounts budgeted, obligated (set aside to meet a valid commitment), and expended as reported by the various GVN Ministries and Provinces for programs and projects approved and supported by USAID. The

reports did not generally contain specific or detailed information on the purposes for which funds were obligated or expended.

Our review of the data shown in the monthly reports to USAID in support of the five releases shows that the funds were generally released for the calendar year 1967 Vietnam budget on the basis of GVN reported total obligations, rather than on reported expenditures which would evidence actual cash needs. This procedure was in contrast to procedures followed for the release of funds in support of the military budget under which funds were generally released on the basis of GVN reports of expenditures. (See pp. 7 to 8.)

The following schedule shows certain obligation and expenditure data which was obtained from GVN reports and which supports the five releases of funds by USAID. The schedule shows also the release dates and amounts of releases by USAID for support of the calendar year 1967 civil budget and illustrates that releases were sometimes less than reported obligations but were always in excess of reported expenditures.

Release number	Date	Cumulative GVN reported		Cumulative releases by USAID
		Obligations	Expenditures	
		(billions of piasters)		
1	May 1967	1.4	1.3	1.4
2	Sept. 1967	3.0	2.5	3.0
3	Oct. 1967	3.8	3.0	3.7
4	Nov. 1967	5.4	4.4	4.8[a]
5	May 1968	7.4	5.6	5.8[b]

[a]Release was limited to a cumulative total of 4.8 billion piasters in an attempt to restrict releases to the total amounts budgeted for activities under project agreements. (See p. 27.)

[b]Partial release due to insufficient funds in counterpart account to meet GVN request for 1.5 billion piasters.

Although the above schedule shows that 200 million piasters had been released in excess of reported expenditures as of May 1968, we found that the spread between reported expenditures and cumulative releases was actually much higher since GVN reports of expenditures were seriously overstated. This was caused by the fact that, under the GVN financial system, funds were considered to be both an obligation and an expenditure by the GVN budget bureau as soon as they were transferred to the appropriate Ministry, Provinces, or to special accounts. Consequently, these transfers were reflected as expenditures in the GVN monthly report of obligations and expenditures which was submitted to USAID. Thus, the funds transferred by the GVN budget bureau were reported to USAID as expended even though only a small amount may have been actually utilized to liquidate a valid GVN obligation.

We were unable to ascertain from available documents the total amounts of unexpended funds in the Provinces and in special accounts at any given time. However, USAID provided us with GVN documents which showed that GVN reports to USAID, as of June 30, 1968, on the calendar year 1967 civil budget, included at least 1.16 billion piasters (equivalent to about $10 million) as expenditures that had only been transferred to the Provinces or to a special account. These documents showed that 970 million piasters still remained unexpended in a special construction account and that another 190 million piasters was still unexpended in the Provinces under the Chieu Hoi program. Similar information involving other calendar year 1967 civil budget activities was not available. The total of 1.16 billion piasters still unexpended at June 1968 represents about 14.5 percent, or one seventh of the total local currency made available for support of Vietnam's calendar year 1967 civil budget program.

In view of the large amounts of piasters that were released but not expended under the civil budget-support agreement for fiscal year 1967, we briefly reviewed releases under the 1968 agreement. On the basis of the GVN data obtained for us by USAID in February 1969, it appears that similar conditions continued to exist under the 1968 agreement. For example, the GVN data showed that, of about

2.6 billion piasters released to the Provinces under the Revoluntionary Development program as of December 1968, the Provinces had reported expenditures of only about 1.9 billion piasters. Therefore, about 700 million piasters was unexpended and held in the Provinces.

USAID was not able to obtain for us during our review detailed information from the GVN that showed the expended and unexpended portion of piasters transferred to the Provinces for other 1968 budget programs; nor was USAID able to obtain information from the GVN that showed the extent to which local currency transferred under the 1968 programs to the special construction account had remained unexpended.

We noted that in calendar year 1968 a number of Provinces reported total expenditures and total obligations in the same amounts. This indicated that the Provinces might have continued to report amounts as paid out as soon as they were obligated. This practice resulted in an overstatement of reported expenditures at that level. Also, USAID issued an audit report on the Refugee program in 1969 which indicated that at least some Provinces had reported as expended amounts which had only been transferred to lower government levels within the Province, much in the same way that funds transferred by Vietnam's budget bureau to the Provinces had been reported to USAID as expended.

USAID limited its release of local currency for the calendar year 1968 civil budget because of a lack of adequate deposits in the counterpart account. For example, releases as of March 1969 amounted to 6 billion piasters whereas Vietnam had reported expenditures of at least 6.7 billion piasters at December 1968. These unreimbursed expenditures, however, were to be released to the GVN under the budget-support agreement for 1968 when additional funds became available in U.S. owned or controlled local currency accounts.

In July 1969, subsequent to submitting our draft report to AID for comment, we obtained additional information directly from the GVN budget bureau concerning the status of funds transferred to the Provinces under the calendar year 1968 civil budget-support agreement. The information

obtained showed that funds were transferred to the Provinces under three programs--Revoluntionary Development (pacification), Refugees, and Chieu Hoi--which are described in more depth in appendix I. According to this information, only about 2.9 billion piasters of the approximately 4.8 billion piasters released to the Provinces had been expended at December 31, 1968, leaving an unexpended balance of about 1.9 billion piasters for the three programs. The amounts available for expenditure during calendar year 1968 also included about 900 million unexpended piasters and unobligated funds carried over from the calendar year 1967 civil budget.

The information obtained from the GVN in July 1969 shows also that, as of December 31, 1968, only about 400 million of the 1.5 billion piasters released to Vietnam during 1966 through 1968 for construction programs had been reported as expended. Of the approximate 1.1 billion piasters unexpended at that date, more than 625 million piasters had not been obligated or committed for a specific construction project of which 246 million piasters had been released by USAID in 1966 and 1967 in support of civil budgets of those years. Thus, about 3 billion piasters was released to the GVN far in advance of actual cash needs to carry out calendar year 1968 civil budget construction projects and for other activities connected with the Revolutionary Development, Refugee, and Chieu Hoi programs.

