REPORT TO THE CONGRESS

Opportunities For Better Use Of United States-Owned Excess Foreign Currency In India B-146749

Department of State

Agency for International Development

Department of the Treasury

Office of Management and Budget

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146749

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the findings and recommendations resulting from our review of opportunities for better use of United States-owned foreign currency in India.

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 being sent to the Director, Office of Management and Budget; the Secretary of State; the Secretary of the Treasury; and the Administrator, Agency for International Development.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

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D I G E S T

WHY THE REVIEW WAS MADE

The United States has amassed large amounts of Indian rupees through the operation of its food and other assistance programs for India. At June 30, 1969, Indian rupees available for U.S. expenditure in India amounted to the equivalent of $678 million--enough to last 19 years at current rates of expenditure. U.S. holdings are expected to increase substantially in future years since repayments of principal and interest on loans over the next 40 years are expected to exceed present levels of U.S. expenditures by a ratio of about 3 to 1. (See chart, p. 101.)

With few exceptions, U.S. rupee holdings can be used only in India, cannot be used to buy goods for export from India, and can be converted to other currencies only in relatively small amounts. Considering these restrictions, it appears highly unlikely that the United States will be able to convert more than a small portion of its total rupee holdings into real resources for its own use.

GAO undertook the review to see if it would be practicable and beneficial to U.S. interest to make somewhat greater use of its rupee holdings. Such greater use has been recognized for many years by the executive branch and the Congress as a desirable goal. (See p. 18.)

FINDINGS AND CONCLUSIONS

Overall conclusions

Important political, economic, and legal factors limit the amount of U.S.-owned rupees that the United States can spend in India during any period. Even so, considerably greater amounts than are now being spent could be beneficially used within the limit. (See pp. 63 to 72.) Administrative difficulties within the U.S. Government have also acted to restrain the level of excess currency spending.

The rupees are used for official agency expenses in India; personal expenses of American employees of the United States while they are in

Tear Sheet

the country; official international transportation; payments to U.S. annuitants resident in India; and sales to U.S. citizens, including businessmen and tourists.

The United States could use more of its rupees to acquire or replace office and residential facilities in India, expand distribution of a U.S. Information Agency publication in India, increase local travel for official purposes, and expand the educational exchange program. These are only a few of the many opportunities that exist. (See pp. 19, 24 and 25.)

The limits on U.S. rupee expenditures make it important to establish priorities for proposed uses of rupees, even though the amounts of U.S.-owned rupees seem almost limitless. It is important that justifications for specific uses continue to be subjected to careful scrutiny by the executive branch and by the Congress. (See pp. 20 and 25.)

Administrative barrier to greater use

The form in which authority to use excess currencies is given appears to be an important administrative barrier to greater use of the rupees. Agencies must obtain dollar appropriations to use excess currencies. (They then buy the currencies from the Treasury Department.) In some cases, the executive branch has not sought congressional approval for dollar appropriations to buy all the excess currencies that could be used productively for Government programs and activities abroad. One reason is that the budgetary system has pitted excess-currency-funded programs against regular dollar-funded programs. As a result, excess currency programs with a low priority have been dropped by the wayside even though they would have been virtually costless to the United States. (See pp. 26 and 27.)

The executive branch has tried to encourage greater use of excess currencies by requesting authority to use the currencies without having to obtain dollar appropriations. Those attempts were not successful because amounts sought from the Congress were not supported with detailed justifications for proposed uses (for fiscal year 1966) and because the executive branch sought direct foreign currency authorizations (for fiscal year 1967)--a form of authority to use excess currencies that apparently was not acceptable to the Congress. (See pp. 34 to 36.)

Greater use of foreign currencies could be realized if the executive branch would seek--and the Congress would provide--funds for well-documented excess currency projects without regard to agency dollar ceilings. Another way of increasing the use of excess currencies would be through direct foreign currency appropriations. (See pp. 42 to 49.)

The executive branch has authority to use some of its rupees for certain purposes, including economic development grants, without appropriation. Those rupees are derived from Public Law 480 food sales programs and are generally known as Public Law 480 currencies. The executive branch does not have similar authority to use other excess rupees that are accumulating rapidly. (See pp. 70 and 71.)

Valuation of foreign currency

Valuing U.S.-owned excess currencies at fixed official exchange rates when selling currencies to U.S. agencies is not always useful and discourages greater use of the currencies. The agencies, in budgetary and expenditure decisions, seek the greatest amount of goods and services for their appropriated funds and will forego purchase of excess currencies if use of an official exchange rate results in a disproportionately high outlay of their dollar appropriations. Current regulations provide for some flexibility in exchange rates; however, GAO believes that the regulations do not go far enough and that the agencies do not always attempt to use the leeway permitted by the regulations. (See p. 50.)

Possible use of rupees

Although GAO believes that the United States can spend more Indian rupees if these obstacles are removed, it is unlikely that the amounts spent would be large enough to make a dent in the balance on hand and due in the future. According to U.S. officials, the growing balances of U.S.-owned rupees are a political liability to the United States in its relations with India, and those officials believe it would be judicious for the United States to grant large amounts to India for economic development purposes. (See p. 63.)

Questions concerning whether to make grants, and in what amounts and for what purposes they should be made, are matters of policy not within GAO's purview. GAO believes, however, that the executive branch's concern over the increase of U.S.-owned-rupee balances and its efforts to reduce them are deserving of congressional interest. GAO believes that effective measures to reduce the balances would require action on the part of the Congress.

GAO's observations on other matters connected with the accrual, expenditure, and conversion of excess U.S.-owned rupees are included in chapter 10. (See p. 90.)

RECOMMENDATIONS OR SUGGESTIONS

The Office of Management and Budget should

--ensure that executive branch agencies can seek approval for well-documented excess-currency-funded projects without regard to overall dollar ceilings for the agencies (see p. 45) and

--explore with appropriate committees of the Congress the acceptability of direct appropriations of foreign currency (see p. 47).

The Secretary of the Treasury should establish more flexible procedures for valuing U.S.-owned Indian rupees in dollars in making sales to U.S. agencies to maximize the constructive use of the funds for U.S. programs in India without, at the same time, compromising congressional control over use of the funds. In essence, this would give U.S. agencies more rupees for the same amount of dollars and, all other things being equal, would encourage greater use of the rupees. (See p. 62.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of State noted that effective use of the rupees was a matter of great and increasing urgency and agreed generally with GAO's recommendations. (See p. 110.) It also commented:

> "Illustrative of the Department's considerable concern over the increasing levels of U.S.-owned Indian rupees, Secretary Rogers has instituted a Departmental study, headed by an eminent economist, to review the problems and to develop appropriate, specific solutions. We anticipate that this project will effectively complement the GAO report."

The Agency for International Development agreed with the recommendations contained in the draft report, with the following specific reservations:

> "We believe, and the report demonstrates, that expanded use of our excess currency in India could and would be in the interest of both the United States and India. At the same time, however, we would like to note that any marked revision or expansion of our programs for excess currency utilization would have to take fully into account both any potential adverse economic effects which would run contrary to A.I.D.'s development objectives, and any Government of India sensitivities as to the political or economic impact of such utilization.
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> "In a related sense, it could be noted that one potentially limiting factor in the expansion of U.S. research programs in India is the possibility that, in areas in which Indian research facilities are either scarce or fully occupied with development related activities, such expansion might tend to divert Indian research resources from high-priority Indian programs."

The Office of Management and Budget directed its remarks primarily to that part of the draft report dealing with budgeting for excess-currency-funded programs. (See p. 114.) It commented that:

> "We agree with the intent of your recommendation--to ensure that executive branch agencies can seek approval for well-documented excess currency-funded projects without regard to overall dollar ceilings. Office of Management and Budget Circular No. A-11 has been revised to clarify its long standing policy on this matter. The intent of this

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The Treasury Department also commented on the draft report. It's comments were classified and therefore were not included in this report. The comments were considered in preparing this final report and appropriate revisions were made.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that the Congress may wish to favorably consider direct foreign currency appropriations as a useful vehicle for providing funds to using agencies for the many reasons cited in the report. (See pp. 45 to 48.) These appropriations would be additional to dollar and special foreign currency program appropriations.

The Congress may wish to consider if (1) a reduction in the balance of U.S.-owned Indian rupees should be made to avoid the deterioration of U.S. relations with India, (2) actions by the executive branch in this regard are consistent with congressional desires, and (3) legislative action should be taken to restrict or facilitate the reduction in the balance of U.S.-owned rupees.

The Congress may wish to consider specifically whether to provide authority for the President to use non-Public Law 480 excess currency for grants in India without appropriations, similar to the authority now existing for Public Law 480 excess currency. (See p. 83.)

Contents

ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office

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CHAPTER 1

INTRODUCTION

To help India achieve its objectives of economic growth and stable democratic political institutions, the United States has provided economic assistance on a massive scale. U.S. assistance helps India mobilize its skills and resources for more rapid development and helps to provide a critical margin of imports and technical aid needed to complement India's own effort.

The United States has accumulated large amounts of Indian currency through the operations of certain of its economic assistance and food aid programs to India. At June 30, 1969, Indian currency owned by the United States and available for the payment of U.S. obligations in India amounted to the equivalent of approximately $678 million at the official exchange rate of 7.5 Indian rupees to 1 U.S. dollar.[1] Loans repayable in foreign currency amounted to the equivalent of $2.3 billion at June 30, 1969.

The amount of U.S.-owned currency in India is growing rapidly because receipts exceed expenditures by substantial amounts. Expenditures in future years are expected to be the equivalent of about $53 million annually. Receipts from loan repayments and interest earnings on bank deposits are expected to amount to the equivalent of about $115 million to $150 million annually until about the year 2008, at which time all repayments on currently outstanding loans will have been made. Even at that time, the U.S. balances are projected to be so large that annual interest earnings alone would equal annual U.S. expenditures.

There are important limitations on the use of the currency by the United States in India. U.S.-owned Indian

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[1]This report does not comment on Indian rupees, generated under the U.S. aid program, which are owned by the Indian Government. See the scope section on page 98.

currency is usable under Indian law and regulations only for limited purposes and in limited amounts. Furthermore, the currency is generally inconvertible (except in relatively small amounts) and thus cannot be used outside India.

Certain foreign currency loan agreements state that repayments and interest may be used for any U.S. expenditure or payment in India as long as the U.S. Government takes into account the economic position of India. Even where such a requirement does not cover other foreign currency holdings, it would be unlikely that U.S. administrators would use U.S.-owned Indian rupees in a way that would seriously undermine India's economic position since that would be counterproductive of the effects sought in our economic assistance and food aid programs to India.

U.S.-owned Indian rupees can be used to buy and export some categories of Indian manufactures or material under certain circumstances; however, successive U.S. administrations have ruled out any substantial purchases of commodities traditionally exported by India because of the adverse effects such purchases would have on India's ordinary export sales and foreign exchange earnings.

GAO made a review of the management of U.S.-owned Indian currency for two reasons. First, we sought to determine whether U.S. programs could effectively use additional rupee funding since large amounts of U.S.-owned Indian currency continue to accumulate in India. Secondly, the magnitude of U.S. holdings, coupled with the prospects for future accumulations of Indian currency, constitute an important issue in U.S. and Indian relations.

This report is submitted to the Congress because (1) we believe that greater use can be made of excess foreign currencies in India for programs or activities of benefit to the United States and (2) we believe the problems arising from large U.S. holdings of Indian currency are deserving of congressional interest and will require action by the Congress for solution.

The scope of our review is shown on page 98. The principal officials responsible for the activities discussed in this report are shown in appendix VI.

CHAPTER 2

U.S.-OWNED INDIAN CURRENCY:

SOURCES AND PROSPECTS FOR FUTURE ACCUMULATIONS

SOURCES OF U.S.-OWNED INDIAN CURRENCY

Prior to World War II, U.S.-owned foreign currency, other than that purchased with dollars, was acquired primarily through collections of consular fees and other relatively small items and was used to defray U.S. operating expenses payable in local currencies, principally those of the Department of State. Following the war, substantial amounts of foreign currencies were collected from lend-lease settlements, counterpart deposits under foreign assistance programs, and other Government activities abroad.

PUBLIC LAW 480 FOREIGN CURRENCIES

Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83d Cong., S. 2475, 68 Stat. 454, July 10, 1954, as amended) provided for the sale of U.S. agricultural commodities abroad for foreign currencies. As the result of this legislation, commonly known as Public Law 480, the United States has received large amounts of foreign currencies. In India, which has been the largest recipient of U.S. agricultural commodities under title I of Public Law 480, the United States has received vast amounts of Indian rupees.

The first title I agreement was signed with India on August 29, 1956. Since then, nine additional agreements and 31 supplemental agreements were signed through June 30, 1968. Cumulative collections from these agreements though June 30, 1969, amounted to a dollar equivalent of about $3.9 billion.

Rupees received by the United States from the Government of India under Public Law 480 are classified as country-use and United States-use. Within statutory limitations, the percentage of the total proceeds allocated to each use is a matter of agreement between the United States and India.

Country-use rupees, which have amounted to about 87 percent of the total, are those available for grants for economic development and welfare and for loans to both private enterprise and the Government of India. The remaining 13 percent of the rupee sales proceeds, plus interest and repayments on country-use loans, are for official U.S. uses including expenditures by U.S. agencies in India for payments of U.S. obligations, U.S. educational exchange programs, and agricultural market development programs. An agreed-upon portion of the currencies available for U.S. uses may be converted to dollars or other hard currencies for the tourist sales program in India and the educational exchange and market development programs outside of India.

Payments of principal and interest by the Government of India on Public Law 480 loans amounted to the equivalent of about $206 million as of June 30, 1969. Loans outstanding at that time amounted to the equivalent of about $1.9 billion.

DOLLAR LOANS REPAID IN FOREIGN CURRENCIES

The Development Loan Fund, established by the Mutual Security Act of 1957, was authorized to make dollar loans repayable in foreign currency.

The Foreign Assistance Act of 1961 abolished this Fund and provided that development loans made in dollars thereafter be repayable, both interest and principal, in U.S. dollars.

Through June 30, 1969, the United States had received approximately $331 million in Indian rupees in interest payments and principal repayments on the dollar loans that were repayable in foreign currency under the 1957 act. Loans outstanding at June 30, 1969, amounted to $289.5 million.

INTEREST ON DEPOSITS

Cumulative interest earned on bank deposits through June 30, 1969, amounted to a dollar equivalent of about $164 million.

SECTION 402 SALES AND LOAN REPAYMENTS

Section 402 of the Mutual Security Act of 1954 (Public Law 665, 83d Cong.), provided for the sale of surplus agricultural commodities for foreign currencies. Section 402 also provided for the use of foreign currency sale proceeds for several purposes, including loans within the countries purchasing the commodities. Through June 30, 1969, the equivalent of approximately $118 million had been collected from this source. At that time, about $138.3 million in loans remained outstanding.

PROSPECTS FOR FUTURE ACCUMULATIONS OF U.S.-OWNED INDIAN RUPEES

The United States continues to enter into Public Law 480 agreements with India under which the United States sells agricultural commodities and for which payment is made partially in rupees. This program, however, is being phased out, and no new agreements for payment in rupees are expected to be entered into after December 31, 1971. Except for this, we are not aware of any new U.S. programs for India that would result in the United States' accumulating additional rupees.

Public Law 480 agreements to be entered into with India after December 31, 1971, are expected to provide for payment in dollars. However, a provision in the agreements will permit the United States to accept partial payment, at its option, in local currency rather than dollars if it should require local currency. Similar arrangements currently exist on varying portions of payments due under Public Law 480 sales agreements entered into with India subsequent to January 1, 1967.

Rupee payment of interest and principal on existing loans, together with earnings on bank deposits, are expected to exceed U.S. requirements for rupees to such a degree that current U.S.-owned Indian rupee holdings are projected to grow to the equivalent of about $3.5 billion by the year 2008. Interest earnings on Public Law 480 and non-Public Law 480 rupee bank deposits are credited to the non-Public Law 480 account. A projection of U.S.-owned rupees is shown in appendix I.

CHAPTER 3

PRINCIPAL ARGUMENTS FOR AND AGAINST USING U.S.-OWNED EXCESS FOREIGN CURRENCY

The expenditure of excess rupees for U.S. purposes, as well as for grants to India for economic development purposes, has obvious advantages to the United States, as well as drawbacks.

Many arguments for and against increased uses of excess currency have been advanced over the years--and these arguments generally are well known. It is evident that virtually any proposed use of excess currency has its pros and cons which must be carefully weighed in arriving at decisions as to the optimum levels of currency to be spent and the programs or activities on which to spend it. In numerous hearings, the executive branch and the Congress have recognized the need to steer a middle course between the legitimate need that the U.S. make effective use of its holdings and gain financially from them and the potential harm that indiscriminate expenditure of excess currencies might do to U.S. foreign policy and economic development objectives.

We have listed below the principal arguments for and against increased U.S. use of its rupee holdings. We have made no attempt to rank these arguments in order of priority or importance.

ARGUMENTS FOR

--The United States saves dollars to the extent that it uses its rupees for official U.S. travel to and from India and obtains goods and services in India which it otherwise would obtain with dollars; e.g. office supplies and equipment, residential and office buildings and furnishings, and clerical and professional services.

--U.S. programs and activities in India are benefitted when U.S.-owned rupees are used in their furtherance even though the need satisfied isn't necessarily of such high priority as to justify the use of dollars if excess currencies were not available.

--To the extent that excess rupees derived from Public Law 480 programs are used in lieu of dollar expenditures abroad, dollars flow back to the Commodity Credit Corporation in payment for agricultural commodities they provide and this reduces the Corporation's appropriation request. Use of rupees derived from both Public Law 480 and non-Public Law 480 programs in lieu of dollar expenditures abroad, in addition to reducing the overall U.S. budget, reduces the amount of money the United States must borrow to meet its obligations and, thus, the amount of interest it must pay on the national debt.

--The sale of U.S.-owned excess rupees in India for dollars to U.S. Government employees in India, U.S. citizens and tourists, U.S. business organizations, and U.S. charitable organizations directly benefits the U.S. balance-of-payments position by reducing dollar expenditures abroad.

--The conversion of Indian rupees to hard foreign currencies (such as French francs and German marks) for use in agricultural development programs abroad helps increase American export markets for agricultural products without adversely affecting our nation's balance-of-payments position. In fact, such conversions should be helpful in this respect.

--The current use of rupees avoids potential future valuation losses through inflation and devaluation. Inflationary losses in India rupees have amounted to the equivalent of over $500 million.

--To the extent that U.S.-owned rupees can be constructively used, the political problems inherent in the ownership of large amounts of one country's currency by another country are avoided. (This problem is discussed in ch. 8.)

ARGUMENTS AGAINST

--If rupee funds are used today for lower priority requirements, they will not be available for higher priority future needs that will require dollar funding.

--Lower priority programs started because of the availability of excess currencies sometimes are perpetuated with dollars after U.S. holdings of excess currencies are exhausted. For example, the purchase of real property, the employment of additional foreign nationals or any other program augmentation today with excess currency could establish a continuing need for resources that might require dollar funding when excess currencies are exhausted.

--The use of U.S.-owned Indian rupees for procurement transfers Indian goods and services to U.S. activities in India. These goods and services are needed more urgently for India and Indians.

--To the extent that U.S.-owned rupees are converted to dollars or other hard currencies, Indian foreign exchange reserves, already insufficient, are reduced.

--Increased usage of excess rupees could result in increased expenditures of U.S. dollars for associated costs. For example, justification for the use of excess currencies for erecting a building could be accompanied by an estimated dollar cost for U.S. architectural services for building design. (This would be an important consideration only when the program or activity to be funded with excess currencies is of low priority and/or associated dollar costs are relatively high.)

--Loans or grants of excess currencies to India do not provide India with additional real resources but instead pose a danger of inflation or invite charges that the United States is seeking to influence or control the use of India's resources or aspects of Indian society.

--The use of excess rupees in a manner that detracts from India's exports or foreign exchange could create a need for additional assistance since our aid program is designed to assist in bridging the gap between India's foreign exchange exports and imports. Even if more aid were not extended, India's development effort could be hampered and the economic and foreign policy objectives of our aid programs could be weakened.

A number of the points outlined above are discussed in greater detail in the following chapters of this report.

CHAPTER 4

APPROPRIATION CONTROLS OVER USE OF U.S.-OWNED FOREIGN CURRENCIES FOR U.S. USES

A large part of U.S.-owned foreign currencies for U.S. uses were not subject to accounting control, reporting, or audit procedures until July 1952, when the Congress enacted section 1415 of the Supplemental Appropriation Act of 1953. This section prohibited the use of foreign currencies for U.S. uses except as provided for annually in appropriation acts.

