

FOREIGN INDEBTEDNESS TO THE UNITED STATES

HEARING
BEFORE THE
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT GENERALLY
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
FIRST SESSION

—————
FEBRUARY 5, 1979
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FOREIGN INDEBTEDNESS TO THE UNITED STATES

MONDAY, FEBRUARY 5, 1979

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
GENERALLY OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr., presiding. Present: Senators Byrd, of Virginia, Packwood, Wallop, and Heinz. [The press release announcing this hearing follows:]

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARINGS ON FOREIGN INDEBTEDNESS TO THE UNITED STATES

Senator Harry F. Byrd, Jr., Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance announced today that the Subcommittee will hold hearings on February 5, 1979, on the status of foreign debts owed to the United States.

The hearings will begin at 10:00 A.M. in Room 2221 of the Dirksen Senate Office Building. The leadoff witnesses will be Mr. C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and Mr. Julius Katz, Assistant Secretary of State for Economic and Business Affairs.

Senator Byrd noted that, in January 1977, he conducted similar Subcommittee hearings and, at that time, foreign debt owed the United States was over \$60 billion.

"The total debt owed to the United States by foreigners has steadily increased. We must be mindful that these funds come from the pockets of American taxpayers and work to insure that foreign debts are collected promptly."

Witnesses who desire to testify at the hearings should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 by no later than the close of business on February 1, 1979.

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

Witnesses scheduled to testify should comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

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

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Not more than ten minutes will be allowed for oral presentation.

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

Written Testimony.—Senator Byrd stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by March 9, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 of the Dirksen Senate Office Building, Washington, D.C. 20510.

Senator BYRD. The hour of 10 having arrived, the committee will come to order.

There is great enthusiasm in Washington for handing out money throughout the world.

The hearing today will focus upon the extent to which the United States is collecting the money which it has so generously lent.

In the past, our Government has settled debts, including the Soviet debt, the Indian debt, and the French NATO debt for little more than 3 cents on the dollar. Such negligence with the taxpayers' funds is inexcusable.

There must be a continuing review of the efforts of our Government, to speed up payment of debts owed to the United States and reduce delinquencies on these debts.

When this subcommittee held similar hearings last January, foreigners owed \$68.8 billion to the United States. Of this amount, almost \$42.1 billion was incurred after World War I. Of the \$42.1 billion, \$40.6 billion was accumulated after World War II. This money would finance more than one-third of the Pentagon's budget in 1979 or pay for almost three-quarters of our welfare program.

The Federal budget remains heavily in the red, and the burden of our growing national debt must be carried by the taxpayers at crippling interest rates.

It is increasingly important to insure that foreign indebtedness to the United States is handled on a businesslike basis and will not continue as another giveaway program.

The witnesses today are C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and Julius Katz, Assistant Secretary of State for Economic and Business Affairs.

You may proceed as you wish.

STATEMENTS OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS AND HON. JULIUS KATZ, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. BERGSTEN. Thank you very much, Mr. Chairman. I have prepared and submitted to the committee a statement which tries to lay out in some detail the international context in which we believe it is helpful to look at the debt problem, and then addresses specifically the questions you raised: the debt owed by foreign countries both to U.S. private banking institutions and the U.S. Government, with specific discussion, and our progress in collecting those debts. Also, for the first time, we have added a bit of discussion about the question of contingent liabilities or U.S. Government guarantees of loans. In the budget presentation this year, OMB suggested that this new category should be looked at in general, as well as direct credit, and we have

tried to put that concept into this presentation to give you what we hope is a truly complete picture of the debt situation.

Senator BYRD. Excellent—I think that is fine.

Mr. BERGSTEN. If I might, Mr. Chairman, I will just summarize very briefly my written statement. I would first like to say that there has been, over the last year, quite a dramatic change in the international economic and financial situation. You will recall in our discussion last year—and really, since 1974—that the primary feature of the international financial scene was the massive surplus of the OPEC countries which, in turn, had forced really heavy borrowing on the part of other countries around the world and, therefore, a sharp buildup in the level of international debt.