The fact that local currency was sometimes accumulated in the Ministries and Provinces and was not promptly utilized was confirmed by a USAID audit report on the Refugee program which was issued in 1969. This report showed that, out of a total of 1.5 billion piasters reported to USAID as expended from funds provided under the 1966 and 1967 civil budget-support agreements, a minimum of 545 million piasters was still on hand at the Province and Ministry levels in March 1968 and had not been released by those levels for expenditure.

The audit report, which we received after submitting our draft report to AID for comments, also stated that, in the three Provinces reviewed, less than 30 percent of the more than 120 million piasters released by the Provinces to lower government levels had been expended. Since the

amounts released to lower levels of the GVN were reported as obligated and expended by the Provinces, the audit report concluded that significant amounts of unexpended piasters could be lying idle throughout the Republic of Vietnam.

The foregoing information shows that Provincial reports of expenditures to the GVN budget bureau overstate the amount of actual expenditures much in the same way as the GVN reports to USAID. Under this type of reporting system, which overstates expenditures, the premature releases to three programs under the calendar year 1968 civil budget agreements may well be more than the 1.9 billion piasters identified. (See p. 35.) To the further extent that obligations reported by the Provinces represent intra-Provincial transfers and not a financial obligation of the GVN, the amount of premature releases will be larger.

Although we believe that the procedures followed for the release of local currency to Vietnam's military budget--i.e., reimbursing the GVN for a combination of actual and 1 month's estimated expenditures--would provide a greater degree of financial control than procedures followed by USAID, they would only be a step in the right direction. A change to this system would not be reasonably effective, in our opinion, until the GVN reports of obligations and expenditures at each of the various levels of government reflect actual valid expenditures and, perhaps even more important, obligations reflect valid financial commitments of the GVN.

In any event, the effectiveness of these procedures is also contingent on other control measures such as close monitoring of projects by USAID technicians, a system of reliable and accurate reports, and by audit or other system of verification to ensure that funds are released in proper amounts and are used as intended. At the time of our fieldwork in 1969, USAID had not yet implemented the additional related control procedures.

Agency comments and GAO evaluation

USAID concurred in a letter to us dated June 2, 1969, that funds released to the GVN might have accumulated in

some instances and, therefore, were not promptly utilized. USAID also commented that, in response to our proposal, it had shifted in 1968 to a procedure of reimbursing the GVN on the basis of reported expenditures in lieu of reported obligations. USAID acknowledged, however, that the procedural change would not ameliorate the transfers of funds to the construction account and to the Provinces because the GVN procedures provide that such transfers be recorded simultaneously by the transferring Ministries as obligations and expenditures.

However, USAID advised that, at its insistence, Vietnam's budget bureau had requested and obtained reports on the status of construction programs from the various Ministries. The Ministries were further requested to review their construction programs to determine if some should be canceled and funds returned to the counterpart account. USAID also advised that efforts would be made to speed up the implementation of projects which, in their opinion, should be implemented, and that a meeting would soon be held with appropriate GVN officials to discuss alternate procedures which would limit fund transfers for these projects until construction is actually ready to begin.

Concerning transfers to the Provinces, USAID commented that, if it were to withhold fund releases until solid evidence of actual expenditures by the Provinces were obtained, releases would probably be delayed until 6 months after the transfer to the Provinces had been made and perhaps 3 or 4 months after the actual expenditures. According to USAID, this would create a very difficult situation for the GVN at a time when it was already very short of finances due to the costs of prosecuting the war. USAID also commented that, under the GVN procedures, these fund transfers to the field were considered to be expenditures and could not be used to meet other requirements and that, if USAID reimbursements were not timely, the GVN would be forced to borrow from the National Bank and incur interest costs.

USAID also stated that, to speed up the use of funds transferred to the field, it had obtained GVN agreement to estimate at the end of each financial year the amount of unliquidated transfers to the field and to deduct this amount from the following year's budget; moreover, GVN procedures

require that unliquidated transfers must be expended within 2 months following the close of the financial year.

USAID provided us with statistical data as of December 31, 1968, for the Revoluntionary Development program which showed that 1 billion of the 2.3 billion piasters allocated to the Provinces during calendar year 1968 had been expended and an additional 400 million piasters remained available for expenditure from January through April 1969. USAID commented that the above statistical data showed only nine cases out of 48 Provinces and autonomous cities in which reported obligations exactly equaled reported expenditures. Our review indicated, however, that those nine cases involved 27 percent of total reported expenditures for that program.

USAID commented also that it was not clear, as our report indicates, that the procedures in use for release of funds to the GVN resulted in a lessening of U.S. control. According to USAID, the release procedures have no effect on the Ministries' incentive to implement programs because, if funds are not expended, the following year's budget will be reduced and there are U.S. project managers assigned for every project activity who continue to have responsibility for monitoring the projects. (See p. 26 for our comments on the fact that USAID had not fully implemented the use of project agreements.)

We recognize that USAID had shifted in 1968 to a procedure of reimbursing the GVN on the basis of expenditures in lieu of obligations and believe that the procedures were a step forward toward preventing the continued premature release of local currency. However, the fact that almost 3 billion (equivalent to $25 million) piasters had been released under four separate programs of the civil budget but had not been expended at December 31, 1968, representing 1968 and prior years, was indicative that conditions might not have improved with establishment of this procedure.

It is our opinion that this new procedure will not resolve the problem of overreleasing funds until GVN reports to USAID are more reliable and meaningful and other control measures, as described on pages 36 and 54, are implemented. The effectiveness of the new procedures can

only be evaluated in the light of their subsequent implementation.

Concerning the release of local currency to the construction account, USAID indicated that new procedures were to be discussed with the GVN and we have noted that written procedures have been incorporated in the US/GVN master agreement for calendar year 1969 budget support concerning fund releases for construction projects. These procedures specifically provide that fund releases (transfers) will be made "only if the (GVN) Ministry requesting the transfer can show evidence that land is available and that plans have been completed and approved in writing by the USAID Project Representative." The new procedure cited above should result in substantially improved control over releases of funds to the construction account, but only if the projects themselves are effectively implemented. Under the GVN accounting procedures, the funds could still remain idle if the projects are not implemented on a timely basis.