With the advent of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) increasing amounts of local currencies were generated which were largely exempt from the provisions of section 1415. There developed a tendency both in the Congress and the executive branch to consider Public Law 480 currencies freely available for existing or new programs.

After extensive study in the executive branch, it was decided in 1960 to recommend a system of management over foreign currencies for U.S. uses that could be effective without having to change the many provisions of the law then existing. The primary objectives in the management of the foreign currencies were, first, to obtain the maximum utilization of foreign currencies as a substitute for U.S. dollar expenditures and, second, to treat the currencies as a real fiscal asset to be expended for programs as approved by the Congress on the basis of annual budgetary review.

The system of management and control that was decided on was put into effect on July 1, 1960. It required that the utilization of amounts set aside for U.S. uses be controlled through the appropriation process.

The management system provided for the submission of appropriation estimates for <u>special foreign currency programs</u> being financed with foreign currencies which were excess[1] to the normal requirements of the United States. It was expected that such programs would be justifiable for inclusion in the agency's regular dollar budget but of lower priority than projects included in the regular appropriation estimates. The special foreign currency program requests are denominated in U.S. dollars rather than in units of foreign currency.

Dollars appropriated for special foreign currency programs are used to purchase the foreign currency from the Treasury Department. If the foreign currency was derived from the Public Law 480 program, the dollars are credited to the Commodity Credit Corporation, Department of Agriculture. These dollar credits enable the Corporation to seek lower appropriations from the Congress for carrying on its programs including the Public Law 480 program. In India, special foreign currency programs are funded with Public Law 480 foreign currencies.

Although the system of management and control is administratively applied to all U.S. agency programs, appropriations are not required for a few authorizations under Public Law 480. The amounts to be made available for these excepted purposes are subject to determination by the Director of the Office of Management and Budget, under delegation of authority by the President. In addition, section 614(a) of the Foreign Assistance Act of 1961 authorizes the use of foreign currencies (not to exceed $100 million) for the foreign assistance program, when the President determines that such use is important to the security of the United States.

In 1966 legislation was passed that provided a partial exemption from the provisions of section 1415, and from certain other limitations in the law, when excess currencies were to be used for the purposes stated in section 104 of

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[1]Excess currencies are U.S. foreign currency balances that exceed in amount normal U.S. requirements in a given country for a period of 2 to 3 years or more. The Treasury Department decides whether or not U.S. balances are excess. India was declared an excess currency country in 1961.

Public Law 480. This legislation, frequently referred to as the Mondale-Poage amendment, appears as the last proviso of section 104. It specifically encourages the use of the authority for acquiring sites, buildings, and grounds for the use of the United States and for assisting countries to increase their production of agricultural commodities and their facilities for storage and distribution of such commodities.

On the other hand, the act appropriating funds for the State Department for fiscal year 1961, and each annual State Department appropriation act thereafter, provided that no part of any appropriation contained therein be used to administer any program which was funded, in whole or in part, from foreign currencies or credits for which a specific dollar appropriation therefor had not been made. The appropriation act provided funds also for the Departments of Justice and Commerce, the Judiciary, and related agencies (including the U.S. Information Agency).

The Mondale-Poage amendment has been interpreted as applying to any use of excess foreign currencies authorized by section 104 of Public Law 480, as amended, except those authorized in 104 (a) and 104 (b), and subject to the priorities specifically stated in the amendment and to the limitations stated in other laws. Thus, legislative authority now exists for the use of Public Law 480 excess foreign currencies for certain purposes without appropriation. The State Department, however, is unable to use such currencies in its programs in view of the restrictive language in its annual appropriation acts referred to above. The other agencies included in the appropriation act are also limited in the same way. The Agency for International Development is not similarly restricted since its funds are appropriated under different acts.

CHAPTER 5

USEFULNESS OF OBTAINING ADDITIONAL RUPEE FUNDING FOR U.S. PROGRAMS IN INDIA

U.S. programs in India could be benefited if administering agencies had authority to spend more U.S.-owned excess rupees. Potential benefits and problems of increasing the usage of excess foreign currencies have been debated by the executive branch and the Congress a number of times over the years. There have been two comprehensive hearings held on this subject.

In November 1963 the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations held hearings on U.S.-owned foreign currencies. The Chairman of the Subcommittee commented at the outset that the hearings would cover the use of the U.S.-owned foreign currencies in India and in other foreign countries where balances of foreign currencies were excess to expected U.S. needs in future years. He also stated that he hoped the Subcommittee could determine whether more extensive use could be made of these U.S.-owned foreign currencies.

The hearings included expert testimony from a wide variety of witnesses, and a number of issues were explored and developed in depth. Among the significant issues were (1) the inflationary effect of spending U.S.-owned currency, (2) the desirability of buying items in the excess currency country for export to the United States or a third country, and (3) the problem caused by the need to request authority, in the form of dollar appropriations, to spend excess currencies.

In its report on the hearings (H. Rept. 199, March 22, 1965), the Committee on Government Operations identified several ways in which excess foreign currencies might be used in the future. The Committee recommended that the executive branch prepare plans and request appropriations for necessary and constructive programs to be financed by U.S.-owned foreign currencies where such expenditures would advance the foreign policy interests of the United States without causing undue inflation in the country being aided and without significantly subtracting from that country's foreign exchange.

Hearings on the use of excess foreign currencies were held between July and October 1965 by the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs. As noted by the chairman of the Subcommittee at the outset, the hearings were held to explore ways of effectively using excess foreign currencies in the interest of the United States and for the benefit of the people of the countries where the balances were held.

As was true in regard to the prior hearings, much expert testimony was obtained, and the significant issues again were explored and developed in depth.

The U.S. Ambassador to India has proposed many ways to use more U.S.-owned rupees for U.S. programs and activities in India. In 1965 over 20 types of uses were proposed and were estimated to cost the equivalent of about $84 million in rupees over a 3-year period. In some instances the expanded use of rupees would have required a nominal amount of associated dollar costs. The dollar costs associated with the use of the additional $84 million in rupees was estimated to amount to only about $3 million.

Some uses would not have required associated dollar costs. These included (1) increased official travel within India, (2) English-language training, (3) expanded publication in India of American college-level textbooks, (4) increased support to the U.S. Educational Foundation in India, (5) grants to schools and hospitals, and (6) research. Other proposed uses would have required associated dollar costs. These uses included (1) acquisition of office and residential real properties, (2) expanded circulation in India of American oriented and published magazines or periodicals, and (3) purchase of residential furniture and equipment for the Embassy and consulates.

Little of consequence ever developed from these proposals for a variety of reasons (although the Office of Management and Budget advised us in September 1970 that a program has been started for an expanded publication in India of American college-level textbooks). As will be noted in chapter 6, the executive branch asked the Congress for increased foreign currency authorizations for fiscal year 1966, without any details as to how the currencies were to be used; and the Congress denied the request. The executive branch again asked the Congress for increased foreign currency authorizations for fiscal year 1967, with supporting justifications; but the Congress denied this request, apparently on the grounds that it was sought in the form of authorizations rather than appropriations.

During 1969 the U.S. Ambassador to India again identified U.S. programs and activities that, he felt, could be benefited through increased expenditures of U.S.-owned rupees. He submitted to the Department of State a listing of proposed uses totaling the equivalent of many millions[1] of dollars in rupee equivalents over a 3-year period. In only a few cases were associated dollar costs involved.

An Embassy official stated that the Embassy had listed in its submission only those items which it believed were the most beneficial to the United States, were of the highest priority, and were the most likely to be accepted by both the Department of State and the Government of India. The submission also pointed out that many desirable proposals were excluded because it was apparent to Embassy officials that an unreasonable increase in annual expenditures of U.S. use rupees would cause inflation and could not be tolerated by the Government of India. He advised us, however, that the Government of India had not set a limitation on the amount of rupees the United States could use and that the Embassy had not attempted to get the Government's viewpoint as to the maximum amounts of rupee expenditures it would consider reasonable.

This is important in that potential additional uses of rupees in India by the United States exceed in amount what is considered by the Embassy to be reasonable and prudent from an economic viewpoint. The significant question, then,

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[1]Exact amount is classified information.

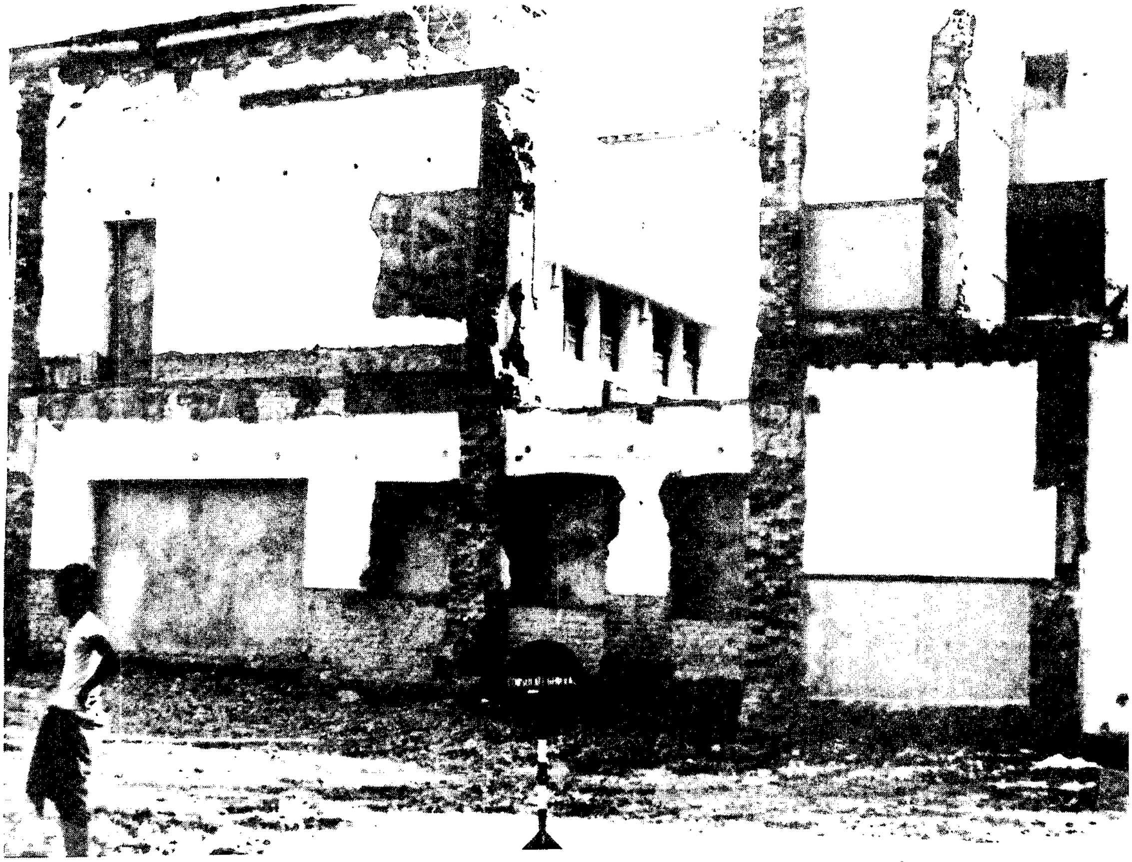
is not whether we can increase our use of rupees in India, but rather by how much and on what activities and programs within the limits established.

We reviewed certain proposed uses at the Embassy in New Delhi and other places in India, as appropriate. We agree with the Embassy that there are additional requirements for U.S. programs in India which might be worth funding with U.S.-owned rupees. To mention just one possible use--there is need for a new consulate building in Calcutta. After some delays, funds for constructing this facility have been included in the Departments' fiscal year 1971 budget.

In a letter to the Department of State recommending construction of a new consulate building in Calcutta, an Embassy official on January 23, 1969, stated that the existing building was (1) located on a narrow, one-way thoroughfare with no parking space, (2) isolated from the mainstream, and (3) not suitable for a consular building in a metropolis like Calcutta. He also described the U.S. Information Service buildings as rabbit warrens (partitioned into numerous cubicles) in which operations were difficult.

An official of the Embassy further advised the Department as follows:

> "The land acquisition, the architectural fees and at least 75% of the construction costs will be a total rupee expenditure. Building commodities have become increasingly available in India over the past few years and it is possible that the 75% rupee figure could be even larger. All of us appreciate the difficulties encountered in obtaining excess U.S.-owned rupee appropriations for general and program expenditures; however, we feel that this project is of sufficient urgency to satisfy the basic needs of the USG [United States Government] in Calcutta that it justifies a concerted effort to obtain a special rupee appropriation for this purpose. It is a perfect way for the USG to benefit directly from our PL-480 expenditures. To my knowledge the USG has never lost a dollar in land or building acquisitions and this one involves excess rupees."



FRONT VIEW OF CONSULATE BUILDING, CALCUTTA, INDIA

REAR VIEW OF AND ENTRANCE TO CONSULATE BUILDING, CALCUTTA, INDIA

Photos furnished by State Department

An official of the Department of State responded on February 26, 1969, by stating that it would not be possible to construct the building at this time. He advised that:

"I find no one who disagrees that a new office building would be desirable for Calcutta. However, the likelihood of forward movement in a time-frame that would relieve USIA [U.S. Information Agency] leasing and other problems is remote. ***

"As you know, FBO [Foreign Buildings Operations] must obtain authority for acquisition, construction or capital improvements from a Sub-Committee of the Foreign Affairs Committee and then obtain funds from the Appropriations Committee of the Congress. In the past, the Department has perhaps not been as meticulous as the Chairman of the Committee feels that it should have been in proceeding with capital projects within specific authorization by the Committee. The pressures that have been brought to bear have resulted in a firm policy enunciated by Under Secretary Rimestad, viz: There will be no project started until the authorization has been obtained from Congress, even though funds might become available by some other method, such as proceeds of sale. On top of these instructions, the President froze new construction (with few exceptions) and reduced obligating authority in FY 1968. A similar situation, but based on the Administration economy measures, prevails in FY 1969. As a result, no funds are available for new construction or capital improvements during these years.

"A new office building for Calcutta has not been authorized. Funds have not been requested and are presently not available. Consequently, the best that can be done is to request FBO [Foreign Buildings Operations] to include the project in its next budget submission. This we have done. In practical terms, however, this means that a new building for Calcutta is some years down the road. Consequently, to be realistic, planning at the post should be based on this situation."

We visited and inspected the consulate building and the two U.S. Information Service buildings in Calcutta and found them to be substantially as described in the letter dated January 23, 1969. In fact, we found that, subsequent to the demolition of part of the building, there were no toilet facilities in the portion remaining. Consequently, all U.S. personnel working in that building (including the consul general) were required to use the facilities attached to the exterior of an adjacent building.

We also inspected other governments' consulate buildings in Calcutta and found them to be generally better. Discussions with representatives of those governments indicated that they also were attempting to secure better accommodations.

With regard to the type of funding required, we were advised by consulate officials and the Foreign Buildings Operations representative in India that construction of a new consulate building could be financed completely with rupees. However, the Foreign Buildings Operations representative also stated that the costs of construction would be somewhat higher in India because of the higher costs of first-quality items.

We were advised by the State Department in August 1970 that the Department expected to commence construction of a new building in Calcutta before June 30, 1971.

In addition to the need for a better consulate building in Calcutta described above, other programs in India which the Embassy believes would benefit from increased foreign currency expenditures include:

--Residential dwellings in New Delhi. As of January 1969, families of about 238 American Government employees were living in leased housing even though Embassy officials generally believed that Government-owned housing would better fulfill the needs of the Embassy.

--Promotion of U.S. exports.

--Expanded circulation of the most influential U.S. Information Service publication.

--English-language training.

--The stockpiling of emergency relief supplies.

--Increased official travel within India for State Department and U.S. Information Service employees.

The increased uses for foreign currencies proposed above are similar in nature to those which have been identified as possibilities by the Embassy and by congressional committees for many years.

CONCLUSIONS

1. The problems and issues involved in using excess currencies in India and elsewhere have been thoroughly identified and debated by the executive branch and the Congress.

2. In the Embassy's opinion, there are many more possibilities for increased U.S. uses of rupees in India than can be expended without adversely affecting the Indian economy.

3. The United States should make more effective use of its rupees in India. Congressional authority and appropriations should be sought, as required, in order that additional funds could be used for its activities and programs when such increased usage will not place an undue strain on the Indian economy. Programs funded and carried out to date have not reached the upper limit that the Embassy considers economically prudent.

4. Despite the fact that the United States owns what seems to be a virtually unlimited amount of rupees, the economic constraints on the use of rupees make it important that the executive branch continue to rank proposed additional uses in order of priority.

CHAPTER 6

PROBLEM: AUTHORITY TO USE EXCESS FOREIGN CURRENCY IS REQUESTED IN THE FORM OF DOLLAR APPROPRIATIONS

At the same time that the United States Government owns immense sums of Indian rupees, some of its programs in India have not received all the rupees that could be used effectively.

There is substantial evidence that some of the executive branch departments and agencies have not asked the Congress for all the special foreign currency dollar appropriations that they believe they could use productively. Reasons for this vary from agency to agency and from time to time and are difficult to pinpoint. However, it is clear that one important reason is the requirement that agencies obtain authority to spend rupees in the form of dollar appropriations, rather than in the form of rupee appropriations.

Conceptually, there would seem to be no valid reason why the special foreign currency appropriations program should be an impediment to the optimum use of excess foreign currencies. Executive branch officials conversant with the program apparently are aware that dollars appropriated to buy excess currencies from the Treasury do not affect the overall level of Government dollar expenditures and therefore should not be in competition with regular dollar-funded programs.

Nevertheless, in some cases the use of excess U.S.-owned foreign currencies has been placed in direct competition with the use of regular dollar-funded programs. The result has been that programs or projects which could have been funded with excess currencies at little or no real cost to the United States have been dropped because the alternative would have been to drop higher priority regular dollar-funded programs or activities.[1]

Illustrations of this follow.

Department of Health, Education, and Welfare

The Department carries out various excess foreign currency-funded projects in the fields of educational research and training, public health, and social and rehabilitation services.

For fiscal year 1970, projects valued at the dollar equivalent in local currency of $57,645,000 originally were proposed by the Department for funding, including projects for India valued at $14,147,000. Executive branch appropriation requests to the Congress for fiscal year 1970, however, amounted to only $9,455,000, including projects for India valued at $2,323,000. Thus, reductions in the use of excess foreign currencies (dollar equivalent) by the executive branch totaled $48,190,000 overall; reductions for India totaled $11,824,000.

In explaining reasons for the slashes in requests for dollar appropriations needed to carry out special foreign currency projects, the Secretary of Health, Education, and Welfare had this to say:

> "*** While on a Government-wide basis appropriations of dollars for the purchase of counterpart currencies may be viewed as a bookkeeping transaction, the same does not hold true in evaluating the level of appropriations for individual Departments such as Health, Education, and Welfare and its constituent agencies. In terms of the congressional appropriations process, the budget request for special foreign currency funds *** must compete on an equal basis with all other programs of the Department. From the standpoint of the Congress, the fact that the monies appropriated are merely transferred between accounts in the

[1] Chapter 5 shows that agencies are quite willing to propose additional uses of foreign currencies provided that dollar appropriations to acquire the foreign currencies are not needed.

Treasury is immaterial, and this appropriation is treated the same as any other HEW [Health, Education, and Welfare] appropriation; it is included at each step of the congressional appropriations process in the overall dollar totals for the Department of Health, Education, and Welfare.

"Under these circumstances, and with the necessity to reduce Federal spending as a curb to inflationary pressures, the budget request for special foreign currency programs had to compete with the budgets for already hard-pressed domestic programs of the Department such as aid for elementary and secondary education or public assistance payments. We felt in this situation that the foreign currency programs must be reduced." (Underscoring supplied)

Department of Agriculture

Agriculture Research Service, Department of Agriculture, provides for numerous research programs abroad. Some of these programs are carried out in excess currency countries and are funded through a special foreign currency program.

As a result of overall budget reductions imposed by the Bureau of the Budget, the special foreign currency program in 1970 was reduced within the executive branch from $14,300,000 to $8,287,000; in 1971 it was reduced from $7,313,000 to $5,000,000. These total reductions of $8,326,000 apply to all excess currency countries. We were informed that the canceled projects were probably for India, Israel, and Yugoslavia.

Agriculture Research Service officials informed us that, when a budget cut has to be made, the special foreign currency projects are the first to be cut because such projects are usually of a lower priority than regular dollar projects and requests for special foreign currency program funds must compete equally with the requests for dollars.