The year 1978 saw a dramatic reduction in the level of the OPEC surplus and, therefore, on the other side of the ledger, the deficits and necessary buildup of debt of other countries. We do not have the final figures in yet, but we think the OPEC surplus dropped from something close to \$32 billion in 1977 to no more than \$10 billion in 1978. In short, the OPEC surplus which has dominated world financial conditions for the last 5 years, came very close to disappearing, or came down to a very low level in 1978. That in turn reduced the deficits on the part of many of the countries around the world, and therefore the need for them to buildup further their borrowings, and therefore their debt—primarily to the private markets, but also to the United States, other governments and official institutions.

I do not mean to suggest, in saying that, that the international financial scene is calm and all is well. We do know that there remain two big imbalances: namely, our own deficit on the current account, which totaled \$17 to \$18 billion in 1978, and surpluses in a few industrialized countries, most notably Japan and Germany. On that front, however, Mr. Chairman, I think I can also report at least the prospect of important progress. We do feel that our current account deficit will be at least cut in half in 1979. Indeed, it was already reduced sharply in the latter part of 1978 from the higher levels earlier.

This clearly has very important and optimistic implications for the status of the dollar over the next year. Indeed, we have been seeing a strengthened dollar over the last few weeks and months since the President announced his dollar defense program on November 1, and markets around the world have become more confident that the fundamental economic forces are, in fact, moving in favor of the United States in terms of a sharp reduction in our external imbalance.

In my statement, I go into a bit more detail about the international economic and financial environment, but I think, unless you have further questions, that is all I would say at the outset of my comments.

Turning directly to the question of debt, I have tried, in my statement, to lay out some details in terms of debt owed by foreign countries both to U.S. private banks and to the U.S. Government. The data, which have been much improved over the last year or two, show that U.S. banks, including their foreign branches, now have nonlocal currency claims of about \$200 billion on foreigners as of

the middle of last year, which is the latest date for which we have comprehensive data.

Only about 25 percent of these claims are on the developing countries and the great bulk is lending to the other industrialized countries. In addition, it is worth noting that a large part of these claims are of a short-term nature. In fact, about two-thirds of the claims had a maturity of 1 year or less. I make that point because concern is often expressed that the U.S. banks are accepting short-term deposits and making long-term loans, whereas, in fact, about two-thirds of their loans to foreigners have a maturity of 1 year or less and another 25 percent are in the 1- to 5-year maturity range, with only 7 percent of the total claims being in excess of 5 years. So the maturity structure of claims and liabilities on the part of private banks is not nearly as skewed as is often suggested in popular discussion.

Finally, we turn to the main topic that you have stressed yourself, Mr. Chairman, and on which we share your concern: the question of foreign debt on the books of the U.S. Government. As we did last year, we have tried to put it together in a comprehensive and, hopefully, easy to read chart which you have in front of you. It shows that as of September 30, 1978, the total debt owed to the U.S. Government by foreigners, almost all by foreign governments, was \$73 billion. One has to immediately break that down between categories I and II. Category I indicates that we still have on the books over \$27 billion of World War I claims which, as you know from previous discussions, became deeply entangled in German reparations and Allied debts on which there has been no collection from the major countries for many years.

The area which we would focus on in terms of current collections is category II. There we can see that foreign governments since World War II have accumulated debts to the United States of about \$45.7 billion as of September 30, 1978. We then break down the components of that debt between the foreign aid program and the Export-Import Bank, the two largest, and the other components of the category. You can see that about 99 percent of this debt is accounted for by long-term credits which are being paid off on the schedules that were agreed on at the time. We are now receiving somewhere between \$3 and \$4 billion a year on repayment of that debt, and the vast bulk of that is certainly coming in on schedule.

As of September 30, 1978, total arrearages on this debt amounted to \$612 million. You have the total down at the bottom of the chart with an indication of the components of that \$612 million arrearage. The bulk of it, again, is composed of items that we discussed last year. You will see that \$200 million, item 4 under category I, is the unresolved Korean war logistical support claims. Six countries have taken the view that essentially those were grants and they do not need to repay them. You will recall, Mr. Chairman, that the House Committee on Government Operations has recommended that Congress consider legislation to remove those debts from the records of the Treasury. We had an interagency discussion and endorsed that recommendation, but, nevertheless, at this point we continue to hold these claims on the books.