We believe that USAID's comment, that to withhold fund releases until evidence of actual expenditure is obtained would create a difficult situation for the GVN, may have some merit. However, the suggestion contained in our draft report was not as stringent as that stated by USAID. We had suggested that the GVN be reimbursed periodically on the basis of projected expenditures for the forthcoming period adjusted by actual releases and expenditures of the prior period. We believe that this procedure should help tighten controls without causing financial hardship to the GVN.

USAID also advised us in the letter of June 2, 1969, that the GVN had agreed to estimate the amount of unliquidated transfers to the Provinces at the end of each financial year and to deduct this amount from the Ministries' budgets for the following year. This procedure, however, was not incorporated into the calendar year 1969 US/GVN master agreement. Also, we doubt that the procedure, when implemented, will prevent such premature releases because it applies primarily to amounts already released and to the amounts programmed. Nevertheless, the procedure, when implemented, should help to recover those funds that were released prematurely.

We reviewed the calendar year 1969 US/GVN master agreement dated June 16, 1969. This agreement provided that funds released under the 1966, 1967, and 1968 civil budget-support agreements that were not obligated by the GVN at December 31 of each respective year, or had not been expended by May of the following year, were to be decommitted to reduce the amount programmed for that year. However, another provision in the agreement specifically excluded from that requirement the amounts transferred to the Provinces or to special accounts. The latter provision, in effect, negates the former provision since most of the unexpended funds discussed in this report were accumulated in the Provinces and in the construction account.

The US/GVN master agreement of June 16, 1969, also provides that the GVN continue to include funds transferred to the Provinces as expenditures in their reports to USAID. It is our opinion, therefore, that the new and old procedures cited by USAID will not solve the problem of releasing funds prematurely to current cash needs at the time, or prevent the GVN from continuing to accumulate under its control vast amounts of funds released from U.S. owned or controlled local currency accounts. As long as local currency releases are based on GVN reports of expenditures, these problems will continue until USAID requires the GVN to submit more meaningful reports which reflect actual expenditures and a more realistic presentation of cash needs at the time.

USAID commented that it was not clear that these premature releases resulted in a lessening of U.S. control and that they might reduce the GVN incentive to implement programs. We believe that our observations concerning the extent of unexpended local currency which had been accumulated and remained unexpended under GVN control in the construction account and in the Provinces and the slow implementation of construction programs included elsewhere in this report (pp. 33 and 47) indicate the need for improved U.S. control over local currency made available in support of the GVN civil budget.

We believe that the shortage of funds and high costs of the war make it essential to encourage tight financial management and control. In view of this and since one of

the major tasks of USAID in Vietnam has been to improve administration within the Vietnam Government, we believe it encumbent upon USAID to not only strengthen its administration and controls but also ensure that the GVN Ministries implement procedures and controls, including the submission of more meaningful reports to USAID, that will help preclude the premature release of funds.

In summary, we believe the improvements cited by USAID will only partially resolve the problem of premature releases of local currency. Therefore, we are presenting several recommendations on page 54 which, when implemented should ensure a reasonable degree of financial management and control of local currency made available for support of Vietnam's civil budget.

60-050 O - 71 - 27

NEED FOR U.S. VERIFICATION OF PROGRAMS AND GVN REPORTS OF OBLIGATIONS AND EXPENDITURES

Our review showed that USAID had released large amounts of local currency for support of Vietnam's civil budget without adequately assuring itself that the GVN documents supporting release of funds were accurate and reliable. The review showed also that USAID audit coverage of U.S.-supported civil budget activities appeared insufficient in view of the many billions of piasters made available for these activities. In our opinion, therefore, local currency released in amounts excess to actual needs could have been prevented, or at least minimized, had USAID verified the accuracy of GVN reports of obligations and expenditures and increased its audit coverage of U.S.-supported civil budget programs.

We found that USAID had not independently verified or checked on the validity of monthly reports of obligations and expenditures submitted by the GVN under the calendar year 1967 civil budget agreement and which were used by USAID to support its releases of local currency for support of authorized activities. To illustrate this point, USAID officials responsible for monitoring the Chieu Hoi program and for approving the release of local currency for support of this program in 1967, advised us that they had relied fully on the data shown in the GVN monthly reports as support for releases to the GVN. Our review showed, however, that these monthly reports were inaccurate and overstated the immediate cash needs of the Chieu Hoi program.

The GVN monthly report to USAID for December 1967 shows cumulative expenditures of about 737 million piasters for Chieu Hoi, of which about 680 million piasters had been allocated to the Provinces. The Chieu Hoi Ministry provided us with additional information which showed that, on the basis of expenditure reports from all but one of Vietnam's Provinces and autonomous cities, only about 330 million piasters had been expended. Although this information was provided to us in April 1968, we noted that the Chieu Hoi Ministry had still not received reports from a number of Provinces and cities for the period ending December 31, 1967. Chieu Hoi officials advised us that, for reporting purposes, piasters are regarded as expenditures immediately

upon being transferred to the Provinces for Chieu Hoi programs. This practice has resulted in the release of significant amounts of piasters to the Chieu Hoi program in excess of the amount needed to meet actual cash needs.

In our opinion, the above is a specific illustration indicating the need for implementation by the GVN of a systematic and reliable system of reporting obligation and expenditure data to USAID or, as an alternative, the verification by USAID of data reported by the GVN. The need for such a reporting system and/or verification is further illustrated on page 31 of this report where we reported that instances were identified indicating that the GVN had accumulated under its control about 3 billion piasters, representing local currency that had been released by USAID in calendar years 1966 through 1968, but was still unexpended by the GVN at December 31, 1968. We believe it encumbent upon USAID to take whatever steps may be necessary to ensure that local currency releases to the GVN do not exceed the amounts needed at the time to meet actual cash requirements of authorized activities.

We found that an increase in USAID's audit coverage of civil budget activities financed by local currency generated under U.S. programs is also warranted. Our review of USAID audits for fiscal year 1968 shows that 77 audits were performed of which only 14 involved activities financed with U.S.-provided local currency. Since most of the 14 audits involved USAID Trust Fund activities, audit coverage of such civil budget activities as discussed in this report was obviously quite minimal.