Department of State

The Office of Foreign Buildings Operation, Department of State, had initially requested $2,436,000 for its 1970 special foreign currency program. As a result of reduced budgetary ceilings imposed by the Bureau of the Budget, this amount was reduced by $250,000 to $2,186,000. (As noted on p. 38 of this report, the fiscal year 1968 and 1969 requests had amounted to $5,025,000 and $3,050,000, respectively.)

State Department personnel informed us that this reduction had applied to a proposed construction program in Calcutta, India, and had been made to accommodate higher priority needs elsewhere. (This is discussed in greater detail on p. 40.)

Other departments and agencies

During our review at other departments and agencies, we observed that significant cuts in special foreign currency programs proposed by operating-level officials were made within the executive branch. Agency officials with whom we spoke informed us that the cuts had been made to arrive at lower overall budget levels or stated that it had been agency policy not to provide reasons for the cuts.

Prior comments on the budgetary system

Numerous reports have identified the budgetary system as an obstacle to the effective use of excess foreign currencies. As early as August 1958, in a special report to the Director of the International Cooperation Administration, a group of consultants pointed out that, since it was difficult to secure appropriations from Congress, there often was an excess accumulation of foreign currencies with which U.S. buildings could be erected but for which the agencies were unable to get dollar appropriations. It also was pointed out that the method then in use (under which each using agency reimburses the Treasury with appropriated dollars) tended to subject proposed uses of foreign currencies to the same rigorous tests as those used for proposed uses of U.S. dollars. The report recommended

> "that in those cases where there is an excess accumulation (as determined by the Bureau of the Budget) the Congress be requested each year, over and above whatever dollar appropriations may be warranted, to authorize, in an appropriation measure the use of specified local currencies for justified purposes."

A similar conclusion later was reached by a group of consultants to the Department of State on international finance and economic problems. A report by the group to the Under Secretary of State, dated April 4, 1960, stated:

> "Misconceptions concerning the value of local currency, when joined with the traditional Legislative prerogative for controlling Federal expenditures, have led to the legal requirement that in order to use a certain part of these local currencies, the U.S. Government agencies have to obtain Congressional approval. The specified procedure for obtaining such approval is for the agency to request a dollar appropriation, even though only local currency is to be spent. Inasmuch as the Bureau of the Budget sometimes refuses to approve such dollar appropriation request, and Congress sometimes refuses to appropriate the dollar funds requested, a

number of useful projects have gone by the board, even though no further dollar expenditures were involved."

The report recommended that U.S. agencies be permitted to use excess currencies without appropriation committee procedures provided that the uses were within the statutory or authorized responsibility of the agency and provided that no appropriation of additional dollars were required.

An appendix to that report contained two excellent case summaries illustrating the problems of obtaining dollar appropriations for the purpose of purchasing and using U.S.-owned foreign currencies.

In November 1963, during hearings on U.S.-owned foreign currencies before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations, the restraint on use caused by the need to have dollar appropriations was again discussed. A member of the Subcommittee expressed his view that part of the problem in making greater use of excess foreign currencies was the fact that it was necessary to go through the dollar appropriation route to do so.

In its report on those hearings (H. Rept. 199, March 22, 1965), the Committee on Government Operations made the following comment under the section dealing with recommendations:

> "Because the foreign aid agencies now ask Congress to appropriate dollars which are used to buy U.S.-owned foreign currencies from Treasury accounts, the agencies often are reluctant to seek the appropriations. Instead, the administration should request the direct appropriation of U.S.-owned foreign currencies to finance programs authorized by law to further the international interests of the United States."

During the period July to October 1965, the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs held hearings on the utilization of excess U.S.-owned foreign currencies in certain countries. The problem in respect to obtaining dollar appropriations to use excess foreign currencies was again discussed, and reference to the Committee on Government Operation's hearings and recommendations was made.

During these hearings, the specific problem of having regular dollar appropriations cut when excess foreign currency appropriations are increased was discussed at length by a State Department official responsible for educational and cultural affairs programs. He said that appropriation committees traditionally have looked at the separate requests for regular dollar appropriations and for special foreign currency dollar appropriations in total and that the committees have tended to reduce the amounts of regular dollar appropriations requested for use in nonexcess currency countries as amounts requested in excess currency countries increased.

During the same hearings, the Deputy Under Secretary of State for Administration also presented this viewpoint. He commented that the Department could use substantial additional amounts of foreign currencies if, among other things, "it were not necessary to obtain dollar appropriations for their purchase which in reality constitutes an 'add-on' to regular appropriations."

A member of the Committee discussed this matter with the Deputy Under Secretary at length with particular reference to the desirability of purchasing land in excess currency countries. A paraphrase of part of the exchange which took place follows:

Committee Member. I can't understand why you should have any difficulty being permitted to use excess foreign currencies for the purchase of land for future embassy use--something you would anticipate that the Department would need within the next 5 or 10 years.

Witness. The problem is that, in our regular foreign buildings program which runs approximately $20 million a year, we have a great many really difficult situations that demand immediate attention. These aren't in excess foreign currency countries.

In this regular $20 million budget, we wouldn't be able to include the requirements in an excess foreign currency country of which you speak. The priorities are so low there that we wouldn't even get to them in planning the use of our money under the regular budget. Such requirements must constitute an add-on because, if you put them in the regular budget, you are putting in secondary needs. No matter how useful it is to use excess currencies, the things you would be buying are of lower priority than the things we need today.

The problem of adding on excess currency requirements is, I think, not an illusory problem. It is a real problem of appropriation totals involving the question of whether the State Department appropriation for a year or several years should have 5, 10, 15, 20, or how many millions of dollars that we would add on for purchases in excess currency countries. The increase looks bad in other words.

Committee Member. Is there no distinction made between purchases made in countries where there are local currencies in the possession of the United States, excess or nonexcess?

Witness. Yes, sir; we have our special foreign currency program for foreign buildings.

Committee Member. In view of this distinction, why should the Department be hindered in using excess currencies, say to buy land in Israel, which is an excess currency country, or in Pakistan, India, or Yugoslavia? It just doesn't make sense to me and I would appreciate a more detailed explanation. Incidentally, if this Committee can help in making apparent the undesirability of restricting the Department in the use of these excess currencies for necessary purchases, we would be pleased to do so.

Witness. The problem is basically one of being able to convince the Congress that the purchase of land is not speculative, that it is useful, and that it is not going to result in a pressure on our part, later on, to add people to use the buildings or to occupy the space.

There is a feeling that meeting excess currency requirements only increases other demands that will come to the Congress for other expenditures; that if you keep the bureaucracy squeezed a little bit on land, on buildings, and on housing, this will be a deterrent to their effort to get more people and more facilities. I think there is this feeling in the Congress.

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During the same meeting the Deputy Under Secretary of State for Administration presented the following statements as paraphrased by us:

Witness. There has been a limit on special foreign currency appropriations that we have been able to get. I think this means that maybe we, in the executive branch, have gone about it the wrong way. We are now pretty well convinced that what we need is a total excess currency program for the whole Federal Government that would be supplemental or additional to regular budgets.

Committee Member. You mean, instead of appropriations of dollars--which must then be used to purchase foreign currencies--there would be a separate budget; when it is determined that foreign currencies can be used, they would be budgeted without any connection with regular agency appropriations for hard U.S. currencies?

Witness. That is right. Also, the budget wouldn't treat agency requests individually. It would be a total overall request with the money being used by agencies to carry out the programs that relate to their own responsibilities abroad. It would be one overall foreign currency budget.

Committee Member. It would include the U.S. Information Agency?

Witness. Yes, sir; and the foreign buildings abroad and all the ideas that we have put together.

Committee Member. These all come under the aegis of the State Department? This is what you intend?

Witness. No, sir; not in terms of being sort of a super director, but in terms of exercising leadership to get agencies to plan for these kinds of things, to think of programs and insure these programs are in support of U.S. objectives, we would develop this role. But the appropriation would no doubt be made to the Office of the President, rather than the State Department, and there would be a distribution made by the Bureau of the Budget to agencies, rather than the State Department having the whole appropriation. - - - -

In view of the difficulty of increasing the use of excess foreign currencies obtained through dollar appropriations, the Bureau of the Budget requested a special foreign currency authorization to be made to the President for fiscal year 1966 that would have provided the expenditure of about $82 million without a dollar appropriation. Hearings were held on this request before the House Subcommittee on Departments of State, Justice, and Commerce, the Judiciary, and Related Agencies Appropriations, on March 24, 1965.

In reporting the appropriation bill out, the House Committee on Appropriations did not approve the request because uses of the currency were not adequately justified in the request, and the witness at the hearing was not able to specifically tell the Committee what would be done with the money if it were made available.

For the following year (fiscal year 1967) the Department of State requested an excess foreign currency authorization amounting to the equivalent of approximately $26 million. We were informed that six other agencies made similar requests totaling about $60 million.

If these requests had been approved, the foreign currencies would have been used without dollar appropriations. Unlike the fiscal year 1966 request, the fiscal year 1967 request identified proposed amounts and uses of excess currency, by country, for specific activities. Hearings on the Department of State request were held in February 1966 by the same Subcommittee as in the previous year.

In reporting the appropriation bill out, the House Committee on Appropriations did not approve the request apparently because of the language requesting authorization rather than appropriations. In this regard, questions about the constitutionality of authorizations without appropriations were raised during the hearings in both years. The issue revolved around the Constitutional requirement that: "No Money shall be drawn from the Treasury but in Consequence of Appropriations made by Law; ***."

Efforts to use foreign currencies without dollar appropriations were not made for fiscal year 1968 and thereafter. It should be noted, however, that in fiscal year 1968 (as in all preceding years back to fiscal year 1962) special foreign currency program appropriations, denominated in dollars, were requested and approved.[1]

The significance of distinguishing between authorizations and appropriations in making larger amounts of foreign currencies available to the Executive Branch, and the Subcommittee's willingness to approve justified requests for foreign currency, are shown in the following exchange which took place during the hearings on the fiscal year 1967 requests (paraphrased):

Committee Member. In this proposed language that the committee is confronted with, you use the language "foreign currencies owned by the United States are authorized to be used." Why do you use this language instead of making a direct appropriation?

Witness. The language reflected in our submission was prescribed for us by the Bureau of the Budget. We are

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[1] It should be noted that regular dollar appropriations also are used to buy excess foreign currencies since agencies spending foreign currencies in these countries are required to use excess currencies to the extent feasible.

somewhat uncertain as to precisely why the word "appropriation" or "appropriated" was avoided.[1]

Committee Member. This is an appropriation bill, is it not?

Witness. This is an appropriation bill, where we hope the request will be considered, because we think it would be responsive to section 1415 of the act of July 15, 1952.

Committee Member. Are you not asking for the same type of projects and the same sort of thing in the requested special foreign currency appropriation as well as in this new approach?

Witness. Yes, sir; in general, that is correct. There is, one might say, a relative band of priority in the projects that have been proposed.

Committee Member. Do you consider these foreign currencies as money and/or valuable assets of the U.S. Government?

Witness. Yes, sir.

Committee Member. They cost the taxpayers $26 million plus, did they not?

Witness. We do not know precisely the cost of the commodities that generated these currencies, but obviously they are of real value.

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[1]We sought the answer at the Bureau of the Budget. Officials informed us that the requests were authorizations rather than appropriations to distinguish them from dollar appropriations. The term authorization to spend foreign currency receipts had been used in previous budgets to describe authority to spend foreign currencies without charge to dollar appropriations. Dollar appropriations are included in budget totals and result in credits to the Commodity Credit Corporation or to Miscellaneous receipts of the Treasury. Direct foreign currency appropriations would not be included in the budget totals.

Committee Member. Then why should they not be appropriated and made available in a businesslike manner?

Witness. We think they should be made available in a businesslike manner. Whether the appropriation carries a dollar mark is for the Congress to decide. If this is appropriated, you can be sure a businesslike method will be used to account for these currencies in a manner similar to that for dollar appropriations.

Committee Member. Was not the State Department--and as far as I know all the executive departments involved in this--given every cent asked for? This was certainly true of the Departments of State, Justice, and Commerce, the Judiciary, and related agencies bill when you had a specific program to submit for these excess foreign currencies. Is that not a fact?

Witness. Yes, it is a fact.

Committee Member. We have never turned down a request for an excess foreign currencies appropriation after having taken testimony as to what would be done with it. That is a fact is it not?

Witness. I think it is a fact.

In March 1969, the following exchange took place during a State Department appearance before a House Appropriations Subcommittee in regard to the Department's fiscal year 1970 appropriation request for its special foreign currency program for acquisition, operation, and maintenance of buildings abroad (paraphrased):

Committee Member. I note that in 1968, the last fiscal year, you used $5,025,000 in foreign currencies in this program.

Witness. Yes, sir.

Committee Member. In the present fiscal year you have $3,050,000 for the same purpose. In the coming fiscal year you ask for the amount of $2,186,000.

Witness. Yes, sir.

Committee Member. To what do you attribute the decrease in use of these foreign currencies?

Witness. The decrease in 1969 and 1970 was the result of the President's request to reduce expenditures.

Committee Member. But these are foreign currencies. Does this help the taxpayer and his budget?

Witness. They are included in the calculation of the expenditures, Mr. Chairman. As such they do affect us in terms of the ceilings we try to maintain.

Committee Member. In other words, the Bureau of the Budget is responsible for not using less dollars and more foreign currency. Is that correct?

Witness. I wouldn't want to say they are responsible, sir.

Committee Member. Why don't you stand right up and say so?

Witness. In establishing budget ceilings and in establishing expenditures ceilings for this year and next the Budget Bureau made no distinction between dollar appropriations and foreign currency appropriations.

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In April 1969, we discussed with officials of the Bureau of the Budget whether the Bureau seeks reductions in special foreign currency programs as well as regular dollar programs in order to meet reduced budget ceilings. We have been informed that Bureau officials do make the proper distinctions in their review processes between special foreign currency programs and regular dollar programs. These officials have informed us that:

--The Bureau does not accept reductions in special foreign currency programs as proper reductions to meet reduced budgetary ceilings.

--The Bureau does not expect special foreign currency programs to compete with regular dollar appropriations.

--If, in the past, the Bureau did accept a reduction in a special foreign currency program to meet a reduced budgetary ceiling, it did so in error or as an expedient rather than as a matter of established practice.

In reviewing the records and interviewing appropriate State Department personnel, we found that:

--In November 1968, the Bureau of the Budget requested the State Department to reduce its original 1970 budget allowances by $3 million and suggested where the reductions might take place.

--The Department of State, in making the reduction, elected to make the reduction in a fashion different in some degree than that suggested by the Bureau.

--Part of the total reduction was made by State in the Foreign Buildings Operations Special Foreign Currency Program by eliminating the $250,000 planned for rehabilitating a Calcutta building. This reduction was not proposed by the Bureau.

--The Bureau accepted the cut as made by the State Department which included the $250,000 for the Calcutta building.

In July 1969, the Bureau of the Budget informed the Department of State that budget allowances provided for 1971 were adjustable as far as special foreign currency programs were concerned. We were informed by the Bureau of the Budget that similar information was provided other departments at about the same time.

Essentially, we were told that an agency's budget ceiling might be exceeded by increasing special foreign currency programs. We were also informed, however, that these instructions did not constitute a new procedure; this procedure has been in effect since special foreign currency programs have been available.

The State Department requested $6,690,000 for its fiscal year 1971 special foreign currency program for acquisition, operation, and maintenance of buildings abroad. This request included $1,750,000 to build an office building in Calcutta and $1,520,000 to build an office building, Marine guard quarters, and 12 staff apartments in Nepal. Construction in Nepal is financed with U.S.-owned Indian rupees.

On May 12, 1970, the House Committee on Appropriations reported out the bill carrying the appropriation. In doing so, it reduced the requested amount for the appropriation by only $190,000, and it appears from the hearings that the reduction applied to funds requested for two senior officer residences in Rabat, Morocco, that were priced out of line with other senior officer residences.

Agency Comments

In commenting on a draft of this report on September 21, 1970, the Office of Management and Budget informed us that:

> "The draft report recommends that the Office of Management and Budget insure that executive branch agencies seek approval for well-documented excess currency-funded projects without regard to overall dollar ceilings for the agencies. Although this has long been our policy, we recognized the need for clarification. Accordingly, our Circular No. A-11, Section 13.2, has recently been revised to state:
>
> > 'Projects to be proposed should be of a quality justifiable for inclusion in the agency's regular dollar budget. Since these amounts do not affect overall budget totals, agencies may include items of lower priority than projects included in their regular dollar budget.'
>
> (underlining indicates clarifying instructions)"

CONCLUSIONS

1. The Congress has encouraged and has favored greater use of U.S.-owned excess currencies for worthwhile programs and projects.

2. The budgetary system has been an obstacle to greater use of excess currencies. Although executive branch agencies realize that dollars appropriated to buy excess currencies from the Treasury do not affect the overall level of Government dollar expenditures, individual agencies have had to live within an overall dollar limitation on their programs. When proposed programs or projects have exceeded the overall limitations, the agencies have had to choose between reducing their requests for special foreign currency dollar appropriations or reducing their dollar requests for regular dollar-funded programs. The result has been that some proposals for potentially advantageous uses of excess currencies of a lower order of priority have been deferred or foregone.

3. The obstacles to greater use of excess currency have been discussed and debated at length over the years but have not been resolved satisfactorily. One method used by the executive branch to remove disincentives to greater use of excess currencies has been to request approval from the Congress to present budget requests in the form of "authorizations to use foreign currencies," denominated in foreign currency units rather than in dollars. This form apparently has not been acceptable to the Congress.

4. As long as the executive branch permits excess foreign currency programs to compete with regular dollar-funded programs, the United States (in the absence of an alternative procedure) will continue to lose the benefits available through increased use of its excess foreign currency holdings in India and elsewhere.

5. Conceptually, there is no valid reason why the special foreign currency program should be an impediment to the optimum use of excess foreign currencies. Nevertheless, the long history of problems in providing for optimum use of excess currencies with this approach indicates that a new approach may be desirable.

In its comments on a draft of this report, the Office of Management and Budget stated that:

> "We strongly feel it is not appropriate to conclude that 'The budgetary system has been an obstacle to greater use of excess currencies.' On the contrary, we believe the budgetary system effectively carries out the policy of the Office of Management and Budget as correctly stated in *** your report.
>
> "It should be recognized that there are occasions when Members of Congress substitute foreign currencies for dollars in regular appropriations. The President's 1971 Budget contained a request for the State Department's Mutual educational and cultural exchange activities appropriation of $40 million. However, the House Appropriations Committee in cutting this amount to $36.5 million, included a limitation stating, 'not less than $6,000,000 shall be used for payments in foreign currencies which the Treasury Department determines to be excess to the normal requirements of the United States; ***' This has the effect of limiting the flexibility of the program. In fact in one case--Ceylon--it may result in no funding at all. This is because Ceylon is no longer considered an excess currency country. One fact should be remembered; Office of Management and Budget Circular No. A-20, Revised, requires all agencies to make every effort to see that obligations in excess currency countries are made payable in the currencies of the countries, rather than in U.S. dollars, no matter what appropriation or fund is to be used for payment. Thus, the excess currencies would have been used even without the excess currency limitation in the appropriation language, to the extent of expenditures in those countries."

For the many reasons noted in this chapter, it is our belief that the budgetary system has in fact been an obstacle to greater use of excess currencies in at least two ways: (1) amounts requested have been denied "to keep costs down" and (2) foreign currencies have not been requested because it is believed that, as foreign currency requests go up, regular dollar requests are cut.

RECOMMENDATIONS

For programs or activities abroad funded with excess foreign currencies, we recommend that the Director, Office of Management and Budget, ensure that agencies can seek congressional approval for well-documented projects without regard to overall dollar ceilings for the agencies. Recent specific instructions permit agencies to exceed their budget ceilings by increasing special foreign currency programs and should, if followed by the agencies, go a long way in this direction; however, the Office of Management and Budget has advised us that this is not a new procedure. Thus, the question arises as to whether, in the absence of follow-through action by the Office of Management and Budget, these instructions will suffice to ensure an optimum U.S. use of excess currencies.

The historical internal budgetary problems in making optimum use of excess currency lead us to propose, as an alternative, another system of seeking appropriations for the use of excess currencies. This approach would be, in effect, a compromise between that sought by the executive branch in the past and the objections expressed by the Congress; and would provide for both:

1. A special foreign currency program submission, denominated in dollars, for programs and activities of the same general order of priority as those now being funded through the special foreign currency programs.

2. A submission for "appropriations of excess foreign currency," denominated in units of foreign currency without reference to dollar equivalents. This submission would include programs and activities which are not of as high priority as those funded through the special foreign currency programs, yet which could and should be undertaken because they would serve a beneficial purpose.