The other components of the debt are there in front of you, and I would be glad to discuss any of them that you would like to talk about.

I do have to indicate, and will do so explicitly, that this total of \$612 million is \$21 million higher than the number that we presented to you last year for total arrearages. However, about two-thirds of that is accounted for by Zaire. We have worked out debt rescheduling arrangements with Zaire. As soon as these arrangements are implemented, we will take the figure out of the arrearage column and put it in a rescheduled category since we will be getting the payments but on a different schedule. Because of the extremely difficult financial position Zaire has found itself in, the major creditor countries agreed to negotiate a rescheduling of that particular debt.

Finally, Mr. Chairman, let me mention the topic of contingent liabilities. As I say, this is an issue that has been raised in a very candid way, I think, in the budget presentation by OMB. As we worry about credit programs both in terms of their overall economic effect and in terms of the possible liabilities that they generate for the U.S. Government, one has to look at contingent liabilities such as loan guarantees. We have put that information together on the international side indicating that the total of those contingent liabilities as of last June 30 was about \$13.3 billion. A little over half of that is Export-Import Bank guarantees and insurance. The other is derived from a variety of programs like OPIC, AID's housing guaranty program, the Department of Defense's military sales and a miscellany of other programs. Very seldom, quite frankly, are these contingent liabilities ever called; but we thought that for completeness, and just to get the record straight, and the picture clear, we should lay them out in front of you.

I should also mention one other category of contingent liabilities which are not always thought of the same way, and that is the U.S. pledge of callable capital to the multilateral development banks: the World Bank, the Asian Development Bank, and the Inter-American Development Bank. As you know, Mr. Chairman, over its life, the World Bank has made over \$45 billion of loans, but the U.S. Government has only paid into the World Bank \$884 million, or 2 percent of total lending, a factor of 50 to 1. The reason for this is that the great bulk, 90 percent of our current contributions to the ordinary capital windows of the World Bank and these other institutions, are made in the form of callable capital. This simply means that we would make U.S. funding available only if the private borrowings of the World Bank and the other banks ever had to be met from other than the repayments of countries to which they have lent their capital.

The development banks play an intermediary role. They have backstopping in the form of callable capital from the United States and other member countries which, if ever needed, could be drawn down to support their debt. However, there has never been a default on a World Bank loan and this type of contingent liability is one that we think is least likely ever to have to be paid.

Mr. Chairman. What I have tried to do is lay out a comprehensive picture of the international debt structure both in terms of the private U.S. banking structure and the U.S. Government. I would simply say, in conclusion, that we believe that international credit, which, of course, is what generates debt, plays three major positive roles in the world economy.

First, it obviously facilitates trade, because without credit you have much less trade. Second, it fosters economic growth and permits de-

veloping countries, quite properly, to borrow from abroad to finance their growth at rates which would be more rapid than if they had to rely on domestic savings alone. Third, credit is an indispensable element in a smoothly functioning international monetary system where, without access to credit, international balance of payments difficulties would lead to greater exchange-rate instability, and deficit countries would try to eliminate their deficits by restricting economic growth and erecting barriers to free trade.

We feel international credit is thus an integral part of an effectively functioning world economy. Properly managed and supervised, it facilitates the daily operation of our own economy.

Indeed, one of the great successes of the international economic policy of the United States in the postwar period has been the development and evolution of an open system of international capital and money movements. Such a system comports with our philosophy of free markets as well as with our pragmatic need for more trade, jobs, and income. We should seek its further strengthening in the years ahead.

One result is debt, but we think it is being managed well. Payments are coming in on schedule for the lion's share of the payments, and we do not see any general debt problem at this point in time.

Thank you.

Senator BYRD. Thank you, Mr. Secretary. Your report seems to be very complete. I do have some questions, but before any questions, I want to welcome two new members of the Finance Committee, the Senator from Wyoming, Mr. Wallop, and the Senator from Pennsylvania, Mr. Heinz. We are pleased that you are here today.