A USAID official confirmed that major emphasis of USAID audits for 1968 had been on the U.S.-dollar-financed Commercial Import Program, with little or no emphasis on U.S.-supported civil budget activities financed with local currency. He further advised us, however, that audits planned for subsequent years would include reviews of civil budget-support funds.

Agency comments and GAO evaluation

In a letter to us dated June 2, 1969, USAID agreed that it had not confirmed the validity of all GVN reported

obligations and expenditures prior to the release of funds. However, USAID stated the belief that its right to postaudit had provided an adequate basis for ensuring the validity of obligations and expenditures, and such right provides the opportunity to obtain reimbursement for any improper obligations and expenditures. USAID also commented that it did not feel it feasible to retain the size staff necessary to maintain the strict control our report appeared to recommend. In addition, USAID has advised us that an independent information system has now been established for obtaining data on expenditures by the Provinces for the Revolutionary Development program, the largest source of Provincial transfers, and that the U.S. Province senior advisor generally approved releases for rural development activities at the Province level.

USAID also agreed that additional audit coverage of activities financed with local currency was warranted. In this connection, USAID stated that it had long recognized the need for additional audit coverage of such activities and that audit coverage was appreciably increased during fiscal year 1969. USAID further advised that, as of late May 1969, it had issued four audit reports covering the equivalent of about $5 million in projects partially financed with local currency and that another six reports were in process involving local currency equivalent to about $25 million. In performing these audits, USAID commented that the auditors inspected and reported on construction activities and on the use of facilities, commodities, and other AID-financed contributions on a selective test check basis and that none of these audits involved activities financed with local currency from the Trust Fund.

USAID provided us with additional data concerning expenditures under the Chieu Hoi program. According to this data dated during the first quarter of calendar year 1968, the 750 million piasters made available for the calendar year 1967 Chieu Hoi program was 97 percent obligated (726 million piasters) at December 31, 1967, of which 92 percent had been expended (692 million piasters). The data also indicated that the 330 million piasters cited by us as representing actual expenditures at December 31, 1967, did not include expenditure reports for some 10 Provinces. These 10 reports

were not available, according to USAID, when the GVN year-end report was prepared.

With reference to USAID comments on the Chieu Hoi program, it appears that the situation existing at December 31, 1967, as reported by us, may have improved somewhat during the first quarter of calendar year 1968. Since the additional data submitted by USAID was basically prepared by Vietnam's budget bureau and since the GVN reporting system under the Chieu Hoi program and others provided that local currency be regarded as an expenditure immediately upon transfer to the Provinces, the additional data probably does not materially change the situation as we reported it. However, the GVN reporting system, as discussed above, was confirmed and supported by USAID in its letter to us of June 2, 1969.

The Chieu Hoi funds constituted a sizable portion of the almost 3 billion piasters of unexpended funds which had been accumulated by the Provinces as of December 31, 1968. Therefore, we believe it questionable whether the amounts reported by the GVN as being expended for Chieu Hoi programs as of December 31, 1967, could be regarded as representing actual expenditures evidencing cash disbursements.

We do not agree with USAID's remarks that the "right" to postaudit had provided an adequate basis for ensuring the validity of obligations and expenditures. Although the right to postaudit is an important element of internal control, it will not provide management with information needed to evaluate its activities and to verify the validity of financial transactions. To accomplish this, such right must be followed by a sufficient amount of audit coverage. USAID agreed, however, that audit coverage had been insufficient, and it provided data indicating that audit coverage began to increase during fiscal year 1969. With regard to USAID's comment that it was not feasible to retain a staff of the size necessary to maintain the controls our draft report appeared to recommend, we are not in a position to state the size of staff that would be necessary. Also, we are not in a position to state whether personnel increases would be necessary or whether such controls could be accomplished by reassignment of personnel already on board. Nevertheless, the deficiencies disclosed in this report indicate that USAID should generally strengthen its controls over U.S.-supported local currency activities.

CONSTRUCTION PROGRAM NOT ACHIEVING OBJECTIVES

Our review of calendar year 1967 GVN civil budget activities under the U.S.-supported Chieu Hoi and National Police programs indicated that construction program goals were not attained on a timely basis. We also observed that in some instances the facilities already constructed under the Revolutionary Development program appeared to be of poor quality, were in need of extensive maintenance, and/or were not being utilized.

We noted during the review that only one of 14 hamlets programmed for construction under the calendar year 1967 Chieu Hoi budget was in operation as of January 1968 and that this hamlet was only partially completed. A review of GVN's construction progress reports indicated further that, as of the same date, construction had only recently started on another four hamlets and construction of the remaining nine hamlets had not started and had been reprogrammed under the calendar year 1968 budget. Similarly, construction had not started on any of the Chieu Hoi centers and they were, therefore, reprogrammed for 1968. However, about 95 percent of the funds budgeted for these hamlets and centers had been released by USAID, and the GVN reported that all these funds had been obligated and expended as of December 31, 1967.

Our review of the construction progress reports also showed that only 10 of the 36 hamlets programmed for construction under budgets for calendar years 1965 and 1966 either had been completed or were nearing completion as of January 1968. These 10 hamlets, however, were in partial operation. Another nine hamlets, although in operation, were only partially completed, and construction had just started on an additional three hamlets. The remaining 14 hamlets either were deferred to 1968 or were canceled. In summary, only 10 of the 50 hamlets programmed for construction during the 3-year period 1965 through 1967 had been either completed or nearly completed at January 1968 and 23 hamlets had been either canceled or reprogrammed for 1968.

We found that similar conditions existed with regard to construction projects programmed under the National

Police program. The National Police program budget for calendar year 1967 included about 551 million piasters for construction, of which about 392 million piasters were to be released to and administered by the GVN and the balance of about 159 million piasters were to be retained and administered by USAID.

Construction progress reports under the National Police program for calendar year 1967 showed that projects estimated to cost only about 17 million piasters had been started as of March 1968. None of these projects, however, were completed at that time. Plans for the remaining projects programmed for 1967 had advanced only to the contract-bidding stage.