Dual submissions along the above lines would appear to overcome the problems hitherto encountered in making maximum use of excess foreign currencies. For example:

1. Congressional control over appropriations would not in any way be diminished. The executive branch would have to justify all proposed uses of foreign currencies.

2. Constitutional problems of providing "authorizations" to use foreign currencies would be avoided. (See p. 35.) The foreign currencies would be "appropriated."

3. The fears of the executive branch that increased foreign currency use might reduce dollar appropriations would be lessened. There would be a positive incentive to make maximum productive use of excess foreign currencies since their use would not compete with the level of dollar appropriations.

4. In evaluating proposed "appropriations of excess foreign currencies," the Congress could give greater consideration to varying conditions existing in each of the excess currency countries. As noted in chapter 9 of this report, one country is only marginally in the "excess currency" category and another is committed to converting "excess currencies" to dollars over a period of time. Obviously, proposed low-priority uses of our foreign currency holdings in these countries would merit a different degree of consideration than similar proposals in a country such as India.

5. The potential problems of continuing relatively low-priority programs or activities abroad even after our balances of excess currencies are exhausted would be minimized. As excess currencies are exhausted, the executive branch would have to justify ongoing programs on the same basis as any other dollar-funded activity.

6. The Commodity Credit Corporation would continue to receive dollars to its credit for programs and activities funded from Public Law 480 generated currencies through the special foreign currency program.

In addition to the foregoing matters, the problem of valuing excess foreign currencies in terms of dollars would be minimized. This problem is discussed in the following chapter.

We recommend that the Director, Office of Management and Budget, explore the acceptability of direct appropriations of excess foreign currency, as a form of budgetary submission, with appropriate committees of the Congress.

In commenting on a draft of this report in September 1970, the Office of Management and Budget expressed some reservations about the use of direct appropriations of foreign currencies. These reservations, which are included in detail in appendix V to this report, are summarized and evaluated in the following paragraphs.

The Office stated that agencies would find it difficult, if not impossible, to justify two orders of lower priority programs. We believe that priority systems result in identifying several orders of priority, and we do not see why it would be difficult to identify two orders of lower priority.

The Office did not understand the reference to constitutional problems. This question was raised by a congressional committee, as noted in the report (see p. 35), and not by us.

The Office has stated that the reference to executive branch fears about reduction of dollar appropriations because of competition from foreign currency appropriations is not well founded. We believe that this chapter offers rather compelling evidence to the contrary.

The Office has pointed out, correctly, that dollar appropriations permit the use of excess foreign currencies in any excess currency country whereas direct foreign currency appropriations limit the use of the appropriated currency to the country of issuance. From an agency viewpoint, this inflexibility is undesirable. However, this inflexibility may be desirable from a Government-wide viewpoint because of the very substantial differences in amount of U.S. owned excess currencies in the various countries involved.

(See ch. 9.) Language could be devised that would permit appropriated units of foreign currency to be used in countries other than that of issuance if that were desirable. The Treasury Department could sell, for example, Indian rupees to the using agency in exchange for appropriated Polish zlotys. Whether or not this would be useful is another matter. The point to be made is that there may be ways to overcome the inflexibility involved in the direct appropriation of foreign currency. In our view, this isn't a major problem in any event.

The Office has also stated that it cannot subscribe to a proposal that has the effect of favoring projects where the only discernable benefit is to use excess currency. We agree with this position. The projects should not be undertaken unless they are beneficial to the United States.

Lastly, the Office of Management and Budget correctly points out that the use of direct appropriation of foreign currency presents a problem in the legal requirement to reimburse Commodity Credit Corporation in dollars for Public Law 480 currencies so used. The language used in direct appropriations of foreign currency could waive this requirement if that were thought useful. Of more interest, however, direct appropriations of foreign currency could involve the use of non-Public Law 480 currencies. As the report notes, non-Public Law 480 currencies are accumulating at a faster rate in India than Public Law 480 currencies. Ample quantities of both kinds of currency are currently on hand in India; both kinds will probably remain on hand for sometime yet to come.

MATTER FOR CONSIDERATION OF THE CONGRESS

We believe that appropriate committees and the Congress may wish to favorably consider executive branch requests adequately justified for direct appropriations of U.S.-owned foreign currency.

If the Congress were to appropriate excess foreign currencies directly, use of these currencies by certain agencies would require that the Congress except these appropriations from the requirement of the recurring provision in the appropriation act for the Departments of State, Justice, and Commerce, the Judiciary, and related agencies that

> "No part of any appropriation contained in this Act shall be used to administer any program which is funded in whole or in part from foreign currencies or credits for which a specific dollar appropriation therefor has not been made."

CHAPTER 7

VALUING FOREIGN CURRENCY IN DOLLARS

The current practice of using fixed official exchange rates to value in dollars U.S.-owned excess foreign currencies for sales to U.S. agencies is not, in many cases, useful. If changes in the practice were made to provide for valuation at varying rates of exchange, more extensive use of U.S.-owned excess foreign currencies would, in all likelihood, follow.

When viewed from a broad perspective, a Government agency's purchase of U.S.-owned foreign currencies from the U.S. Treasury Department merely transfers dollars from one Government agency to another and has no economic effect on the overall level of Government expenditures. On the other hand, when the transaction is seen from an agency's viewpoint, there is no particular advantage in buying excess foreign currencies in one country from the U.S. Treasury Department over buying nonexcess currencies from commercial sources in another country since agency appropriations are charged in either case.

It is in this latter context that spending decisions are made, and, as a consequence, U.S. officials tend to favor purchases from sources offering the lowest dollar costs to their appropriations, irrespective of whether the dollars would be used to purchase excess foreign currencies from the Treasury or whether they would be disbursed to sources outside the Government.

In our view, an appropriate rate of exchange for transactions between U.S. Government departments and agencies would be one that best serves the interests of the U.S. Government. To use any other rate could result in lost opportunities to use excess currencies in lieu of dollars.

In January 1969 the chairman of the U.S. Advisory Commission on International Educational and Cultural Affairs transmitted a special report to the Congress prepared by a professor of economics from Michigan State University. This special report, prepared at the request of the Commission, deals with the use of U.S.-owned excess foreign currencies. The report is available as House Document 91-67, dated January 27, 1969.

One point in the report relevant to the discussion here is that valuing U.S.-owned rupees in terms of equivalent dollars is misleading. In this respect, it comments as follows:

> "*** A unit of foreign currency has no meaning by itself; it is an abstract notion. We solve any exchange problem by making rough calculations of dollar equivalents. Perhaps, the meaning of 'a dollar' is just as abstract, but it is a more useful concept because to us it is a familiar one.
>
> "In the major European economies this calculation is a fair practice because there is a known, fixed exchange rate for dollars and the local currency. In excess-currency countries, however, free exchange is usually impossible and we face the question of what conversion price to use. This is no trivial matter. The answer to this question could unfold the 'solution' to the excess foreign currency problem.
>
> "On August 12, 1968, the Wall Street Journal quoted the following bank prices for Indian rupee-U.S. dollar exchanges:

	Per rupee
"Bank transfers----------------	$0.1331
Buying rupee notes------------	.0800
Selling rupee notes-----------	.1100

> "In addition, we have the official rate of about $0.1333 per rupee. The different rates reflect varying degrees of risk in holding rupees for any length of time. These are the problems confronting a person who wants to make a rupee-dollar exchange. A bank will buy rupee notes for $0.08 each and sell them for $0.11. The difference is 37 1/2 percent of the buying price. What is noteworthy is that the official exchange rate

does not reflect the value of the rupee; therefore, to use the official rate for conversion, as the Treasury does, is very misleading.

"To compound the difficulty, the rupees owned by the United States are not convertible into dollars in any case; and they cannot be used for just any purpose the United States may desire. Use of the official rate here is even more deceiving, for if the Treasury is going to value the rupee holdings in dollars, the dollar figure should reflect the dollar value of the rupees in the uses to which they can be put. It is neither sufficient, realistic nor desirable to simply multiply by an official exchange rate. In the case of India the official rate overvalues the rupee, overstating its worth to *** Government agencies. Indeed, if there are no uses to which the rupees may be put, because foreign policy demands they not be used, their dollar value is really zero. This remains true although the official rate is $0.1333 and rupee notes can be sold to a bank for $0.08 each."

The report recommends the revaluation of excess foreign currencies to encourage increased agency use and more liberal appropriation. It also suggests that, if attempts to secure better exchange rates fail, one alternative would be to request direct foreign currency appropriations from the Congress, which would discourage conversions to "equivalent dollars" and would encourage a better judgment of the value of the foreign currency.

Under the direction of the President, the Treasury Department is responsible for establishing dollar values for U.S.-owned foreign currencies under the authority of section 613 of the Foreign Assistance Act of 1961, as amended. We do not know of any legal requirement that would prevent the Treasury Department from utilizing varying rates of exchange to achieve various purposes. In fact, and as noted on page 59, the Treasury Department now offers foreign currency at preferential exchange rates under some conditions.

Preferential rates should be considered in two situations: (1) when goods and services have to be used in the country where purchased, e.g., real estate and local national services and (2) when goods and services can be purchased in the United States and transported to India for use there, e.g., automobiles and air conditioners.

An example of the first situation involves the continuing decisions by the State Department to purchase residential property abroad for its employees. State Department officials have informed us that, because the rupee is overvalued in terms of the dollar, because the demand for housing in India substantially exceeds the supply, or because of a combination of these and/or other factors, suitable residential accommodations in India are more expensive in dollar terms than similar accommodations in certain other countries. As a consequence, and because the State Department appropriations available for acquisition of housing are limited, needed residential property in India which could be purchased with rupees is not being obtained. Instead, scarce appropriations are used in other areas where the local currency value in terms of the dollar provides the State Department with suitable accommodations for less money.

With regard to the second situation above, we observed several cases in which executive agencies in India preferred to spend dollars to buy items from U.S. commercial sources rather than to buy the items from Indian sources for excess Indian rupees. The underlying reason for favoring dollar purchases was <u>to obtain the most goods for the least cost to agency appropriations</u>--e.g., it would cost more in appropriated funds to buy foreign currencies to purchase higher cost Indian goods than it would to pay dollars to U.S. commercial sources.

For example, in our letter of May 2, 1968, to the Director of the AID Mission in India, we pointed out that (1) every effort should be made to utilize U.S.-owned rupees, instead of dollars, to the maximum extent possible and (2) for many good reasons, including the use of rupees in lieu of dollars, the U.S. Mission in India should use locally manufactured vehicles rather than U.S. vehicles.

In its reply to our letter, the AID Mission stated, among other considerations, that it "must get the best for the least cost," and that locally manufactured, passenger-carrying vehicles cost the equivalent of $3,000 whereas the U.S. sedans were limited in cost to $1,500 plus transportation.

The AID Mission also noted that locally manufactured trucks were generally adequate for its operations in India, but that they were more expensive than U.S. trucks. The AID Mission pointed out that it planned on "purchasing local trucks in those areas where price is not a problem," such as procurements with Government of India-financed trust funds which are for AID administrative costs in India (see p. 93). The AID Mission pointed out, however, that "All other Agencies must have the flexibility of obtaining the most for the dollars spent."

Paradoxically, and for the reasons discussed in chapter 6, an agency's decision to economize in this manner operates in the opposite fashion for the U.S. Government as a whole.

Pertinent comments in our May 2, 1968, letter to the AID Mission Director follow.

> "During our review we noted that a potential exists for saving dollars and providing assistance to the Indian motor vehicle industry by procuring United States Mission vehicle requirements locally using United States owned excess rupees. We believe that consideration should be given to procuring the [U.S.] Mission vehicle requirements locally because (1) the United States has excess rupees available, (2) the Indian motor vehicle industry has excess production capacity which is not being used and, (3) the type of vehicles being produced in India appear suitable to meet the [U.S.] Mission requirements."
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> *　　*　　*　　*　　*
>
> "In view of the large United States holdings of Indian rupees reserved for United States uses, we believe that every effort should be made to

utilize these rupees instead of dollars to the maximum extent possible."

*   *   *   *   *

"The United States assistance to the vehicle manufacturers has been in the form of project loans for modernization of equipment and to increase the manufacturing capacity, and non-project loans for raw material, components, spare parts and tools. A total of seven project loans have been made to three vehicle manufacturers totaling $77 million. The amount of non-project assistance is not readily available, however it has been estimated to amount to as much as $50 million per year for all vehicle manufacturers including the ancillary manufacturers."

*   *   *   *   *

"Although the above loans did modernize and increase the production capacity of the motor vehicle manufacturers, this increased capacity is not currently being used. There are a number of reasons which cause the manufacturers to operate at less than full capacity. The main reason for automobiles not being produced at full capacity is the lack of raw materials, namely sheet and alloy steel. This situation is caused by the failure of the Indian steel industry to produce the type and quality of steel needed by the vehicle manufacturers and the restrictions placed on the importation of steel for automobiles by the Indian Government.

"The reason for trucks not being produced at full capacity is the lack of demand for trucks. The motor vehicle manufacturers simply can not find buyers for their products. The lack of demand is caused by many factors, such as the current recession, high taxes, inadequate credit, poor roads, government restrictions on interstate commerce, etc."

*   *   *   *   *

"While the Mission [U.S. Mission including Embassy, AID, and others] requirements of a 100 or so vehicles each year will not solve the problem of unused vehicle capacity, their procurement locally will nevertheless provide the industry with some financial benefits and will increase the utilization of United States financed machinery.

"The [U.S.] Mission's current inventory of American made United States Government vehicles in India is about 350, which includes sedans, station wagons, carryalls, jeeps, trucks, delivery vans, etc. The acquisition cost of this inventory is about $800,000 not including transportation costs.

"The [U.S.] Mission's current inventory of American made vehicles by Agency is as follows:

"Agency	Number of vehicles	Acquisition cost
Peace Corps	68	$183,200
USIS [U.S. Information Service]	58	147,777
State Department	57	114,000*
AID-United States owned	136	296,739
AID-Contractor owned [should be held rather than owned]	34	81,581
ODRI [Office of Defense Representative, India]	5	7,470
Total	358	$830,767

*Estimated ($2,000 per vehicle)"

* * * * *

"The locally produced vehicles appear to be suitable for the [U.S.] Mission needs. At least one Agency in the Mission prefers locally produced vehicles to ones made in America. The Peace Corps obtained 36 Jeep Wagoneers, 1966 model, from the United States which were not satisfactory for the conditions in India. The Peace Corps informed their Washington office in November 1967 that they considered the locally produced Jeep station wagons as being the best suited for their overall need and proposed that they be permitted to purchase their future vehicle requirements locally.***

"To further illustrate that locally made vehicles can be used by the [U.S.] Mission in India, we cite the recent purchase of three Hindustan Bedford 120" wheel base, 20-passenger, luxury type buses for use as a shuttle by the AID Mission in New Delhi. In addition, sedans and jeeps have been purchased locally for use by AID contractors in India. We were informed that the buses and the vehicles for the AID contractors were purchased with Government of India trust funds, and title to the vehicles is in the name of the Government of India."

*　　*　　*　　*　　*

"There are many other advantages which would benefit the [U.S.] Mission if vehicles were procured locally, such as (1) spare parts could be purchased with excess rupees, (2) the spare parts inventory could be reduced as the parts requirement could be fulfilled locally, and (3) mechanic skill and tools for repair and maintenance are available locally and would be easier to obtain."

The AID Mission responded to our letter by memorandum dated May 16, 1968. Pertinent comments to the above were:

"We have bought quite a number of local vehicles to-date and have found them generally satisfactory for certain purposes. To-date we have purchased four Bedford buses, 21 jeeps of different configurations and 7 Ambassador sedans. We are now proceeding with procurement documents for two Bedford trucks. Accordingly, we are well under way to implementing certain aspects of your findings.

"It must be borne in mind that locally produced vehicles have certain limitations. In general, we agree that our requirements for jeeps and trucks can be adequately met locally. The cost is generally higher than for State-side procurement even when the freight is taken into consideration and the quality of the vehicle is generally lower. Nevertheless, locally produced vehicles can be used for certain purposes.

"Passenger carrying vehicles are ruled out by the statutory limitations of 1,500 dollars for U.S. titled sedans. An Ambassador costs the equivalent of $3,000. Furthermore, where appropriated dollars are used to defray the cost even if the statutory limitations were waived, we must get the best for the least cost. All locally procured sedans have a load capacity of three passengers and driver. Our pool operated vehicles require a 5 passenger and driver capacity to give us the flexibility necessary for effective utilization of drivers and vehicles. Furthermore, the capacity of Indian manufacturers is not adequate to satisfy local demands. The delivery back log for rupee purchased Ambassadors is now between 3 and 4 years. Thus, we would be taking sedans from Indian Nationals if we were to procure locally produced sedans. AID has purchased some sedans from the Trust Fund which are GOI-titled [Government of India] and, therefore, do not come under the statutory price limitations. We do this since maintenance is much easier for our outlying posts.

"Jeeps are built on a truck chassis and do not come under the statutory price limitation. We have found that these vehicles can be effective in rural areas where the maintenance of more sophisticated imported models is difficult and we can eliminate the necessity of maintaining an inventory of imported spare parts. There are some instances, particularly in the central pool, where greater carrying capacity is required than the local jeep chassis and fabricated body will provide. Therefore, we intend to use some Chevy carryalls and sedans for the central fleet.

"In the area of trucks, our preliminary findings are that local models are generally adequate though more expensive. We plan on purchasing local trucks in those areas where price is not a problem, i.e., AID procurement where the Trust Fund can be used. All other Agencies must have the flexibility of obtaining the most for the dollars spent.

"In summary, greater emphasis will be placed on local procurement and the fleet will change as replacements are required. Unless local production changes, we do not envision a situation where we can go completely to local vehicles. This policy will be subject to review and modifications as the vehicle industry changes in India."

There are adequate administrative procedures currently in effect which provide for agencies to seek Treasury approval to buy Indian vehicles or other relatively high-cost items with excess currencies at a reasonable charge to their dollar appropriations. These procedures are set forth in Bureau of the Budget Circular No. A-20, revised, dated May 21, 1966, which states that:

"The Treasury Department will establish 'selling rates' for charges to appropriations, generally based on rates at which the currencies would have to be purchased through commercial channels. Agencies should consult with the Treasury Department in cases where the use of this rate for excess or near-excess currencies would result in materially increased charges to the using agency's dollar appropriations, as compared with the expenditure of dollars. Where it is determined to be of benefit to the U.S. balance of payments, special arrangements may be made to provide additional foreign currencies in amounts necessary to avoid the increased appropriation charge to the using agency. In excess currency countries, such special arrangements may also be made when justified for other reasons."

In view of these procedures, we believe that the high rupee cost of locally produced vehicles should not prevent the U.S. Mission from obtaining them locally. With regard to the legality of purchasing Indian-manufactured vehicles, section 636(i) of the Foreign Assistance Act of 1961, as amended, provides as follows:

> "*** none of the funds made available to carry out this Act shall be used to finance the purchase, sale, long-term lease, exchange, or guaranty of a sale of motor vehicles unless such motor vehicles are manufactured in the United States: Provided, That where special circumstances exist the President is authorized to waive the provisions of this section in order to carry out the purposes of this Act."

AID is the only agency shown on page 56 which has a vehicle inventory that is financed through the Foreign Assistance Act of 1961. Consequently, that act would not restrict any of the other agencies from purchasing Indian vehicles. In the case of AID, a waiver was obtained in December 1969.

In March 1970 an AID Mission order was issued, stating that all types of vehicles manufactured in India would be purchased for administrative, program, or contract use to the maximum extent that operational requirements permit. We analyzed current AID Mission vehicle procurement plans and found that six 2-1/2-ton trucks and four sedans were on order or would be ordered from Indian manufacturers, replacing procurement from the United States. The cost of equivalent U.S. vehicles, including shipping charges, would be $45,864.

AGENCY COMMENTS

In commenting on a draft of this report on August 4, 1970, the Department of State said:

> "The internal U.S. Government sale of excess currencies to using agencies at official rates established by foreign governments does constitute, in our view, a deterrent in some cases to the maximum use of currency. We favor the establishment of more flexible procedures for determining charges to U.S agencies for currency expended. However, such procedures would have to be consistent with the obligations which the U.S. Government has assumed as a member of the International Monetary Fund with respect to observing exchange rates established by other IMF [International Monetary Fund] member countries. Additionally, such procedures would have to avoid creation of pressures for the devaluation of the foreign currencies involved and the resultant weakening of exchange stability."

We believe that the use of varying rates of exchange for purposes internal to the U.S. Government can be made consistent with these important considerations.

CONCLUSIONS

We believe that the Treasury Department's current practice of valuing U.S.-owned excess foreign currencies at official rates of exchange when selling to U.S. agencies is neither useful nor desirable. The practice forces the U.S. official contemplating an expenditure in one of several countries to consider U.S.-owned foreign currencies as though they were available to the United States only through commercial purchase.

On the other hand, if U.S.-owned foreign currencies not directly appropriated in foreign currency units were available to agencies and departments without charge, with only nominal charge to dollar appropriations, or with only nominal charge to authorizations stated in dollar equivalents, then the authorization and appropriation control processes would be effectively circumvented. Of course, this difficulty is eliminated whenever foreign currency is appropriated to using agencies in foreign currency units, as suggested in chapter 6 of this report.

In the case of special foreign currency program dollar appropriations and regular dollar appropriations, we believe that action is needed to provide more useful exchange rates for U.S.-owned Indian rupees.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury establish procedures additional to those provided by the Bureau of the Budget (see p. 59) that will provide U.S.-owned Indian rupees to using U.S. Government agencies at varying rates of exchange. These procedures should be established to maximize the constructive use of U.S.-owned excess foreign currencies, taking into account the need to continue the congressional control processes. In our opinion, the present language of section 613 of the Foreign Assistance Act of 1961, as amended, provides the Secretary of the Treasury with sufficient authority to carry out this recommendation. If the Secretary of the Treasury believes additional authority is needed for this purpose, however, we recommend that he seek it.

CHAPTER 8

THE QUESTION OF EXTENSIVE

U.S.-OWNED RUPEE ACCUMULATIONS

The executive branch is actively seeking out ways to reduce the level of available U.S.-owned Indian rupees because of its belief that the magnitude of these holdings is a political liability to the United States in its relations with India. The Government of India has expressed concern at the size of the U.S. holdings and has urged the United States to develop measures to liquidate them in an orderly way. The executive branch believes that it has the needed authority to effectively use, and thus reduce, large portions of holdings arising from Public Law 480 sales. According to the executive branch, similar authority does not exist for the non-Public Law 480 holdings which are accumulating at a rapid rate.

GAO is offering comments on this matter for the following reasons.

1. At current rates of accumulation and expenditure, rupee holdings are expected to increase substantially in future years and any political problems are bound to increase as well. The nature of the problem and the issues involved in finding acceptable solutions are matters which should be of interest to the Congress.

2. We believe that the need to make more effective use of U.S.-owned excess currencies in India, as presented on pages 18 through 25 of this report, can be fully appreciated only when viewed in the light of this other problem. However, the maximum amount of rupees that the United States reasonably could expect to convert into real resources for its own purposes is insufficient to make a dent in the total of U.S. currencies on hand and scheduled to be repaid in the future.

U.S. HOLDINGS

As noted in chapter 1 of this report, U.S.-owned Indian rupees available for U.S. uses amounted to the equivalent of approximately $678 million at the official exchange rate of 7.5 Indian rupees to 1 U.S. dollar. Also noted there, these holdings are rising at a rapid rate and may reach $3.5 billion by the year 2008 unless action is taken to alter the trend. (See chart, p. 101.)

THE POLITICAL PROBLEM

As early as August 1958, possible problems of excessive accumulations of foreign currency were identified. A special report to the Director of the International Cooperation Administration,[1] entitled "Accumulation and Administration of Local Currencies,"[2] set forth the following three major conclusions.

1. There is no present worldwide problem of excess local currencies owned or controlled by the United States, but rather a problem in a few countries.

2. During the course of the remainder of the century there may arise a serious problem of excess accumulations.

3. Continued unrestricted accumulations of local currencies by the United States should be avoided.

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[1] The predecessor organization to the Agency for International Development.

[2] This report was prepared by three distinguished men appointed by the Director of the International Cooperation Administration. One of the appointees was a Director of the International Bank of Washington; another was the director of Bristol Myers Company and Board Chairman of its International Division; the third appointee was a member of the board of directors of R. H. Macy & Co., Inc.

In April 1960, a report on the problem of excess accumulation of U.S.-owned local currencies[1] submitted to the Under Secretary of State stated:

> "The excess accumulation of certain currencies is producing increasingly serious problems for the foreign relations of the United States, problems which seem likely to become acute unless corrective action is taken."

Other comments in the report were:

> "Among the damaging consequences is the already evident political reaction in certain underdeveloped countries against the excessively large claims on local resources which are represented by the size of the country's indebtedness to the United States ***.
>
> "*** The inevitable reaction is already in evidence in certain Asian countries--not always from the governments themselves but from the Communists and from the opposition parties, both of whom embarrass governments friendly to the United States by questioning the size of the indebtedness and speaking in terms of U.S. imperialism.
>
> "*** It is the size of the accumulation which creates U.S. domestic pressures to remove visible cash balances from the books; it is the effort of the foreign country to avoid such pressures which leads to conflicts with U.S. foreign policy interests."

The political problem caused by the large U.S. holdings of rupees is discussed in a book published in 1962 by the Brookings Institution. The author, who served as a member of the senior staff of Brookings' Economic Studies

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[1] This report was prepared by four distinguished consultants appointed by the Under Secretary of State.

Division while doing the fieldwork for the book, later became the Director of the AID Mission to India. In that book he pointed out that:

--Legally, the Government of India exercises a veto power over the uses proposed for American rupee balances, and this constitutes a complete defense against U.S. "excesses" in the use of rupees.

--But as a matter of practical politics, the Indian officials fear that members of the U.S. Congress may propose and members of the Indian parliament may agree to uses for the rupees inconsistent with the real value of the rupees and that the proposals may be adopted for one reason or another with consequent harm to the Indian economy.

During hearings before the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs, the Deputy Administrator of AID commented in July 1965:

> "The existence of large holdings of one country's currency by another can cause political problems. I have in mind accusations of potential American interference in the basic internal policies of other countries. This is understandable; if a foreign country held U.S. dollars to the same extent that the United States holds Indian rupees, its holdings would amount to roughly $10 billion."

In its justification to the Congress for an excess foreign currency <u>authorization</u> for fiscal year 1967, the Department of State included the following comment:

> "*** large holdings of the currency of one country by another, such as the U.S. holds in India, Pakistan, and the United Arab Republic, can cause problems in foreign relationships. The mere existence of such large holdings controlled by a foreign power, however benign, has the potential of creating great apprehension. These foreign currencies constitute a claim on the country's resources. If used in ways that subtract materially from the country's foreign exchange earnings, or

that create domestic shortages and inflationary pressures, they have the power to damage the economic and monetary systems of the country. This possibility, however latent, can sow seeds of discord internally and externally, and possibly result in accusations of potential, undue American influence in the basic internal policies of other countries. The utilization of these foreign currencies, and the consequent reduction in the size of U.S.-held balances, will minimize the possibility of friction in our relations with the other countries involved."

A study published in 1968 by the Organization for Economic Cooperation and Development on the subject of the local currency proceeds of foreign aid put it this way:

"Politically, *** excess accumulations of counterpart can become uncomfortable for the recipient and affect his relationship with the United States. The excess currency balances represent a standing invitation for domestic and *** U.S. pressures to spend them. Legally, the U.S. can support recipient governments in resisting such domestic pressures put on them, by vetoing proposed expenditures. Vice versa, recipient governments can legally veto U.S. pressures for spending the counterpart. However, this puts a strain on international relations. In the meantime, the U.S.-owned counterpart assets are compounding. In India, they are already exceeding the equivalent of one-third of the money supply. This situation is becoming curiouser and curiouser. The U.S. has become the largest single local currency creditor in the country, but with no voice in the management of his assets, the growth of which, though unwanted, nobody stops.

"The principal and basic drawback of the status quo is that, far from being a solution, it perpetuates and aggravates U.S. proprietorship of the counterpart - a legal fact but an economic fiction - and with it enhances the risk that future men holding power in the United States and in recipient countries may want to treat it like an economic fact. ***

"The alternative to the status quo is, of course, the institution of a deliberate and effective policy to extinguish this legal fact, to diminish and eliminate the spurious and dangerous U.S. proprietorship of excess counterpart. Such a policy could take many forms but, in substance, it would mean giving up claims of questionable or no value to the U.S., i.e. where no reasonable future U.S. need for them can be assumed."

We asked the Embassy to supply evidence that it might have which would point to the existence of problems in United States-Indian relationships over the issue of excessive U.S. rupee accumulations. The Embassy, in response, pointed to specific instances where the fact of U.S. ownership of large amounts of Indian rupees had been used as criticism of the Indian Government. Also, the Embassy pointed out that a high official of the Indian Government had broached the subject with the United States Government in July 1968. (See app. II.)

On December 12, 1968, an Indian Government-initiated report was published on the subject of the monetary impact of Public Law 480 transactions. This report was prepared by four distinguished Indians referred to as the Public Law 480 Expert Group.

In that report, no reference as such to any political problem was made; but, in reference to the inflationary effect of U.S.-use expenditures, the report stated:

"In view of the large sums involved and considering the large expenditure effects as well as the wealth effects of these sums, a solution acceptable to both Governments needs to be explored urgently."

THE DIFFICULTY IN SOLVING THE PROBLEM

It is difficult to reduce the amount of U.S.-owned rupee balances appreciably because of certain economic and legal difficulties. Economic difficulties arise because of the nature of our rupee holdings which have led to the limitations that are understood to exist on their use. Legal difficulties arise because of statutory requirements for their retention and usage.

Economic difficulties

Under the Development Loan Fund, the United States financed foreign exchange (dollar) costs of needed imports of raw material, machinery, spare parts, and other commodities into India. The terms of the loans entered into in 1961 and earlier years provided for repayment of principal and interest to the United States in rupees. Under the Public Law 480 program, the United States sold to India agricultural products for rupees.

Under both programs, the commodities entering India amounted to transfers of real resources from the United States. Since the transfers were made on concessional rather than commercial terms, the transfers are properly viewed as aid from the United States to India.

If the United States were to try to assist India with its rupees that accumulated to its credit from these programs of aid, the United States would then be attempting to make a given amount of assistance do "double aid duty." This it cannot do (although the United States might in this way influence in some useful fashion the Government of India's allocation of rupees).

Actually, the subsequent use of U.S.-owned rupees by the United States Government for its own purposes represents a transfer of resources from India back to the United States. Thus, any use of U.S.-owned rupees for U.S. consumption denies the use of resources to India for Indian consumption. This is a fundamental difficulty in making greater use of U.S.-owned rupees for U.S. programs in India, and it explains why a "generous" U.S. donation of several million dollars worth of U.S.-owned rupees is not a bonanza to the Government of India. It also explains why U.S. officials believe that the use of U.S.-owned rupees for U.S. purposes in India must be limited to "reasonable" amounts.

At June 30, 1969, U.S.-owned rupees amounted to the equivalent of $886 million. Of this amount, the equivalent of $85 million was in commercial banks in India and the remainder, amounting to a little over 90 percent of the total, was "held" in the central bank--the Reserve Bank of India.

Although of little practical significance, it should be noted that U.S.-owned rupees in the central bank actually take the form of bonds. We have been informed that the central bank cannot legally pay interest on deposits. Since U.S. law requires interest to be earned on the foreign currency deposits, the Government of India invests U.S-owned currency in interest-bearing special securities created for this purpose.

<u>Legal difficulties</u>

Public Law 480 rupees may be <u>granted</u> to the Government of India pursuant to the last proviso of section 104 of Public Law 480, as amended through July 29, 1968. This proviso, commonly known as the Mondale-Poage amendment, permits excess foreign currencies to be used for certain purposes without appropriation. These certain purposes include any of the uses authorized by Public Law 480 with the exception of those authorized in sections 104(a) and (b) of the law, according to the executive branch interpretation. One such use authorized by Public Law 480 is to promote trade and agricultural and other economic development by loans or by use in any other manner which the President may determine to be in the national interest of the United States.

According to the executive branch, there is no similar legislation which would permit the granting of non-Public Law 480 excess rupees without appropriation. These rupees are accumulating more rapidly than Public Law 480 rupees (see app. I.)

The newly created Overseas Private Investment Corporation (sec. 231, Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1969, approved December 30, 1969) is authorized to use U.S-owned excess foreign currencies, Public Law-480 and non-Public Law 480, for loans to firms privately owned or of mixed private and public ownership without regard to section 1415 of the Supplemental Appropriations Act, 1953 (sec. 234(c), Foreign Assistance Act of 1961, as amended through December 30, 1969). This authority to lend excess foreign currencies without dollar appropriation permits the constructive use of moneys that may otherwise remain idle, but the authority does not permit a reduction in the balance of U.S.-owned excess foreign currencies. Only authority to grant foreign currencies permits reductions in the balances. In fact, if the rate of interest on loans exceeds inflation-caused value reductions, the use of excess foreign currencies for loans acts to increase the amounts of excess currencies on hand in the long run.

Section 613(d) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2363(d)), requires the Secretary of the Treasury to provide for the receipt of interest income on U.S.-owned foreign currency balances. These earnings on rupee holdings add to the accumulations. This requirement may be waived by the Secretary of State whenever he determines that to do so would be in the national interest.

ECONOMIC DEVELOPMENT PROJECTS CONSIDERED PURSUANT TO THE MONDALE-POAGE AMENDMENT

The United States has provided many millions of dollars worth of rupees to the Government of India and private organizations in India under the provisions of the Mondale-Poage amendment and is now considering additional economic development projects.

By far the largest of these projects is a rural electrification program intended to double the number of villages which had been reached by electricity at that time in India. The first of a series of grants has been made to help the Government set up the Rural Electrification Corporation. The first grant amounted to $9.2 million equivalent and total U.S. contributions over a period of 5 years are expected to be about $140 million equivalent. The corporation is Government-owned and will provide capital from a revolving fund to state electricity boards, rural electric cooperatives, and other ventures to spread rural electrification, extend irrigation facilities and assist the "Green Revolution."

An agricultural credit guarantee and rediscount fund has been proposed to be funded with U.S.-owned rupees amounting to about the equivalent of $26.7 million. The grant to the Government of India is awaiting the establishment of an organization. The grant is to be used to provide initial capital for the fund which will make available to farmers, through guarantee and rediscount operations, credit to finance increasing demands for agricultural items, primarily fertilizers and pesticides.

Rupees valued at $8,060,000 were granted for a medical college, three hospitals, and a school for specialized training in management and industrial relations as follows:

> St. John's Medical College, Bangalore, India, received the equivalent of $6,500,000 to increase the facilities for clinical teaching by constructing a 500-bed hospital, an outpatient department, a kitchen, a laundry, a hostel for sisters and nurses, and a hostel for postgraduate students. The Georgetown University School of Medicine is the permanent U.S.-sponsoring body of the St. John's Medical Center and College of

Medicine. Three U.S. citizens are members of the institution's governing board.

Miraj Medical Center, Miraj, Maharashtra, founded in 1894 by the Western India Mission of the United Presbyterian Church in the United States, received the equivalent of $423,000 to provide an additional 102 beds and to expand and improve administrative, surgical, and pathology facilities.

Creighton-Freeman Hospital, Vrindaban, founded in 1898 by the United States Methodist Church Women's Foreign Mission Society received the equivalent of $421,000 to construct three hospital buildings and to expand nursing school, hostel, and hospital residential facilities. Two Americans are senior staff members, and five American Methodist bishops have visited the new building site.

Mercy Hospital, Jamshedpur, was granted the equivalent of $190,000 to construct an additional hospital building to provide needed isolation areas. The hospital was founded in 1962 by the Philadelphia Sisters of Mercy. Forty percent of its patients receive care, including needed surgery, entirely without cost.

Xavier Labour Relations Institute was established by the Maryland Province of the Society of Jesus in 1949 to serve India's need for specialized training in management and industrial relations. The Institute, with the continuing support of the Maryland Province and backed by a consortium of five American universities, rapidly is becoming recognized as the center for industrial relations studies and research in India. A grant of the equivalent of $526,000 was made for the construction of a library-research-classroom building and faculty residences.

A grant of U.S.-owned rupees amounting to the equivalent of $7,894,000 was made to the Government of India to purchase locally made vehicles for use in the family planning program. Transportation has been identified as a principal bottleneck in the present family planning program especially in getting services and commodities out into the rural areas.

A grant of rupees equivalent to about $2.7 million was provided to the Government of India to construct grain storage facilities. Excellent grain harvests have created unprecedented storage and transportation problems in India. As a solution to the shortage of adequate storage, the Government has requisitioned schools (available during the summer months) and even theaters. The Government of India has instituted a crash program to build new storage facilities which will permit protection of the grains and enable the building of buffer stocks. The U.S. Government strongly supports this, since adequate buffer stocks of grain are needed to support the move toward a free market system for distribution of grain at stable market prices.

A grant of $2,632,000 equivalent to the Sevagram Medical College in the State of Maharashtra has been proposed. The grant will finance the construction of buildings and the establishment of teaching and research facilities at an existing rural hospital which will then become a teaching hospital for Sevagram College, a rural medical college. This has important implications for family planning since lack of adequate rural health services is currently a critical impediment to the acceptance of family planning.

In 1968 a grant of rupees equivalent to $2 million was made to the Government of India to initiate a science textbook program by providing advisory assistance and for subsidizing the reprinting and dissemination of U.S. textbooks in sciences, especially agriculture. The 1968 funds were the initial-year funding for a 3-year program.

In 1967 a grant equivalent to about $1.6 million was made to three U.S.-sponsored health education facilities, the Ludhiana Christian Medical College, the Notre Dame Sisters Society, and the Holy Family Hospital. It is believed that the efforts of these private health and educational organizations serve in a measurable way to improve the social and economic conditions of the people in the areas where the organizations are located.

A grant of rupees equivalent to about $660,000 has been proposed for the Rajendra Memorial Research Institute of Medical Sciences for construction of new facilities and expansion of existing facilities. The facilities will enable the Institute to provide postgraduate medical teaching and research on an all-India basis. It is the only institution in the state of Bihar which is primarily devoted to medical research.

A grant of rupees equivalent to $537,000 was made to finance the local currency costs of continuing and expanding family planning activities of the Pathfinder Fund in India. The Fund has carried out an aggressive family planning program in India and currently has 10 projects in operation such as (1) introducing contraceptive techniques and motivational materials to more than 400 hospitals and clinics in India, (2) investigating the use of midwives and teachers in the oral contraceptives program, and (3) encouraging village leaders to take an interest in and support three model clinics where the acceptance and continual use of oral contraceptives is unusually high.

A grant equivalent to $38,200 was made to the Society for International Development to help pay transportation costs of international economists to the Society's World Conference held in New Delhi in November 1969. The grant matched contributions from other sources. An interchange among the Indian participants, estimated at 350, and non-Indian participants, estimated at 150, all of whom are economic development professionals, was expected to be one of the most valuable aspects of the meeting, enabling those from outside India to learn in depth about Indian development experience while permitting Indian professionals to be in contact with leading development scholars and practitioners from all parts of the world.

The Government of India has refused, on at least one occasion, a grant of rupees for a proposed project that would have involved active participation by the United States. The project was the proposed binational Indo-American educational foundation which was tabled indefinitely by the Indian Government due to strong opposition from various factions in India. The foundation would have involved the use of a dollar equivalent of about $300 million in U.S.-use rupees to establish a trust fund, the income from which would have been used to finance expenses of the foundation. In this connection, the November 16, 1968, issue of "Commerce" (an Indian magazine) included the following statement pertaining to the now-dormant educational foundation:

> " *** the US Government's proposal to utilise a part of these funds for establishing an Indo-US educational foundation must now be ruled out. This proposal which was mooted about four years ago has been in cold storage following strong opposition to it from educationists and others in this country."

THE ECONOMICS OF FOREIGN CURRENCY DEVELOPMENT GRANTS

The United States does not provide additional resources when it lends or grants rupees to India, as pointed out on pages 69 and 70 of this report. Thus, there is no economic benefit in terms of new resources when the United States provides the Indians with U.S.-owned foreign currency in India. A grant of U.S-owned foreign currency is akin to an agreement whereby the United States and Indian Governments simply decide to attribute to the U.S. Government the financing of a project that actually is financed from current Indian resources.

When economic development "grants" are made from Public Law 480 currencies <u>at the same time</u> that Public Law 480 commodities are delivered and sold in India, some economists suggest that the real resources provided by the United States and represented by the commodities do pay for the economic development project.