The construction progress reports showed also that, of 28 construction projects programmed for calendar year 1966 at a budgeted cost of about 188 million piasters, only four projects at a budgeted cost of about 11 million piasters had been completed at March 1968. Also, another nine projects estimated to cost about 78 million piasters were still in progress, and 15 projects estimated to cost about 99 million piasters had still not been started. Thus, less than 50 percent of the construction projects programmed under the U.S.-supported National Police program for calendar year 1966 were completed or had even been started at March 1968.

In view of the massive budget deficits that existed in Vietnam, as stated by USAID, and the shortage of local currency available for these and other critical programs, we believe that the failure of the GVN to attain construction goals, as evidenced above, indicates that the construction programs should be reevaluated by the GVN and USAID. Funds made available for construction should then be adjusted downward to a level more consonant with in-country construction resources and capability. In our opinion, this adjustment should result in the release of currency which had been restricted for use on construction projects to other more critical programs.

Agency comments and GAO evaluation

In a letter to GAO dated June 2, 1969, USAID agreed that there had been delays in the implementation of construction projects. USAID also referred to steps being taken to review construction programs and to minimize local currency transfers to the GVN until there were assurances that the projects could be implemented on a timely basis. We were further advised that sharp reductions had been made in 1968 and 1969 construction programs and that some prior year commitments had been revised accordingly.

With regard to our comments on construction of Chieu Hoi hamlets, USAID advised us that GVN's records showed that, of 50 hamlets programmed for construction in calendar years 1965 through 1967, 20 hamlets were operational at December 31, 1967; seven hamlets either were under construction or construction was about ready to start; and construction of 23 programmed hamlets had not started primarily because of poor security in those areas. USAID stated that at March 31, 1969, construction of 21 hamlets was completed, three hamlets were under construction, five hamlets were still being programmed, and the construction of 21 hamlets had been canceled.

The steps being taken by USAID to minimize transfers of local currency for construction programs are discussed in greater detail on pages 37 to 39 of this report, together with our analysis and evaluation of those steps.

We agree with USAID's comment that 20 hamlets were in operation at December 31, 1967. However, these hamlets were not all fully constructed since housing had not been completed in 17 of the 20 hamlets. Moreover, public buildings for these hamlets, including dispensaries, schools, and warehouse/vocational buildings were still under construction in 10 of the 20 hamlets and construction of these buildings had not yet started in the remaining 10 hamlets.

Concerning the level of present construction programs, we believe that the reevaluation by USAID of construction programs for 1968, 1969, and prior years, and particularly the reductions cited by USAID for Chieu Hoi construction, are indicative of the benefits to be gained through program monitoring by USAID in its administration of these

activities. The funds which should be released from the construction account as a result of these reevaluations will enable USAID to assist the GVN in implementing other more critically needed programs.

Need for improved maintenance and utilization of facilities

We inspected a number of facilities in two provinces and observed that some facilities were not being used and others were in need of maintenance. We believe that these conditions indicate the need for USAID to periodically inspect completed construction projects in order to evaluate the capabilities and desire of the GVN to effectively utilize and maintain the facilities. This knowledge, in our opinion, is essential for USAID to ensure that the U.S. investment in construction is adequately protected.

We noted that USAID did not have a program for inspecting and monitoring completed construction facilities to ensure that they were being adequately maintained and utilized for authorized purposes. We noted a few instances in which such inspections had apparently been made, but USAID officials advised us that a program or requirement for such inspections did not exist.

We therefore inspected a number of facilities constructed for the Revolutionary Development program. These inspections were made during April and May of 1968 in two Provinces--Gia Dinh, located near Saigon, and Khanh Hoa, near Nha Trang.

The facilities inspected by us consist of classrooms, markets, maternity dispensaries, and a vehicle-maintenance facility. A number of the facilities were in a poor state of repair and in need of maintenance. In our opinion, the need for maintenance of these facilities was due more to poor construction than to a subsequent lack of maintenance. Additionally, we observed that some of the facilities were not being used and one, a vehicle-maintenance facility, had not been used in the more than 6-month period since its construction was completed.

We recognize that our observations, based on the limited inspections made, cannot be regarded as representative of conditions throughout Vietnam. However, we do believe that the inspections indicate that some increase in USAID's monitoring and inspection of construction projects is needed. We believe further that a systematic program of monitoring and inspection will not only reveal information as to the quality and timeliness of construction but also should assist USAID to determine future requirements for facilities and to evaluate the capabilities of the GVN to administer the construction programs and to utilize and maintain completed facilities.

Agency comments and GAO evaluation

USAID agreed in a letter to us dated June 2, 1969, that construction had not in some cases been of as high a quality as desired and that there had not always been appropriate maintenance. However, much of the construction during calendar years 1966 and 1967 was of a "self-help" nature under programs that were designed to make a political impact over a wide area. This impact, according to USAID, would not have been possible had USAID attempted to maintain as tight a control over the program as our report appears to recommend. USAID further commented that since that time emphasis on construction programs had been substantially reduced and that under the new procedures communities had been provided local currency which could be used for the maintenance of existing facilities as well as for the construction of new facilities. This is in contrast to earlier guidelines under which funds were provided only for construction.

USAID cited other improvements in its comments. It stated that it had developed, in conjunction with the GVN, standard plans for construction of elementary and secondary classrooms and that it had assigned additional engineers to each geographic region. These steps should also result in improved implementation of construction projects.

Concerning inspection and monitoring of facilities, USAID advised that all personnel are encouraged to conduct follow-up visits to facilities constructed with U.S.-provided assistance, whether financed with dollars or

U.S.-controlled local currency. According to USAID, however, the very large construction programs in the 1966-68 period would have required a much larger staff than available to have continual inspections of such facilities. USAID concluded that it did not seem appropriate to implement in full the GAO suggestion to increase its monitoring and inspection of facilities, since maintenance is a GVN responsibility and construction programs, as indicated above, have been substantially reduced.