The following discussion appearing in a Brookings Institute publication in December 1962 is relevant to this matter (the author subsequently became the AID Mission Director in India):

> "*** the Indians recently have rediscovered a way to play strictly according to the P.L. 480 rules and yet virtually to by-pass any effective United States direction of indigenous development activity. And the Americans have been acquiescing readily. Since mid-1959 the appropriation of P.L. 480 funds to jointly agreed uses has considerably accelerated. The procedure basically has been for the Indian government to present to the United States authorities a long list, drawn from the next phases of its development plan, of projects requiring local financing and to say, in effect, 'These things are going to be done anyway. Which ones would you like to finance?' American officials have selected certain projects, and agreements have been made. To be sure, the United States has sometimes secured modifications in selected projects and occasionally has

persuaded India to accept alternatives to those on the list, but it has not exercised any major initiatives as to project choice.

"*** I suspect that *** sophisticated Indian officials have come to the view that very little in principle is lost by letting the United States get the credit for some earthen dams, godowns, and other rupee-expense projects that are going to be built anyway."

This is important in evaluating whether grants made pursuant to the Mondale-Poage amendment are, as required by that legislation, for measures <u>additional to</u> those which would be undertaken without such assistance. The Mondale-Poage amendment is not generally available for country efforts that are not additional to measures that would be undertaken without assistance under that amendment. There might, therefore, be a question as to the propriety of its use in a case where all that is involved is an attribution to the U.S. Government of something that would have happened without regard for the action of the U.S. Government.

In a report published in 1968 by the Organization for Economic Cooperation and Development dealing with the local currency proceeds of foreign aid, the point is made that:

"*** the Government of India has succeeded not only in keeping exclusive control over the utilisation of most PL 480 funds, but also in maintaining the facade of usual PL 480 counterpart negotiations and loan agreements with the U.S. Thus, counterpart is 'attributed' to specific sectors and projects in the Indian budget. This satisfies the letter of PL 480, and provides the window dressing the American administration needs for its congressional relations, but it is without any economic significance."

There is substantial evidence that any project funded with U.S.-owned rupees is, in fact, funded from current revenues by the Government of India, and this is <u>necessarily true</u> in view of the economic realities pertaining to the transactions involved.

With regard to using excess Indian rupess for institutional endowment the following comments in the same 1968 study are interesting:

> "Another attractive possibility which could absorb large amounts of excess currencies on a grant basis would be to establish foundations in the fields of health and education, and to endow them with excess currencies. To avoid inflationary effects, the major part of the endowment would be invested in recipient Government securities, and the foundation would largely depend on the investment income to pursue its objectives. One major proposal of this sort almost came off, but political opposition, first in the U.S., later in the recipient country, caused it to be shelved, at least temporarily.
>
> "It is doubtful that ingenious and constructive devices of this nature can do the trick by themselves. The sheer magnitude of the problem tends to preclude it. Only a determined policy in accordance with present law - to write off excess currencies - could do the whole job - quickly, simply and effectively. So far, however, the considerable advantages of such a policy to U.S. relations with excess currency countries have not appeared to the Administration worth the risk of antagonising important elements in Congress. By the same token, the chances of overhauling the law, and to put it on a straight grant basis, a la Marshall Plan, thereby getting rid of *** Section 104, which details the permissible uses of counterpart, are virtually nil. Real solutions appear politically neither acceptable to the U.S. Congress, nor essential to the U.S. Administration."

LEGISLATION AUTHORIZING THE PRESIDENT TO SEEK AN AGREEMENT WITH AID RECIPIENT EXCESS CURRENCY COUNTRIES FOR THE USE OF NON-PUBLIC LAW 480 CURRENCIES

Section 612(d) of the Foreign Assistance Act of 1961, which was added by the Foreign Assistance Act of 1969, approved December 30, 1969, provides that:

> "In furnishing assistance under this Act to the government of any country in which the United States owns excess foreign currencies as defined in subsection (b) of this section, except those currencies generated under the Agricultural Trade Development and Assistance Act of 1954, as amended, the President shall endeavor to obtain from the recipient country an agreement for the release, on such terms and conditions as the President shall determine, of an amount of such currencies up to the equivalent of the dollar value of assistance furnished by the United States for programs as may be mutually agreed upon by the recipient country and the United States to carry out the purposes for which new funds authorized by this Act would themselves be available."

In the House Committee on Foreign Affairs report on the bill containing the language which became section 612(d) above (H. Rept. 91-611, Nov. 6, 1969, on H.R. 14580), the following information is provided:

> "This section requires the President to endeavor to obtain from all recipient countries in which the United States owns excess foreign currencies (other than those generated under the Agricultural Trade Development and Assistance Act of 1954) an agreement to release such currencies in an amount equivalent to the dollar value of assistance furnished by the United States for mutually agreed upon programs to carry out the purposes for which funds authorized by this act would be available.

"The object is to use excess foreign currencies to promote development rather than having them remain idle. The United States owns large amounts of foreign currencies in a few countries which are major recipients of U.S. assistance. In some instances these countries have shown a greater interest in development programs financed with U.S. foreign assistance funds than in devising and carrying out projects or programs which could be financed with local currencies which the United States would be prepared to make available.

"Although increased use of local currencies may not bring about a corresponding or immediate reduction in U.S. assistance, since U.S. aid provided under the Foreign Assistance Act consists largely of goods and services procured in the United States, it is hoped that the stimulation to local production resulting from using local currencies for development will reduce the need for dollar assistance.

"The relating of the amount of U.S. aid to the magnitude of the development effort financed with local currency should however, by providing an incentive for governments receiving U.S. assistance, give a higher priority to the effective utilization of such currencies.

"The United States would benefit by having excess currencies which are not now being utilized spent for purposes which would promote U.S. foreign policy objectives."

We have been informed that AID requires either an appropriation of foreign currency or a waiver of section 1415 of the Supplemental Appropriations Act of 1953 (see chapter 4 of this report) before it can use excess foreign currency pursuant to this amendment; i.e., the amendment provides authority, it does not make the foreign currency available.

Additional information on this amendment, sometimes called the Wolff amendment, may be found in the Committee Print entitled "Report of Special Study Mission to Asia," dated April 22, 1970, prepared for the use of the House Committee on Foreign Affairs. The Study Mission Chairman was Congressman Lester L. Wolff.

AGENCY COMMENTS

In commenting on a draft of this report, the Department of State said:

> "In any actions to facilitate reduction in our Indian rupee balances by the Congress or the Administration, we believe U.S. interests require the broadest feasible use of excess currency for primary benefit of the U.S., and maintenance of balances adequate for these purposes in the foreseeable future, should be assured. Specifically, we feel that in planning the increased utilization of these holdings, first priority should go to those uses which help the balance of payments through expenditure of local currency in lieu of U.S. dollars abroad; second priority to those lower priority uses for which dollars would not be expended, but which provide significant benefits of primary value to the U.S.; and third priority to uses of primary benefit to the foreign country."

In our opinion, this is a proper order of priorities.

CONCLUSION

It appears that the large U.S. rupee balance in India is causing some problems in Indo-United States relations because of (1) Indian anxiety over potential difficulties that may arise as a result of misunderstandings regarding the nature of U.S. holdings and (2) representations by Indian politicans who wish to embarrass the United States by claiming that the United States through its rupee holdings is somehow largely controlling the Indian economy.

In our opinion, the decision to reduce substantially outstanding balances of U.S.-owned rupees in return for improved foreign relations is a policy matter deserving congressional attention.

If the decision is made to do so, one way would be to attribute planned Indian Government economic development expenditures to U.S.-grant rupee financing. Through a judicious selection of projects with which our Government would like to be associated, the United States could receive credit for having helped finance worthwhile endeavors while allaying Indian fears that our rupee balances somehow would be misused.

The Mondale-Poage amendment to Public Law 480 provides authority to grant Public Law 480 rupees for economic development purposes without obtaining specific appropriations.

For U.S.-owned rupees accumulated other than through the Public Law 480 program, the executive branch believes that it lacks the authority to grant its rupees for economic development projects without appropriations.

MATTER FOR CONSIDERATION BY THE CONGRESS

We believe the Congress may wish to consider:

1. Whether a reduction in the balance of U.S.-owned Indian rupees should be made to avoid the potential for damaging relations with India.

2. Whether actions by the executive branch in this regard are consistent with congressional desires.

3. Whether legislative action may be desirable to restrict or facilitate the reduction in the balance of U.S.-owned rupees.

Specifically, the Congress may wish to consider whether to provide authority for the President to use non-Public Law 480 excess currency for grants in India without appropriations similar to the authority now existing for Public Law 480 excess currency.

CHAPTER 9

OTHER EXCESS CURRENCY COUNTRIES

There are 10 excess currency countries. They are listed on page 88, together with the amount of U.S.-owned excess currency in each. On page 89 we have attempted to provide some meaningful indicators by which to judge the significance of U.S. holdings in each country.

The schedule on page 88, which shows the amounts of U.S.-owned foreign currency available, also shows that in some countries annual receipts of U.S.-owned foreign currency exceed annual expenditures. These receipts arise almost wholly as a consequence of old loans and interest earnings rather than of current programs. Furthermore, but not shown on the schedule, these annual receipts are scheduled to continue at about the same level for many years. We made a rough estimate of expected receipts, by country, from 1969 through 1978 and found that the level was relatively constant in each year.

The schedule on page 89, which presents U.S.-owned foreign currency balances in terms of selected economic criteria applicable to the excess currency country, is subject to a number of qualifications.

In the first place, and most significantly, foreign currency availabilities should be viewed in terms of future accruals as well as balances on hand.

Secondly, it is not very meaningful to compare balances of U.S.-owned foreign currency in India, and perhaps in other countries as well, with gross national product, money supply, and exports if the United States ultimately is unable to convert the currencies to real resources for its own use or is unable to spend the money on projects or activities that the Indian Government would not have undertaken in any event. Thus it is of little relevance to note that U.S.-owned excess currency in India at June 30, 1969, is equivalent to about 10 percent of the money supply.

Lastly, the indicators themselves may not be too useful for two reasons: (1) bases for aggregate economic statistics in developing countries are not necessarily adequate to provide reliable data and (2) country-to-country comparisons are not meaningful because

--with regard to money supply, some countries have a larger degree of barter trade with a corresponding smaller need for money and

--with regard to exports, some countries are larger traders than others.

Notwithstanding all these limitations, the information is included since it does provide some insight into the size of U.S.-owned foreign currency balances at June 30, 1969.

For example, if India were to deliver to the United States export commodities valued at the amount of U.S.-owned rupees at June 30, 1969, India would deprive itself of about 40 percent of its annual export earnings. Of course, India's export earnings are inadequate already, which is a primary reason for the U.S. aid program to India and for the United States' owning so many rupees.

A comparison of U.S.-owned rupees in India at June 30, 1969, with India's gross national product (about 2 percent of the annual gross national product) or with the amount attributable to each Indian ($1.29 per capita) would suggest that the United States does not own very much in Indian currency. However, if even these seemingly nominal amounts were to be converted to real resources for U.S. use, they would be very significant to India since India is poor. Its current per capita gross national product is under $100.

Here are some overall observations relative to U.S. excess currency balances in other countries.

1. Pursuant to Public Law 480 agreements with the United States, Poland is converting U.S.-owned Polish currency to dollars. Public Law 480 agreements, which were more in the nature of long-term credit sales for dollars, provided for the sale of agricultural products at an exchange rate of 24 Polish currency units to each U.S. dollar. The agreements

provided also that Poland would buy back in U.S. dollars the unused U.S.-owned Polish currency at the 24-to-1 rate over a relatively long period of time. Thus decisions by U.S. administrators today to use U.S.-owned excess currency in Poland must be evaluated in terms of losing a definite dollar repayment at some future period.

2. In Israel our supply of local currency is so limited in terms of present and future requirements plus unfunded potential uses that it is questionable whether Israel should even be considered an excess currency country. Decisions to use U.S.-owned Israeli currency should be evaluated almost as stringently as though the expenditures were to be made in dollars.

3. Ceylon[1] and the United Arab Republic present a good contrast. In Ceylon, where the U.S.-owned foreign currency balance at June 30, 1969, amounted to only a 1.6-year requirement and where our receipts of foreign currency in future years are estimated to be less than our expenditures, the decision to use U.S.-owned foreign currency should be evaluated much more carefully than a similar decision in the United Arab Republic. In the latter country the amount of U.S.-owned excess currency at June 30, 1969, is estimated to be equivalent to a 54 years' supply, and the rate of accumulation based on the projection for fiscal years 1970 and 1971 exceeds the rate of use by 6 to 1. There seems to be little need at present to worry about depleting our excess currency balances in the United Arab Republic. This substantial excess, as measured by current rates of use, reflects the sharp reduction in expenditures following the 1967 break in diplomatic relations.

4. The U.S. position in each of the excess currency countries differs in many important respects. In some of the countries, the United States has extensive economic aid

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[1]On July 20, 1970, the Office of Management and Budget dropped Ceylon from the list of excess currency countries for fiscal years 1971 and 1972. Thus, there are now 10 excess currency countries.

programs; some countries are of greater importance than others in certain respects; two of the countries have Communist governments; and one country does not currently exchange ambassadors with the United States. These and similar matters necessarily influence decisions on how best to manage and use our excess currency holdings.

CONCLUSIONS

Although opportunities may exist for using more excess foreign currencies in countries other than India, in each country there are numerous considerations involved which would have to be weighed in deciding how much currency to spend and on which activities and programs to spend it. The circumstances in the excess currency countries differ to such an extent that generalizations would be unwise; therefore proposed uses of excess foreign currency should be scrutinized in terms of the specific situation existing in each country.

AGENCY COMMENTS

In commenting on our report, the Department of State said:

> "Although the report reflects the fact that the GAO study was made only on the use of excess Indian rupees, the recommendations in the report relate to procedures which apply to all excess currencies. We would like to emphasize statements in the recommendations of Chapter 6 and the conclusions of Chapter 9 which refer to the varying conditions existing in each of the excess currency countries which merit differing degrees of consideration, and which would make generalizations unwise. Proposed uses of excess foreign currency, under either existing or amended procedures, should be reviewed in terms of the specific situations in each individual country. Actions recommended in the report are not equally valid for all excess currency countries, and may not be applicable at all in some."

U.S.-Owned Excess Foreign Currencies Expressed in the Equivalent of Millions of U.S. Dollars at Treasury Department Prescribed Rates of Exchange (note a)

	U.S.-owned foreign currency at 6-30-69		U.S.-use expenditures	Number of years requirements	Loans repayable in foreign currency at	Receipts for U.S. use (note b)		
	Total	U.S. use	FY 1969	on hand	6-30-69	Actual FY 1969	Projected FY 1970	FY 1971
Burma	19.1	11.1	1.4	7.9	38.1	2.3	2.3	2.4
Ceylon (note c)	4.6	3.6	2.3	1.6	15.8	1.0	1.2	1.3
Guinea	28.7	6.2	.25	24.8	.9	.5	.6	.8
India	897.5	678.1	35.5	19.1	2,347.9	120.7	117.4	130.5
Israel	19.7	8.9	23.5	.4	244.4	21.1	21.7	25.8
Morocco	24.7	11.7	11.8	.9	223.8	10.6	12.2	16.5
Pakistan	209.5	140.4	14.4	9.7	654.1	40.4	36.9	39.1
Poland	438.7	438.7	14.4	30.5	-	-	-	-
Tunisia	24.3	15.8	3.3	4.8	87.9	5.5	7.0	8.9
United Arab Republic	259.9	200.3	3.7	54.1	347.1	22.2	22.8	23.5
Yugoslavia	66.8	58.3	14.1	4.1	296.6	16.1	19.1	21.2

[a] Table prepared by GAO on the basis of data compiled by AID and Treasury Department.

[b] Receipts exclude Public Law 480 title I collections since existing law will eliminate additional excess collections after December 31, 1971. Thus, annual receipts shown may be considered broadly representative of annual receipts for several years subsequent to fiscal year 1971.

[c] On July 20, 1970, the Office of Management and Budget dropped Ceylon from the list of excess currency countries for fiscal years 1971 and 1972. Thus, there are now 10 excess currency countries.

U.S.-Owned Excess Foreign Currency Balances Available For U.S. Use at June 30, 1969, Compared with Selected Excess Currency Country Data (note a)

	U.S.-owned excess currency available for U.S. use at June 30, 1969 (millions)	Population (millions) (note b)	Amount per capita	U.S.-owned excess currency available for U.S. use at June 30, 1969, as a percent of Annual gross national product (note c)	Money supply (note d)	Annual exports (note e)
Burma	$ 11.1	26.4	$ 0.42	0.55	2.27	10.13
Ceylon (note f)	3.6	12.0	.30	.19	1.12	1.04
Guinea	6.2	3.5	1.77	2.36	(g)	(g)
India	678.1	523.9	1.29	1.49	9.57	39.17
Israel	8.9	2.7	3.29	.53	1.07	1.39
Morocco	11.7	14.6	.80	.39	1.25	2.60
Pakistan	140.4	109.5	1.28	.97	6.13	19.66
Poland	438.7	31.5	13.93	1.76	(g)	(g)
Tunisia	15.8	4.7	3.36	1.54	4.70	9.94
United Arab Republic	200.3	31.7	6.32	4.49	15.46	41.13
Yugoslavia	58.3	20.1	2.90	.64	2.58	4.61

[a]Table prepared by GAO from data compiled by the International Bank for Reconstruction and Development, the International Monetary Fund, and AID.

[b]Population is for 1968 except Guinea's and Poland's, which are for 1965.

[c]Gross national product is for 1968 except Guinea's, Poland's, and Yogoslavia's, which are for 1965, and the United Arab Republic's which is for 1967.

[d]Money supply is at December 31, 1968.

[e]Exports are for 1968.

[f]On July 20, 1970, the Office of Management and Budget dropped Ceylon from the list of excess currency countries for fiscal years 1971 and 1972. Thus there are now 10 excess currency countries.

[g]Not available.

CHAPTER 10

OBSERVATIONS ON OTHER MATTERS CONNECTED WITH THE ACCRUAL, EXPENDITURE, AND CONVERSION OF EXCESS RUPEES

During our review in India, we became aware of a number of specific situations pertinent to the subject matter of this report, which we have not discussed elsewhere. They are discussed in some detail in the following sections and involve:

--Loss of an opportunity to trade American food to India in return for manganese ore and ferromanganese. Instead, the food was sold for unneeded rupees.

--Rupee costs of certain project and administrative expenses funded through the use of a trust fund arrangement rather than through an appropriation process.

--Delays in converting large amounts of U.S.-owned rupees to hard currencies for use by the United States.

--Limitations on the amounts of Indian goods which can be bought by the U.S. Government for use outside India.

We are presenting these matters in this report because they amplify some of the problems discussed earlier and enlighten in other ways.

The point dealing with manganese ore and ferromanganese shows how and why the United States rejected an offer to trade food for potentially useful raw materials and instead accepted more unneeded rupees.

The trust fund arrangement illustrates how AID can legally use excess rupees in India without appropriations, in contrast with the procedures that other agencies are required to follow in obtaining authority to use rupees.

The conversion situation illustrates another aspect of overall Indo-United States problems involving the impact of excess currencies on India's dollar reserves.

Lastly, the discussion on the limitations in amounts of Indian goods which can be bought by the U.S. Government for its own use outside India deals rather specifically with an often-asked question: "Why can't we use our rupees to buy furniture or other items in India for use by U.S. Government agencies outside India?"

ACCEPTANCE OF MANGANESE ORE AND FERROMANGANESE IN LIEU OF EXCESS RUPEES FOR COMMODITY SALES TO INDIA

In November 1967 the Government of India offered to the United States ferromanganese and manganese ore in exchange for wheat. The U.S. Government has not accepted the Indian offer which it valued at about $20 million to $22 million because the materials in the U.S. strategic stockpile are already surplus to requirements. The decision not to accept the offer was also influenced by the depressed state of the domestic ferroalloys industry.

The United States would be better served in two respects if it could barter agricultural products for commodities available in India. In the first place, the United States would obtain a commodity of value rather than more excess rupees--although storage and transport costs for commodities would have to be considered. Additionally, the problem in Indo-United States relations caused by the large accumulation of U.S.-owned rupees would not be as aggravated by the barter arrangements as it would be by additional accumulation of U.S.-owned rupees.

Barter arrangements similar to that offered have been made in the past. Pursuant to an agreement made on March 3, 1959, India delivered to the United States 112,000 tons of ferromanganese, 155,000 tons of manganese ore, and 230 tons of thorium nitrate. In exchange, the United States delivered to India 450,000 metric tons of wheat.

Under an agreement made on June 27, 1963, India provided the United States with 128,000 tons of ferromanganese, 300,000 tons of manganese ore, and 6,000 tons of beryl ore in exchange for cotton. The manganese ore was converted to ferromanganese in the United States and, along with the ferromanganese delivered by India, was put in the U.S. strategic stockpile.