In the above comments and in other comments included in the previous pages of this report, USAID cited a number of improvements which should strengthen substantially its administration of construction activities. The use of standard building plans and an increase in engineer personnel at the field level should prove beneficial and, in particular, the new procedures cited by USAID under which U.S.-controlled local currency will now be available for maintenance should result in more efficient maintenance of facilities.

With regard to USAID's disagreement with our comments that USAID should increase its monitoring and inspection of construction projects, we recognize that maintenance is a GVN responsibility and that the construction programs will be reduced in future years. We believe, however, that it is encumbent upon USAID to make certain that the U.S. investment of hundreds of millions of piasters in such construction projects is adequately protected. This can be accomplished, in part, by a systematic system of monitoring and inspection which will show the adequacy and timeliness of project construction and whether or not completed projects are effectively utilized and properly maintained. Irrespective of the disagreement, as stated above, and the fact that the construction programs have been reduced in recent years, USAID has, nevertheless, advised us that additional engineers have been assigned to the construction programs in each region.

CONCLUSIONS AND RECOMMENDATIONS

The release of local currency by USAID on the basis of total obligations reported by the GVN, without regard to the existence of adequate program documentation, such as project agreements, and without an independent U.S. verification of the data contained in the GVN reports, resulted in the release of funds for GVN's civil budget significantly in excess of cash needs at the time and in the accumulation of funds at the Province level. The absence of such needed documentation and verification procedures prevented USAID from exercising a reasonable degree of control over funds released to the GVN and made those funds susceptible to uses for unauthorized purposes. It is our opinion therefore, that USAID controls and monitoring practices were generally not sufficient to preclude or detect the existence of improper disbursements.

Although USAID changed in 1968 to a procedure of reimbursing the GVN on the basis of reported expenditures instead of obligations, we do not believe that the new procedure will preclude the premature release of funds or the release of funds in excess of current requirements. Since GVN's reports of obligations and expenditures were generally overstated and included transfers and advances to the Provinces as well as actual expenditures, the premature and overrelease of funds will no doubt continue until the GVN report procedures are revised so that the reports will become more accurate and meaningful. We believe further that increased project monitoring and verification by USAID are needed to ensure the accuracy and reliability of GVN's reports on which USAID relies for its decisions.

The limitation of releasing funds only to the extent of accurately reported cash needs should have the salutary effect of prompting the GVN to improve its implementation of projects and programs and thus to accomplish stated objectives more timely and expeditiously. Accurate reporting will disclose those cases where program goals are not realistically attainable because of limited in-country capabilities and will enable the reapportionment of funds to those areas where progress can be made. The close supervision of projects, including construction activities, through systematic

monitoring and end-use inspections should also contribute toward the attainment of these salutary effects.

Recommendations

We recommend that the Administrator, Agency for International Development, require USAID to:

1. Take steps to ensure the existence of a project agreement for each major element of the civil budget being supported, as a condition precedent to the release of local currency. Each project agreement should set forth the responsibilities of USAID and the GVN, project objectives, courses of action, funding requirements and limitations, and any other information or guidelines that will help to improve the project's implementation.

2. Develop and implement whatever procedures and controls may be necessary to ensure that local currency made available for support of GVN's civil budget is released only in amounts essential to meet valid cash requirements. To accomplish this recommendation effectively, it will be necessary for USAID to assist the GVN to revise its reporting system so that the reports to USAID will be more timely, reliable, and meaningful and will reflect actual obligations and expenditures. The procedures and controls developed hereunder should also include a systematic system for the verification of information reported by the GVN.

3. Expand its efforts with regard to monitoring and inspecting the implementation of U.S.-supported civil budget activities and programs. This should include but not be limited to the development of a systematic system for monitoring and inspecting projects while under construction and after they have been completed.

4. Continue to increase audit coverage of GVN civil budget activities supported by the United States.

60-050 O - 71 - 28

CHAPTER 4

SCOPE OF REVIEW

Our review was directed primarily toward an appraisal of procedures and controls, implemented by the Department of Defense and Agency for International Development missions in Vietnam, over the budgeting, release, and utilization of U.S. owned or controlled local currency made available for support of Vietnam's military and civil budgets. The review was not directed toward evaluating the overall effectiveness of programs supported with this local currency; nor did the review generally include in-depth examinations into expenditures of local currency as reported by the Government of Vietnam.

We reviewed program documents, reports, correspondence, and other pertinent material made available by the Government of Vietnam and by U.S. agencies in Vietnam and discussed relevant matters with the responsible officials. We also made onsite observations at a number of construction projects located at various points throughout Vietnam.

Our review was conducted in Vietnam from February to June 1968. In view of the deficiencies found, certain additional work was done in Vietnam from November 1968 to February 1969. A limited amount of additional information was also obtained in Vietnam during July 1969 concerning the status of certain funds released in prior years for support of Vietnam's civil budget.

APPENDIXES

BACKGROUND INFORMATION ON VIETNAM'S MILITARY AND CIVIL BUDGETS

The Foreign Operations and Government Information Subcommittee, Committee on Government Operations, House of Representatives, conducted an investigation in 1966 of the U.S. economic and military assistance programs in the Republic of Vietnam. The Subcommittee's report, dated October 12, 1966, disclosed that USAID had released 3 billion piasters (equivalent to about $25.4 million) of Vietnamese currency to the GVN for general support of the calendar year 1966 civil budget. These funds, according to the report, were released to the GVN without specifying the particular projects or programs for which the funds were to be used, and without establishing controls over the disposition of those funds by the GVN. The report stated that USAID had not participated in the formulation of the GVN civil budget for that year.

The Subcommittee, following its investigation in calendar year 1966, recommended that USAID take steps to ensure that U.S. owned or controlled piasters allocated for support of the GVN civil budget be budgeted for specific activities and programs and also that controls be implemented similar to those followed at MACV for release of funds to support the GVN military budget. MACV controls provided that funds be committed to military budget support on the basis of written US/GVN agreements which specify the purposes for which the funds may be used and that funds be released monthly on the basis of expenditures actually made in the prior month. The Chairman of the Subcommittee also sponsored an amendment which was included in the Foreign Assistance Act of 1966, requiring that the President of the United States or his authorized representative give written approval to the allocation of counterpart funds in support of the GVN civil budget prior to the final formulation of the budget.

In June 1967, USAID advised the Subcommittee that new procedures had been devised which provided substantially for the type of controls recommended, that the chapter of the 1967 GVN civil budget supported by U.S. owned or controlled local currency had been developed jointly by GVN

officials and USAID technicians, and that final budgetary levels had been decided during hearings attended by representatives of GVN Ministries and USAID staff offices and technical divisions. Specific controls over the release of funds cited by USAID included:

1. Monthly reporting by the GVN of obligations and expenditures in support of requests for release of funds.

2. Releases of funds on a reimbursement basis coordinated with USAID technicians monitoring the projects.

In a letter dated February 23, 1967, the Chairman of the Subcommittee requested the General Accounting Office to review the control over and use of U.S. owned or controlled Vietnamese currency, generated under the U.S.-dollar-financed Public Law 480 and Commercial Import programs to Vietnam and provided to the GVN for support of its military and civil budgets.

MILITARY BUDGET SUPPORT

The GVN military budget for calendar year 1967 was set at a level of about 52.2 billion piasters, equivalent to about $442.4 million. The budget was initially set at about 45.6 billion piasters, but a pay raise for GVN military personnel and an increase in the number of troops necessitated an increase of 6.6 billion piasters in the initial budget.

The United States agreed with the GVN to make available 18.3 billion piasters (equivalent to $155.1 million) of U.S. owned or controlled local currency for support of the 52.2 billion piaster military budget. Although the U.S. contribution increased in 1967 and than declined in 1968 both in terms of total dollar equivalent and as a percentage of the total GVN military budget, the U.S. contribution remained quite significant, as illustrated in the following schedule.

GVN budget year (calendar year)	GVN military budget: Source of funding: GVN	GVN military budget: Source of funding: U.S.	GVN military budget: Total budget
	(billions of piasters)		
1966	24.8	15.1	39.9
1967	33.9	18.3	52.2
1968	55.2	17.5	72.7

The GVN military budget for 1967 was organized into 29 separate chapters that identified the purposes for which the funds were to be expended. However, about 42.2 billion piasters, or about 81 percent of the total budget, were allocated to the following four chapters.

Chapter	Amount budgeted (billions of piasters)
Military pay and allowances-officers	4.6
Military pay and allowances-enlisted	35.5
Psychological warfare activities	1.0
Construction	1.1
	42.2
Other	10.0
Total military budget-1967	52.2

The calendar year 1967 military budget-support agreement provided that, although U.S. owned or controlled piasters would be made available for support of a number of activities, more than 13.4 billion piasters, or about 73 percent of the 18.3 billion piasters made available, pertained to military pay and allowances, construction, and psychological warfare activities. Most of these funds, about 12.8 billion piasters, were allocated for payment of GVN military pay and allowances. As of April 30, 1968, about 16.7 billion of the 18.3 billion piasters allocated, had been released to the GVN for appropriate use.

We selected for limited review budget chapters on military pay and allowances, psychological warfare, and construction. Each of these budget chapters is discussed in more detail in the following pages of this appendix.

Military pay and allowances

The GVN military budget for 1967 included about 40.1 billion piasters for pay and related allowances of the armed forces, or about 76 percent of the total military budget of 52.2 billion piasters applicable to that year. About 4.6 billion piasters pertained to pay and allowances for officers while 35.5 billion piasters pertained to pay and allowances for enlisted personnel. These funds were to be used for payments of base pay; common allowances, such as those provided to families of military personnel; special allowances, such as additional pay for duties involving flying; and travel allowances.

The United States and Vietnam Governments had agreed that about 12.8 billion piasters of the 40.1 billion piasters budget chapter for military pay and allowances would be made available from U.S. owned or controlled local currency accounts, of which about 2.3 billion piasters and 10.5 billion piasters were specifically allocated for pay and allowances of officer and enlisted personnel, respectively.

Psychological warfare activities

The GVN had initially included 361 million piasters in the 1967 military budget for psychological warfare activities. However, this amount was subsequently increased to a level of about 1 billion piasters. The large increase in the budget for these activities was attributable to an increase in the number of claims under a program known as the Military Civil Assistance Program (MILCAP).

MILCAP is a program designed to provide financial assistance to solace Vietnamese citizens whose families have suffered bodily injury or death or whose crops or other property have been damaged or destroyed as a result of combat activities or defoliation operations involving friendly

forces. About 950 million piasters of the 1 billion piaster budget for psychological warfare activities pertained to MILCAP claims.

The United States and Vietnam Governments had agreed that U.S. owned or controlled local currency would be used to pay MILCAP claims of about 543 million piasters and that another 20 million piasters would be used for support of equipment for the psychological warfare activities. Thus, U.S. owned or controlled local currency was limited almost exclusively to MILCAP. The remaining funds budgeted for psychological warfare activities (about 437 million piasters) were to be provided by the GVN and were to be used for the purchase of leaflets, periodicals, and other literature and to pay salaries and operating costs of activities under this budget chapter.

Military construction

The GVN military budget for 1967 included about 1.1 billion piasters for construction of facilities for the armed forces. This amount had been allocated for about 519 construction projects. Based on an agreement between the United States and Vietnam Governments, about 354 million piasters were to be made available from U.S. owned or controlled local currency accounts for this construction. However, these funds were earmarked to cover 50 percent of the costs on 201 of the 519 projects.

The types of facilities programmed for construction included cantonments and component facilities such as barracks and latrines; training facilities, including recruiting and induction centers; medical facilities; quartermaster and other logistical facilities; roads; and prisoner of war camps. These facilities were to be used by the GVN's Army, Navy, Air Force, and the Regional and Popular Forces. Most of the funds allocated under this budget chapter were for construction of Army facilities, and about 300 million piasters had been programmed to provide housing for dependents of armed forces personnel. However, U.S. owned or controlled local currency was not allocated for construction of housing for dependents.