The Government of India proposal which was not accepted by the United States would have provided India with wheat in exchange for ferromanganese and manganese ore. In India we were informed that the Indian Government proposal contemplated 120,000 tons of ferromanganese and 450,000 tons of manganese ore. The U.S. decision contemplated about 75,000 tons of ferromanganese, 160,000 tons of manganese ore, and beryl ore to the extent available. It is the amounts contemplated by the U.S. decision that were valued at from $20 million to $22 million.

In our review of the U.S. Government's decision not to accept the Indian proposal, we found that the U.S. decision-makers were aware that additional rupee accumulations were of no value to the United States. The proposal was considered on the basis that useful material was more advantageous than more rupees.

As noted above, however, the offer was not accepted by the U.S. Government because the United States had no requirement for the materials in its strategic stockpile. This decision was also influenced by the depressed state of the domestic ferroalloys industry. Available evidence suggests that the U.S. Government might accept a proposal which included alternative materials.

It seems to us that inventory levels for the U.S. strategic stockpile are predicated on levels of minimum need rather than of maximum need. We can agree that the Government should not use dollars to commercially buy materials for the stockpile when such materials are at or above established requirements levels; but, when the United States has an option to receive such materials in lieu of unwanted rupees (or long-term dollar credits), we believe that the option should not be rejected because the stockpile levels are already met.

AID TRUST FUND IN INDIA

AID is constructing 30 staff apartments and is financing the local currency cost of its operations in India without charge to its appropriations. This is accomplished through a trust fund agreement negotiated with the Government of India. As a result, AID has been able to use U.S.-owned rupees in India, unhampered by the funding restrictions which affect other U.S. agencies in India. (These U.S.-owned rupees are categorized as country-use funds. See p. 8.)

Prior to 1966, AID/India used U.S.-owned rupees, generated under section 402 of the Mutual Security Act, to finance certain local currency costs of AID's technical assistance program. Expenditures by AID/India of rupees from this source amounted to the equivalent of over $60 million from 1959 through 1965, when funds in the section 402 account were substantially expended. Since funds were required to continue to pay the rupee cost of programs for which section 402 rupees had been used, AID/India entered into an agreement with the Government of India to make available, under a trust fund arrangement, country-use Public Law 480 rupees for this purpose.

At present, all of AID/India's local currency costs, including administrative costs, are paid from the trust fund. In addition, AID has used about $2.4 million in trust fund rupees for construction of a warehouse/office building complex in New Delhi and has programmed about $1.4 million in trust fund rupees for the construction of an apartment/staff house complex adjacent to the office building.

The following table shows the amounts of appropriations and trust funds used on AID technical assistance projects in India in fiscal years 1967, 1968, and 1969.

	AID/India project costs		
	Actual dollar obligations	Actual trust fund obligations (dollar equivalent)	Total obligations (dollar and trust fund)
	(millions)		
Fiscal year 1967	$ 8.4	$11.3	$19.7
" " 1968	13.2	8.1	21.3
" " 1969	14.0[a]	11.3	25.3[a]
Total	$35.6	$30.7	$66.3

[a]Estimated as of September 1968.

The $30.7 million in trust fund rupees utilized or programmed for utilization during fiscal years 1967-69 for these projects was not appropriated by the Congress since no appropriation was required. Included in the above is technical support (the project financed by trust fund rupees to the greatest degree), which represents almost 50 percent of the $30.7 million in trust fund obligations. Costs charged to this project include the administrative costs formerly paid with U.S.-use rupees purchased with dollars from the administrative expenses appropriation and rupee costs of the previously mentioned construction work.

Under the trust fund agreement, all buildings financed from the trust fund become the property of the Government of India and revert to the Government of India when no longer needed for the AID program.

Under the trust fund arrangement in India, U.S. Government employees and others who normally would be required to use U.S. air carriers have been permitted to use the Indian flag carrier for international travel. It has been established Government policy for some time to require U.S. Government official air travel on U.S. flag air carriers except when travel on other aircraft is essential to the official business concerned or is necessary to avoid unreasonable delay, expense, or inconvenience.

CONVERSIONS OF RUPEES TO CONVERTIBLE CURRENCIES

The Embassy has maintained a policy of keeping to a minimum its rupee conversion requests, to preserve India's scarce foreign exchange. Public Law 480 provides that limited amounts of sales proceeds be converted to "hard" currencies of other countries for agricultural market development and educational exchange. Public Law 480 also provides that Public Law 480 local currency sale proceeds may be sold to U.S. citizens in exchange for dollars; Public Law 480 sales agreements with India limit the total amounts that may be sold.

Actual amounts converted at the time of our review had been less than provided for in the sales agreements and less than requested by the United States. As a result, backlogs had developed in convertible rupees, most of which related to requests made as far back as August 1967. This is illustrated by the following table which shows the status of convertible rupees at March 15, 1969.

	Amount authorized	Amount converted	Backlog
	(millions)		
Sales to U.S. tourists, citizens, and foundations--section 104(j)	$15.5	$ 8.1	$ 7.4
Agriculture Market Development--section 104(b)(1)	41.9	17.4	24.5
Educational Exchange--section 104(b)(2)	14.6	11.4	3.2
Total	$72.0	$36.9	$35.1

During fiscal years 1967 and 1968, about $1.2 million and $2.6 million, respectively, were converted under section 104(j); about $1.3 million and $1.2 million, respectively under section 104(b)(1); and about $2.6 million and $2.7 million, respectively, under section 104(b)(2). On March 14, 1969, an additional $7 million in rupees was converted under 104(b)(1).

On November 29, 1968, the Embassy advised the Department that there was an upper limit in conversions that the Government of India should be persuaded to accept. This upper limit would be sufficient to cover conversions required in new agreements as well as some of the backlog.

Subsequent to our review, we were informed that the Embassy and the Government of India had made arrangements whereby the conversion backlog would be eliminated over a 3-year period.

PURCHASES OF GOODS FOR USE OUTSIDE INDIA

The Government of India was requested on December 4, 1961, to give to the United States blanket authority to export furniture, furnishings, fabrics, and live birds purchased by the United States with Indian rupees. This authority was sought to alleviate the burdensome and time-consuming procedures required to obtain export permits on an individual basis. The Government of India granted this request on December 9, 1961, by stating as follows:

> "*** although as a normal rule under our Exchange Control Regulations, exports must be paid for in foreign exchange and not in rupees, in the circumstances explained by you, we are as a special case authorizing the Reserve Bank to allow furniture, furnishings, fabrics and live birds purchased by the U.S. Government from the U.S. Embassy account up to the equivalent of $10,000 - per month (average) to be exported for the use of U.S. Government missions or offices outside India."

The $10,000-a-month average export limitation which is the equivalent of $120,000 a year is still in effect.

During a recent Embassy study of possible additional uses for U.S.-use rupees, the Administrative Officer advised that reasonably priced quality office and household furniture was manufactured in India and that an interest in purchasing this furniture had been indicated by the Foreign Buildings Operations in the African, Asian, and East Asian American Embassies. He also advised that, if it were not for the $120,000-a-year export limitation, he believed that it would be possible to use the dollar equivalent of about $2.63 million over a 3-year period for this purpose.

Therefore it appears that, for furniture items alone, the export limitation precludes the United States from advantageously using additional rupees valued at about $2.27 million ($2.63 million less $360,000 now allowed) during the same 3-year period.

The Treasury Department informed us that the Indians, of course, must agree to the use of rupees for this purpose and that the United States could not proceed unilaterally. The Department also said that it was with some reluctance that the Indians even agreed to the $10,000-a-month figure. The Department also informed us that it was currently in the process of negotiating a procedure with the Indian Government for Department of Defense procurement of various items in India for use in post exchanges, whereby payment would be made partially in rupees and partially in dollars.

CHAPTER 11

SCOPE OF REVIEW

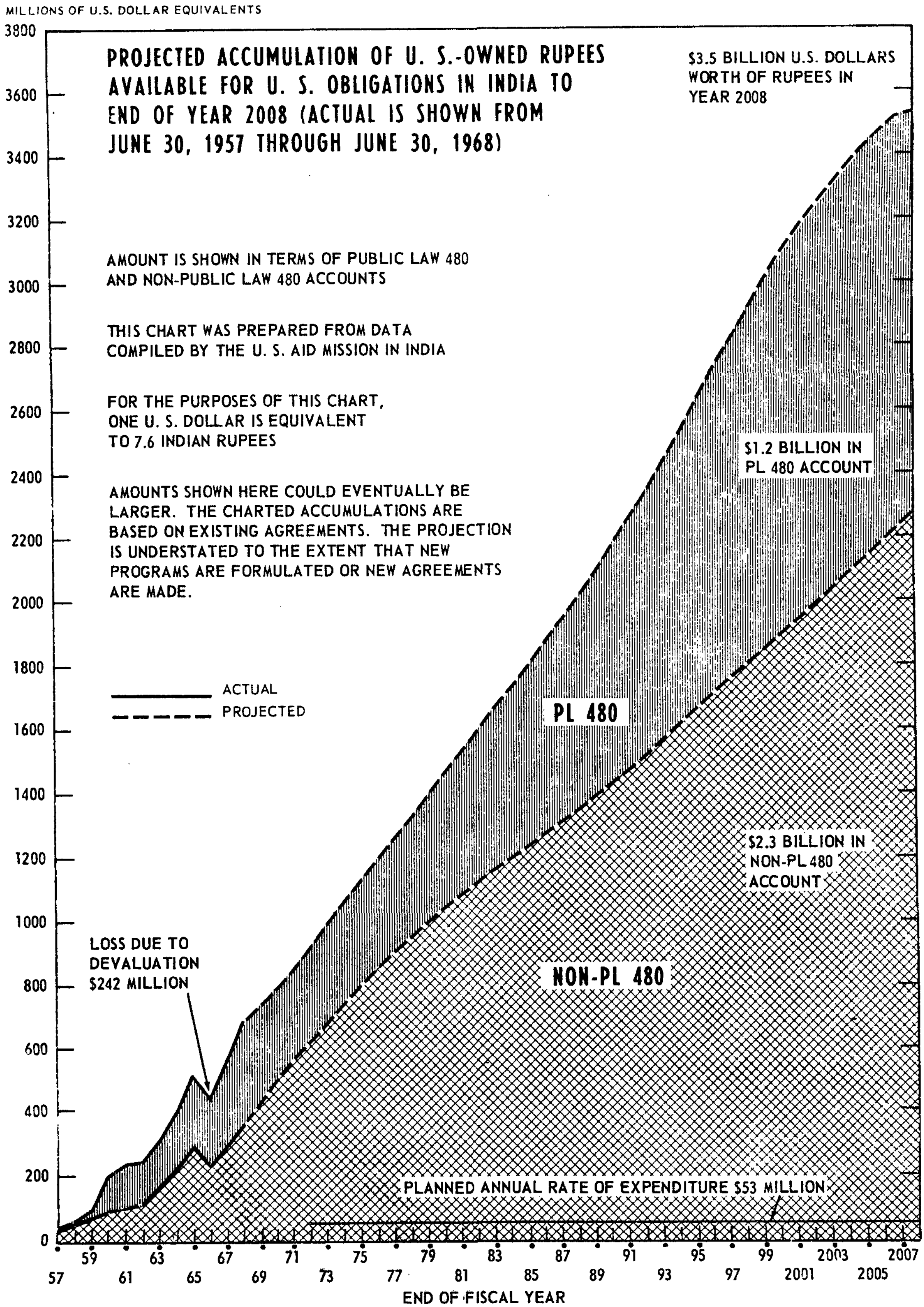
This review was made at the Embassy and AID Mission in New Delhi, India, and at other appropriate locations in India. Work was also done in Washington, D.C., at the Agency for International Development, at the Department of State, and to a limited extent at the Department of the Treasury; the Office of Management and Budget; the Department of Labor; the Department of the Interior; the Department of Agriculture; the Department of Commerce; the Department of Health, Education, and Welfare; the Library of Congress; the Smithsonian Institution; and the National Science Foundation.

We reviewed agency files and records and the printed testimony of agency officials appearing before congressional committees. We conducted extensive interviews in India and Washington. We also made rather substantial use of the large body of literature available on the subject of U.S.-owned foreign currencies, including special studies examining into ways to increase the use of such currency.

This report is concerned with foreign currencies owned by or owed to the United States. The matters discussed in the report do not include Indian-owned funds generated under commodity import programs and generally referred to as counterpart funds.

With regard to chapter 9, which comments on the balances of U.S.-owned excess currencies around the world, it should be noted that our observations were based on a limited review of summary data in Washington, D.C. We made no in-depth review of potential uses for U.S.-owned excess foreign currencies other than in India.

APPENDIXES



MILLIONS OF U.S. DOLLAR EQUIVALENTS
PROJECTED ACCUMULATION OF U. S.-OWNED RUPEES AVAILABLE FOR U. S. OBLIGATIONS IN INDIA TO END OF YEAR 2008 (ACTUAL IS SHOWN FROM JUNE 30, 1957 THROUGH JUNE 30, 1968)
$3.5 BILLION U.S. DOLLARS WORTH OF RUPEES IN YEAR 2008
AMOUNT IS SHOWN IN TERMS OF PUBLIC LAW 480 AND NON-PUBLIC LAW 480 ACCOUNTS
THIS CHART WAS PREPARED FROM DATA COMPILED BY THE U. S. AID MISSION IN INDIA
FOR THE PURPOSES OF THIS CHART, ONE U. S. DOLLAR IS EQUIVALENT TO 7.6 INDIAN RUPEES
AMOUNTS SHOWN HERE COULD EVENTUALLY BE LARGER. THE CHARTED ACCUMULATIONS ARE BASED ON EXISTING AGREEMENTS. THE PROJECTION IS UNDERSTATED TO THE EXTENT THAT NEW PROGRAMS ARE FORMULATED OR NEW AGREEMENTS ARE MADE.
ACTUAL
PROJECTED
$1.2 BILLION IN PL 480 ACCOUNT
PL 480
$2.3 BILLION IN NON-PL 480 ACCOUNT
NON-PL 480
LOSS DUE TO DEVALUATION $242 MILLION
PLANNED ANNUAL RATE OF EXPENDITURE $53 MILLION
3800
3600
3400
3200
3000
2800
2600
2400
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
57 59 61 63 65 67 69 71 73 75 77 79 81 83 85 87 89 91 93 95 97 99 2001 2003 2005 2007
END OF FISCAL YEAR

COPY

DEVELOPMENTS AND CIRCUMSTANCES UPON WHICH THE AMERICAN EMBASSY HAS CONCLUDED THAT UNITED STATES RUPEE HOLDINGS ARE BECOMING A POLITICAL LIABILITY TO THE UNITED STATES
(Prepared by the U.S. Embassy, New Delhi)

It is clear that the Government of India [GOI] is seriously, though not acutely, worried about the present level and prospective accumulation of U.S.-uses rupees arising from Public Law 480 and other rupee repayable transactions. The Indian delegation raised this question during the general talks held with Under Secretary Katzenbach in July and urged that measures be developed to liquidate these holdings in an orderly way. GOI concerns have to do with possible misunderstandings, either in the U.S. or in India, to which these holdings might give rise; the GOI has given no indication that it fears the direct effects of the holdings or of their use at any realistically foreseeable rate for bona fide U.S. Government purposes in India.

There are two main dangers which might concern the GOI relating to misunderstandings within India of the nature of these accounts. The first is that the public may become apprehensive that U.S. holdings of these very large monetary claims mean that the GOI is in some sense subject to U.S. dictation or control--that the U.S. is in a position to disrupt India's monetary or economic plans and dictate internal GOI policies. Unscrupulous or unsophisticated opponents of the government can, and indeed have, suggested that the government has bartered away its sovereignty, or that the very existence of these large accounts is intrinsically and unavoidably damaging.

The second danger is that confusion may arise between these claims on resources and real additional resources. Such confusion might create pressure for dangerous policies and undermine the government's efforts to generate real resources for development and restrain inflation. Conceivably, for instance, willingness to accept necessary tax burdens might be weakened if the illusion were to become current that drawings on or against U.S.-uses accounts are an alternative source of development finance. The GOI has made repeated efforts to correct public misapprehension of this sort and handles the U.S.-uses accounts in its public financial reports in a manner designed to reflect economic realities. Nevertheless, it is perfectly clear that public understanding is far from perfect and even fairly sophisticated pundits continue confused.

On the U.S. side, there are also two types of misunderstandings which may well worry the GOI. The first is that the quite clearly understood limits on the purposes for which these rupees are to be used may be forgotten or called into question by new actors on the U.S. scene. This might result in demands that they be used for purposes representing a heavier burden on real resources, and particularly on foreign exchange resources. At best, this could lead to friction and resentment on the part of such groups or individuals in the U.S., or it might actually result in serious additional economic burdens on India, if the GOI felt obliged to accept such demands. Second, there is always the danger that the rupee illusion will be used, wittingly or unwittingly, to muddy the waters and create confusion about India's current need for foreign exchange aid.

These fears are technically illfounded; the dangers need not necessarily result from the existence of the U.S. rupee holdings. We can certainly testify, however, that the misunderstandings outlined above do arise and that it is not always possible to dispel them easily and quickly. Annex B lists some of the attacks which have been dignified by public notice and indicates the widespread public interest on the subject.

ANNEX B

1. Our rupee holdings, their size, our every expenditure of them, receive continual critical attention from all parts of the Indian political spectrum:

a. From the Right

In November, 1967, Professor B.R. Shenoy, Director, Economic Research Centre, Gujarat University, organized a seminar in Delhi to examine the inflationary impact of use of PL-480 funds. He was successful in persuading the Deputy Prime Minister, the Governor and other senior officials of the Reserve Bank of India, senior officials of the Ministry of Finance, USAID and US Embassy officers, Swatantra Party Members of Parliament, N. Dandekar and J.M. Lobo Prabhu, and private bankers to attend the seminar. Although the participants were unanimous (with the sole exception of Professor Shenoy) in concluding that the use of PL-480 funds was not inflationary, the Government has since appointed a Committee, which is now examining Professor Shenoy's contention.

b. From the Center

At the All India Congress Committee meeting in Bombay in May 1966, former (then, but 5 months out of office) Finance Minister T.T. Krishnamachari charged publicly that Rs. 47 crores [a crore is 10 million rupees] of United States Government expenditures out of PL-480 funds had not been accounted for to the Government of India. Subsequent denials and explanatory comments by the Embassy and the Ministry of Finance undoubtedly convinced most responsible newspaper readers that the charge was false, but also contributed to the ever closer public scrutiny our uses of these funds receives today.

c. From the Left

Following the 1967 general elections, many Members of Parliament including, to name but one, Madhu Limaye, SSP, [Samyukta Socialist Party] charged that the USG [U.S. Government] had used PL-480 funds to influence the elections, generally, and specifically to try to ensure the re-election of S.K. Patil, and to defeat V.K. Krishna Menon. (See, for example, Lok Sabha Question 109 and the subsequent discussion on March 29, 1967.) Reacting to this charge, the Minister of Home Affairs ordered the Central Intelligence Bureau (Ministry of Home Affairs) to investigate all the allegations concerning the use of foreign money from sources during the elections. While the Home Minister has apparently received a report on this, he has refused, in Parliamentary statements, to release the report.

2. Political criticism covers every aspect of our use of rupees:

a. Administrative expenses

The following exchange occurred in Parliament on May 3, 1968:

Shri H.N. Mukerjee [Communist Party of India] (CPI/Right): "The Home Minister may not be unaware that out of PL-480 funds the expenses of the US Embassy in India and its branches amount to a great deal more than the budget expenditure of the Ministry of External Affairs and the expenses of the US Information Service here amounts to more than the budget of the Ministry of Information (excluding Broadcasting). In view of this, is the Home Minister not impelled to make a very special study as to how the different agencies of the US Embassy here operate when they spend moneys preternaturally excessive of the requirements of a normal diplomatic agency?

Shri Y.B. Chavan: It is a very interesting suggestion he has made; I will certainly take it into account."

b. Cooley Loans

The following exchange occurred in Parliament on July 28, 1966:

Shri Renu Chakravartty: Of this amount, that disbursed as Cooley loans to joint Indo-US enterprises in India is mentioned as Rs. 44.75 crores [a crore is 10 million rupees]. I would like to know whether in other PL-480 agreements, this Cooley loan was not inserted, as in the case of Yugoslavia, and whether we can still get out of this and get all this amount of money for our public sector?