APPENDIX I
Page 6

CIVIL BUDGET SUPPORT

The United States and Vietnam Governments had agreed that portions of the GVN civil budget would be financed by U.S. owned or controlled local currency. During the calendar years 1966 through 1968, the agreements provided that about 23.4 billion piasters were to be made available as follows:

Calendar year	Amount (billions of piasters)
1966	6.4
1967	8.0
1968	9.0
	23.4

The agreement for 1966 included 3.4 billion piasters for specific programs and 3 billion piasters for general support of the GVN civil budget for that year. Agreements for the 2 subsequent years provided that the funds be used for specific broad-scope-type programs. Under the calendar year 1967 civil budget-support agreement, about 50 percent of the 8 billion piasters made available pertained to the Chieu Hoi, National Police, and Revolutionary Development programs. The latter program involved over 2.5 billion piasters or about 31 percent of the 8 billion piasters made available. As of May 1968, about 5.8 billion piasters had been released to the GVN for support of its calendar year 1967 civil budget.

The programs funded under the GVN civil budget were primarily of a socioeconomic nature, such as for primary education and teacher training, health, public works, refugee, and agriculture and animal husbandry. However, two other programs under the 1967 civil budget contained certain military aspects. These were the Revolutionary Development (pacification) and the Chieu Hoi (Open Arms) programs. These two programs and the National Police program are discussed more fully in the following pages of this appendix.

Chieu Hoi program

The Chieu Hoi program was one of the larger GVN civil budget programs supported, in part, with U.S. owned or controlled local currency. The objectives of this program, as stated in the US/GVN project agreement, were to support and further counterinsurgency efforts by inducing military and civilian supporters of the Viet Cong and North Vietnam's armed forces personnel to come over to the side of the GVN.

The United States and Vietnam Governments agreed that 750 million piasters would be made available from U.S. owned or controlled local currency accounts for support of the 1967 Chieu Hoi program and that an additional 200 million piasters would be provided from GVN budgetary sources. In addition, the United States agreed to furnish certain commodities estimated to cost $1.3 million. These commodities consisted of cement, aluminum roofing, and rebar steel for use on construction projects.

The Chieu Hoi project agreement provided that U.S. owned or controlled piasters be allocated to the following expenditure areas.

	Amount (millions of piasters)
Salaries and allowances	178.2
Operation costs	329.8
Miscellaneous allowances	74.0
New construction--hamlets and centers	168.0
Total	750.0

The above categories were broken down further into individual items of expense. For example, the salaries-and-allowances category consisted primarily of pay and per diem expenses of propaganda teams and political orientation instructors. The operation-costs category concerned those persons who had defected to South Vietnam and included amounts for per diem, pocket money and transportation expenses of defectors and their dependents, and award money

for those who turned in weapons. The greater portion of funds provided to this category, however, was intended to pay for food, clothing, and vocational training of defectors, although the costs of propaganda literature were also to be funded from the operation-costs category. The miscellaneous-allowances category included furniture allowances and "homegoing" or reinstatement allowances designed to help the defectors get settled in new homes following the 2 months' residence at Chieu Hoi centers or hamlets. Death benefits to families of defectors killed on missions for the GVN were also to be paid under the miscellaneous-allowance category.

Construction of new hamlets, centers, and other facilities were to be funded under the new construction-cost category. The facilities constructed were to be used to provide shelter and related facilities for defectors as well as facilities to be used for their vocational training.

Revolutionary Development program

The GVN civil budget for 1967 included approximately 2.5 billion piasters for the Revolutionary Development (pacification) program which were to be made available from U.S. owned or controlled local currency accounts. The program was designed to help economic and social development in the rural areas of South Vietnam and, ultimately, to gain the willing support of the people for the GVN.

This program was generally concentrated on preselected rural areas in each of Vietnam's Provinces. At each Provincial capital a Revolutionary Development Council had been assembled under the chairmanship of the Province chief. This council was charged with implementing activities which had been approved under the program.

The budget for the Revolutionary Development program included amounts for such activities as rural electrification, animal husbandry, fisheries development, agriculture and irrigation, rural education, and hamlet development.

National Police

The US/GVN master agreement for the 1967 GVN civil budget provided that about 791 million piasters, or almost 10 percent of the 8 billion allocated for the civil budget, be made available for National Police activities from U.S. owned or controlled local currency. The major portion of this local currency, about 551 million piasters, was to be used to finance the construction of facilities, including precinct stations, classrooms and training facilities, firing ranges, and police checkpoints located throughout Vietnam. The remaining 240 million piasters were to be used primarily for the purchase of equipment, including police boats and furniture, petroleum oil and lubricants for vehicles and boats, and cloth for police uniforms.

The National Police, who had responsibility for maintaining law and order throughout South Vietnam, comprised such component forces as the Saigon Metropolitan Police, who had responsibility for maintaining law and order in the Saigon area; the Marine Police, who were responsible for controlling South Vietnam's waterways; and the National Police Field Forces, who operated as paramilitary forces in the buffer areas between combat zones and areas already pacified.

APPENDIX II
Page 1

PRINCIPAL OFFICIALS RESPONSIBLE FOR

ADMINISTRATION OF THE ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office From
DEPARTMENT OF STATE	
SECRETARY OF STATE:	
William P. Rogers	January 1969
Dean Rusk	January 1961
AMERICAN AMBASSADOR TO THE REPUBLIC OF VIETNAM:	
Ellsworth T. Bunker	April 1967
AGENCY FOR INTERNATIONAL DEVELOPMENT	
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT:	
Dr. John A. Hannah	April 1969
Rutherford M. Poats (acting)	January 1969
William S. Gaud	August 1966
DIRECTOR, MISSION TO THE REPUBLIC OF VIETNAM:	
Donald G. MacDonald	August 1966
DEPARTMENT OF DEFENSE	
SECRETARY OF DEFENSE:	
Melvin R. Laird	January 1969
Clark M. Clifford	March 1968
Robert S. McNamara	January 1961

PRINCIPAL OFFICIALS RESPONSIBLE FOR

ADMINISTRATION OF THE ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

	Tenure of office From	
VIETNAM COMMANDS		
COMMANDER, MILITARY ASSISTANCE COMMAND, VIETNAM:		
Gen. Creighton W. Abrams	July	1968
Gen. William C. Westmoreland	August	1964