Shri Sachindra Chaudhuri: I am not aware of what is or is not included in the loans granted under the agreement to Yugoslavia. Therefore, I cannot answer that part. So far as the other part is concerned, Government have not thought of getting out of this agreement and asking the US Government to allow us to use these funds in the public sector.

c. Research Grants

The following question and answer were discussed in Parliament on July 29, 1968:

GRANTS FROM PL-480 FUNDS

QUESTION

SHRI K. RAMANI,
SHRI VISWANATHA MENON:

Will the Minister of Finance be pleased to state: (a) the names of individuals and organizations which received grants from PL-480 funds in India in 1966 and 1967;

(b) the amounts received by each individual and organization quarterly in 1966 and 1967;

(c) whether the grants given were used in the last General Elections;

(d) if so, whether Government have investigated into this matter; and

(e) if not, the reasons therefor?

ANSWER

(Deputy Prime Minister & Minister of Finance)
(Shri Morarji Desai)

(a) The US Government gives grants from the US-use portion of PL-480 funds to institutions and organizations in India to support research activities in various fields, such as agriculture, health, science and education. Proposals for grants received from applicant organizations are considered by the Government of India before they are sponsored to the US authorities. A list of grants cleared by the Government of India during 1966 and 1967 is laid on the Table of the House.

(b) After the Government of India have conveyed their clearance, the US agencies process the requests at their end, authorize grants where they consider them suitable and settle details with the institutions direct. Hence, the information asked for in part (b) of the question is not available with the Government of India. It is felt that the time and labour involved in collecting it from the recipient institutions will not commensurate with the results.

(c), (d) & (e):- The grants are not intended to be spent for any purpose or activity other than that for which they are authorised. It has already been stated in answer to Starred Question No. 818 on 21.12.1967 that the Report of the Intelligence Bureau on the use of foreign funds submitted to the Home Ministry does not disclose any information about the mis-use of PL-480 funds.

(A list of 82 research grant proposals was tabled.)

d. USIS [U.S. Information Service]

The following question was asked in Parliament on July 27, 1966:

Shri Bhupesh Gupta: I just now got the statement. It shows--I am not going into the past--that the expenditure of the US Information Service was Rs. 15 crores [a crore is 10 million rupees]. Then expenditure on other administrative and programmes expenditure Rs. 24.50 crores. Here we get an idea about Rs. 40 crores. It is Rs. 40 crores. It is Rs. 40 crores under two heads spent by the US Information Services and for other expenditure--God knows what they are. May I know whether the Government is not considering that Rs. 40 crores is too heavy a sum, almost equal to the budget of Nepal or some such countries or very near it? This much has been said here. Why is the Government not asking for details as to what they mean by administrative expenditure and so on? Why should they not ask in order to satisfy themselves that these monies are spent or part of it is spent properly for their normal diplomatic activities because the amount is far too big for their normal requirements? May I know why the Government is not at the same time comparing this expenditure with the expenditure of the UK [United Kingdom]

Embassy or other Embassies in order to find out what should be the normal requirement for the functioning of diplomatic missions in this country including the Information Services.

Shri Sachindra Chaudhuri (Minister of Finance) I am afraid this Government is not in a position to dictate to another Government as to how to maintain their Embassies or how much their High Commission or Embassy can spend.

Shri Lokanath Misra: May I know from the Finance Minister whether these cultural programmes include direct negotiations and purchase of cultural centres like film studios? My information is that one of the film studios of Madras has been purchased by the US Embassy and I am told that it is Gemini. Is there any truth in it and for such direct negotiations with parties in India is it necessary that the US Embassy should take the permission of the Government of India or can they do it on their own without the permission of the Government?

Shri Sachindra Chaudhuri: If there was a question of sale or transfer of Indian assets, then there would be a question of permission from the Government of India or the Reserve Bank. Therefore I am not sure that my friend's information is correct.

In all the above cases, the questions and answers in Parliament received extensive press coverage in India.

3. The criticism is not limited to Parliament; the US use of PL-480 rupees has also been debated in State and Local political bodies.

The Delhi Corporation discussed on October 11, 1966, the allegation that PL-480 money was being used to provide denominational literature for free distribution in Indian schools. The left-wing Patriot (admittedly a very biased source) carried a detailed report on the debate, which touched on many aspects of our alleged uses of rupees.

4. The Government takes this criticism very seriously.

a. At the highest levels

In addition to Parliamentary statements by Cabinet Ministers, such as those cited above, public criticism of the proposal for an Indo-American Foundation, to mention only one example, was a major factor in the Government's failure, to date, to accept it.

b. At the working level

It is not only the large schemes which are affected. Negotiations of far less important matters are frequently delayed by officials' concern over the potential adverse political reaction. A considerable administrative waste results. One example would be our sales of rupees to US citizens and foundations in accordance with PL-480 (Section 104(j)) and our agreements with the Government of India. Such sales are running at present at about

$3 million annually. Perhaps $60,000 worth of rupees is sold annually to US travel agencies, who buy rupees to pay Indian firms for services rendered to tourists booked, say, on round-the world tours. The Ministry of Finance, the Embassy, and the US Treasury have had to consider ways to cover the possibility that a US travel agent might use PL-480 rupees to pay for the travel of a tourist who was not a US citizen. While such a possibility would, in fact be contrary to the spirit, although not perhaps the letter, of our PL-480 agreements with the GOI, it is certainly a rather remote, and financially, insignificant possibility, involving, say $300, out of 104 (j) sales of $3 million annually. The interminable questioning by RBI [Reserve Bank of India] officials of the most minute details of our rupee payments for air travel provides another example. Only the ever-present possibility of political criticism necessitates such concern on the part of GOI officials. To repeat, this concern results directly in a very significant administrative cost to all concerned.

5. One final point. It is not going to be possible to solve this matter in confidence, rather it is likely that every step of the way toward a mutual solution of this problem will be exposed to public scrutiny; and, in general, this is proper; both India and the United States are democracies. The following item appeared in the November 16 issue of Commerce, a weekly magazine published in Bombay:

Rupees That Cause Concern — New Delhi:

The Union Government has asked the US Administration to find ways of liquidating the rupee funds that have accumulated in the American Embassy's account as a result of the sale proceeds of PL-480 imports.

Consequently, the US Government's proposal to utilize a part of these funds for establishing an Indo-US educational foundation must now be ruled out. This proposal which was mooted about four years ago has been in cold storage following strong opposition to it from educationists and others in this country.

Subsequently, it was proposed that in addition to the educational foundation the funds at the disposal of the US Embassy might be utilised for the development of agricultural co-operatives in India. Other proposals were also under consideration. All these will now have to be written off.

The question of liquidating the US Embassy's share of PL-480 rupee funds is understood to have been raised at the Indo-American talks in New Delhi last June. The leader of the US delegation, Mr. Katzenbach, is reported to have humorously interjected that he did not know when in the future it would be propitious to raise in Congress the issue of liquidation of PL-480 rupee accumulations with the US Embassy.

Out of the sale proceeds of PL-480 imports, about 12 per cent are earmarked for US Embassy uses and the rest is given as loans and grants for specific projects in India and for private sector schemes under what is known as the

Cooley Fund. The Government of India feels that the accumulation of rupees in the US account from this source over the next five to 10 years will create problems in Indo-US relations. It is convinced that if this money continued to be spent in India it will have an inflationary impact. Further, it believes that proposals such as the educational foundation implied a continuing long-term US involvement in Indian affairs on the basis of these funds, which would not find favour with Parliament.

DEPARTMENT OF STATE

Washington, D.C. 20520

August 4, 1970

Mr. Oye V. Stovall
Director, International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

The Department appreciates the opportunity of commenting on the draft General Accounting Office report entitled "Use of Excess Foreign Currency in India", as transmitted to Secretary Rogers by your letter of March 24, 1970.

A detailed review of this comprehensive report by the interested offices within the Department, and consultation with other commenting agencies as appropriate, have now been completed. Informal, detailed comments and suggestions have already been provided under separate cover to assist in improving the clarity, accuracy and completeness of the report. Our general comments follow.

We consider the report a significant contribution to the understanding, and hopefully resolution, of a problem that has concerned the Department increasingly for many years: the continuing escalation of the U.S. Government's Indian rupee holdings. We believe the effective utilization of these balances and future accruals is a matter of great and increasing urgency, and we concur generally in the constructive recommendations of the report to facilitate their use.

The internal U.S. Government sale of excess currencies to using agencies at official rates established by foreign governments does constitute, in our view, a deterrent in some cases to the maximum use of currency. We favor the establishment of more flexible procedures for determining charges to U.S. agencies for currency expended. However, such procedures would have to be consistent with the obligations which the U.S. Government has assumed as a member of the International Monetary Fund with respect to observing exchange rates established by other IMF member countries. Additionally, such procedures would have to avoid creation of pressures for the devaluation of the foreign currencies involved and the resultant weakening of exchange stability.

In any actions to facilitate reduction in our Indian rupee balances by the Congress or the Administration, we believe U.S. interests require the broadest feasible use of excess currency for primary benefit of the

U.S., and maintenance of balances adequate for these purposes in the foreseeable future, should be assured. Specifically, we feel that in planning the increased utilization of these holdings, first priority should go to those uses which help the balance of payments through expenditure of local currency in lieu of U.S. dollars abroad; second priority to those lower priority uses for which dollars would not be expended, but which provide significant benefits of primary value to the U.S.; and third priority to uses of primary benefit to the foreign country.

With respect to the references in Chapter 5 of the report to the Consulate building in Calcutta, the sum of $250,000 for rehabilitation of the building was eliminated from the Department's excess currency appropriation request for FY 1970 prior to submission to the Congress, as stated in the report. However, the Calcutta project was included in the FY 1971 Congressional appropriation request and the Department expects to commence construction of a new building before the end of the fiscal year.

Although the report reflects the fact that the GAO study was made only on the use of excess Indian rupees, the recommendations in the report relate to procedures which apply to all excess currencies. We would like to emphasize statements in the recommendations of Chapter 6 and the conclusions of Chapter 9 which refer to the varying conditions existing in each of the excess currency countries which merit differing degrees of consideration, and which would make generalizations unwise. Proposed uses of excess foreign currency, under either existing or amended procedures, should be reviewed in terms of the specific situations in each individual country. Actions recommended in the report are not equally valid for all excess currency countries, and may not be applicable at all in some.

Illustrative of the Department's considerable concern over the increasing levels of U.S.-owned Indian rupees, Secretary Rogers has instituted a Departmental study, headed by an eminent economist, to review the problems and to develop appropriate, specific solutions. We anticipate that this project will effectively complement the GAO report.

If you should wish to discuss any aspect of this complex matter further, we will be happy to meet with you at your convenience.

Sincerely yours,

Joseph F. Donelan
Deputy Assistant Secretary
for Budget and Finance

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

AUG 07 1970

Mr. Oye V. Stovall
Director
International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

Thank you for your letter to Dr. Hannah dated March 24, 1970, which transmitted your draft report on excess foreign currency in India and which requested review of the report and comment by A.I.D.

The report has now been carefully reviewed by those elements of A.I.D. concerned both with India and with foreign currency management. We find the report to be comprehensive and constructive; and with some reservations we would concur in the specific recommendations contained in the report, both to the executive agencies and to the Congress.

We believe, and the report demonstrates, that expanded use of our excess currency in India could and would be in the interest of both the United States and India. At the same time, however, we would like to note that any marked revision or expansion of our programs for excess currency utilization would have to take fully into account both any potential adverse economic effects which would run contrary to A.I.D.'s development objectives, and any Government of India sensitivities as to the political or economic impact of such utilization.

In a related sense, it could be noted that one potentially limiting factor in the expansion of U.S. research programs in India is the possibility that, in areas in which Indian research facilities are either scarce or fully occupied with development related activities, such expansion might tend to divert Indian research resources from high-priority Indian problems.

Subject to the constraints noted above, we believe it would be in keeping with the report to suggest another means of increasing the use of excess currencies through the authority contained in Section 612(d) of the Foreign Assistance Act. That authority is limited, however, as it does not provide for a waiver of Section 1415 of the Supplemental Appropriations Act of 1953. You may wish to consider recommending the modification of Section 612(d) to provide for a waiver of Section 1415, or the addition of enabling language to the Foreign Assistance Appropriation Bill.

Mr. Oye V. Stovall - 2 -

In addition, we have a number of specific observations and suggestions on the report which we would like to make a matter of record: a few questions of fact; some necessitated by developments which occurred subsequent to the original drafting of your report; and some suggested as a matter of clarity. These comments, because of the detail involved, are included as an attachment to this letter. [See GAO note.]

Sincerely,

Charles G. Haynes, for

Edward F. Tennant
Auditor General

Attachment: a/s

GAO note: These comments have not been included in the report. Changes have been made in the body of the report where appropriate.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

SEP 21 1970

Mr. Oye V. Stovall, Director
International Division
General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Stovall:

This letter responds to your request for comments on the proposed report to the Congress on the use of U.S.-owned excess foreign currency in India. We welcome the opportunity to review this draft report and are especially appreciative of its positive and constructive orientation.

Office of Management and Budget staff have been concerned with the problems discussed in the draft for many years. Nevertheless, excess Indian rupees have accumulated, and can be expected to continue to accumulate at a rate much greater than our ability to find valid uses for them. This situation has presented a dilemma. If these currencies are used in large amounts, the Indian Government would be faced with an unacceptable rate of inflation (which conflicts with our foreign policy objectives). On the other hand, if no use is found for large amounts of these currencies there may be pressures to write off these balances, which would be equally unacceptable.

In our opinion, one of the most significant statements in the report appears on the first page:

> "...GAO believes it highly unlikely that the U.S. ever will be able to convert more than a relatively small portion of its rupee holdings into real resources for its own use..."

We can only concur that there is not much immediate hope for making serious inroads on the accumulation of U.S.-owned Indian rupees. For example, the Indian Government, constantly aware of the effects of large scale use of our balances of Indian currency, has not permitted ready access to the balances. In lieu of holding such balances in immediately available bank accounts, the GOI invests them in interest bearing bonds which are reduced as the U. S. Government uses the rupees covered by the bonds. This practice permits the Indian Government to keep abreast of the U. S. use of U.S.-owned Indian rupees, in relation to developments in its economy.

The "Findings and Conclusions" in the "Digest" of the report *** recognizes the requirement that foreign currencies are not available for expenditure by U.S. agencies, except as provided for in annual appropriations acts. Congress has reiterated this requirement many times since it was first enacted as Section 1415 of the Supplemental Appropriations Act of 1953. Exceptions have been granted, the most significant of which was the Mondale Amendment to Public Law 480. This had the effect of permitting use of excess foreign currencies without appropriation for specified purposes. Thus the intent of the Congress is quite clear.

We agree with the intent of your recommendation--to ensure that executive branch agencies can seek approval for well-documented excess currency-funded projects without regard to overall dollar ceilings. Office of Management and Budget Circular No. A-11 has been revised to clarify its long standing policy on this matter. The intent of this provision is to encourage agencies to include in their budget submissions projects to be funded through the use of excess currencies, notwithstanding other limitations on agency budget totals. We do have some reservations, however, about your proposal for direct appropriations of foreign currency. These, as well as other comments and suggestions, are included in the enclosure to this letter. (See GAO note.)

Staff of the Office of Management and Budget will be pleased to discuss the draft report further, and to provide any additional information which you may require.

Sincerely,

Acting Director

Enclosures

GAO note: The reservations on the proposal for direct appropriations are on the following pages. These reservations are summarized and are included on page 47 of this report along with our evaluations. The other comments and suggestions are shown as appropriate in the report or have resulted in changes.

Page 47, second paragraph. We have some difficulty with the basis for your recommendation that the Office of Management and Budget explore the acceptability of direct appropriations of excess foreign currency, as a form of budgetary submission, with appropriate committees of the Congress."

On page 45, the report proposes that this request would be for "programs and activities which are not of as high priority as those funded through the special foreign currency programs; yet which could and should be undertaken because they would serve a beneficial purpose." Agencies would find it difficult, if not impossible to justify two orders of lower priority programs. The provisions of Circular No. A-11, section 13.2, encourage the inclusion of lower priority items within amounts requested for special foreign currency programs. We do not see any advantage to establishing an even lower order of priority on the premise of a vaguely defined "beneficial purpose."

In connection with the rationale presented on page 46 for the above mentioned recommendation, we have the following further comment:

<u>Item 2</u>. We do not understand the reference to constitutional problems. Article 1, Section 9 of the Constitution uses the word "Appropriation," but common understanding over the history of this country has construed this to mean appropriations of dollars. The submissions in 1966 and 1967 to Congress were for "Authorizations" to use foreign currencies to distinguish them from dollar denominated appropriations. The submissions were part of the President's Budget and action was required to be taken by the appropriations committees; thus the "authorizations" if passed by the Congress, would have been appropriations in every sense of the word.

<u>Item 3</u>. The reference to executive branch fears about reduction of dollar appropriations because of possible competition from foreign currency appropriations is not well founded. If the Congress feels that the projects or activities to be financed by foreign currencies are of too low an order of priority, then they rightfully should not support them. Likewise, the President will not propose financing in his budget for any projects which do not produce fairly well defined benefits. We do believe, however, consistent with our international agreements and with the existence of justifiable requirements, that special foreign currency program appropriations will continue to provide the best facility for use of excess foreign currencies.

<u>Item 4</u>. This item concerns Congressional evaluation of proposed "appropriations of excess foreign currencies." Currently, executive branch requests for special foreign

currency program appropriations are not specified by country, but upon enactment are available in all excess currency countries. This is of benefit to the executive branch agencies since it provides the same flexibility to shift obligational authority between countries as would be provided in regular appropriations. The advantage to the Congress is that there would not have to be routine country by country presentations and evaluations for what in many cases are relatively small requests. Agencies in all cases, however, are prepared to discuss and justify their plans on such a basis should the members of the appropriations committees so request.

One further thought on this item is that the last sentence seems to say that low priority uses merit greater consideration according to the amount of currency available. We cannot subscribe to a proposal that has the effect of favoring projects where the only discernable benefit is to use excess currency.

Item 6, refers to the fact that the Commodity Credit Corporation would continue to receive dollar credit for programs funded through the special foreign currency program. We assume this refers only to foreign currencies generated under Title I of Public Law 480. But more importantly, since the GAO--proposed appropriations of excess foreign currency are not dollar denominated, it is difficult to understand just where the dollars for these credits will originate. If conversion to dollar denominations is intended, then the spending agency appropriation would be charged in dollars. This would return us to the situation we presently have with respect to special foreign currency program appropriations.

It must be recognized that the foreign currencies generated by P.L. 480 from the sale of agricultural commodities resulted from dollar expenditures. Section 105 of the law requires that reimbursement be made to the Commodity Credit Corporation from the using agency appropriation. This could not be done when the agency's appropriation is denominated in foreign currency units.

PRINCIPAL OFFICIALS RESPONSIBLE

FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	Appointed	
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Christian A. Herter	Apr.	1959
Dean Rusk	Jan.	1961
William D. Rogers	Jan.	1969
AMBASSADOR TO INDIA:		
Elsworth Bunker	Nov.	1956
John Kenneth Galbraith	Mar.	1961
Chester E. Bowles	June	1963
Kenneth B. Keating	June	1969
AGENCY FOR INTERNATIONAL DEVELOPMENT (International Cooperation Administration prior to November 1961)		
ADMINISTRATOR:		
James W. Riddleberger	Mar.	1959
Henry R. Labouisse	Feb.	1961
Fowler Hamilton	Sept.	1961
David Bell	Dec.	1962
William S. Gaud	Aug.	1966
John A. Hannah	Mar.	1969
DIRECTOR, MISSION TO INDIA:		
Howard Houston	Feb.	1957
C. Tyler Wood	Nov.	1959
John P. Lewis	Sept.	1964
Leonard J. Saccio	Oct.	1969

PRINCIPAL OFFICIALS RESPONSIBLE

FOR THE ACTIVITIES DISCUSSED IN THIS REPORT
(continued)

	Appointed
DEPARTMENT OF THE TREASURY	
SECRETARY OF THE TREASURY:	
Robert B. Anderson	July 1957
Douglas Dillon	Jan. 1961
Henry H. Fowler	Apr. 1965
Joseph W. Barr	Dec. 1968
David M. Kennedy	Jan. 1969
OFFICE OF MANAGEMENT AND BUDGET (Bureau of the Budget prior to July 1970)	
DIRECTOR:	
Maurice H. Stans	Mar. 1958
David E. Bell	Jan. 1961
Kermit Gordon	Dec. 1962
Charles L. Schultze	June 1965
Charles J. Zwick	Jan. 1968
Robert P. Mayo	Jan. 1969
George P. Shultz	July 1970

U.S. GAO Wash., D.C.