Now, last year it was testified that, leaving aside our World War I and World War II debts, the foreign debt owed to the United States totaled \$40.6 billion. If World War II debts are included, the total debt last year was \$42.1 billion. You testified today that foreign debt is now \$45.7 billion, when you include World War II debts. Is that correct?

Mr. BERGSTEN. Yes, sir.

Senator BYRD. Why was there an increase of \$3.6 billion and what countries received this increase?

Mr. BERGSTEN. Mr. Chairman, this is a reflection of the increase in our claims generated by our annual outlays under programs of the types indicated on the chart: The Foreign Assistance Act, the Export-Import Bank Act, Public Law 480, et cetera.

Senator BYRD. Foreign debt, the debt owed the United States by foreign governments, is going up instead of down?

Mr. BERGSTEN. That is right. The increase in our lending is greater than the repayments on the existing debt. The increased lending last year which I mentioned was, in gross terms, probably \$6 to \$7 billion, we can get that precise figure; repayment on the old debt around \$3 billion, so you get a net increase of about \$4 billion in the debt owed to the U.S. Government.

[The following was subsequently supplied for the record:]

Disbursements by U.S. Government agencies during fiscal year 1978 on long- and short-term loans and credits were \$6.74 billion. Repayments of principal amounted to \$2.96 billion; the net increase in long- and short-term indebtedness

owed to the U.S. Government was \$3.78 billion. (This information was provided by the U.S. Department of Commerce, Bureau of Economic Analysis, from data made available by the operating agencies).

For some countries, those which no longer receive foreign assistance, the debt is going down. For those which are now the major recipients of U.S. foreign assistance and, for those which, importantly, receive Export-Import Bank credits—which support our export program and strengthen the dollar—those countries' debt to the U.S. Government is rising.

Senator BYRD. The \$45.7 billion does not include the contingent liability of \$13.3 billion.

Mr. BERGSTEN. That is right. That \$13.3 billion is additional.

Senator BYRD. It is in addition to the \$45.7?

Mr. BERGSTEN. That is right.

Senator BYRD. Would you establish, for the record, what caused the \$3.6 billion increase and the countries which are involved?

Mr. BERGSTEN. Yes. We will give you a detailed breakdown by country.

Senator BYRD. A detailed breakdown is necessary for the record, but for the purpose of this hearing today, would you indicate what two or three countries account for the larger part of the \$3.6 billion increase?

Mr. BERGSTEN. I do not have it in front of me, Mr. Chairman, which I regret. I do have a complete list of country totals. I do not believe it gives me the annual increase. Some of the largest recipients of Export-Import credits, include Korea, Mexico, and Brazil, those would account for the largest increases in the debt profile. Under the AID program, you would have such countries as Indonesia—

Senator BYRD. This is satisfactory for the time being.

Mr. BERGSTEN. We will give you the detailed country breakdown. [The following was subsequently supplied for the record:]

CHANGE IN OUTSTANDING INDEBTEDNESS ON FOREIGN LOANS AND CREDITS OF THE U.S. GOVERNMENT, BY OFFICIAL AND PRIVATE OBLIGORS, BETWEEN SEPT. 30, 1977 AND SEPT. 30, 1978 (EXCLUDING WORLD WAR I INDEBTEDNESS)

[In million U.S. dollars]

	Change between Sept. 30, 1977 and Sept. 30, 1978	
	Official foreign obligors	Official private obligors
Total, all countries and official organizations.....	+3,630.4	+53.5
Afghanistan.....	+1.2	+0.5
Albania, People's Republic.....	(1)	0
Algeria.....	+95.3	-2
Angola.....	-8	0
Anguilla.....	(2)	(3)
Antigua.....	(2)	(1)
Argentina.....	+4.1	+2.6
Australia.....	-36.8	-10.2
Austria.....	-6.7	-4
Bahamas.....	-1.7	21.2
Bangladesh, People's Republic.....	+97.1	-4
Barbados.....	(1)	-3
Belgium.....	-6.6	-2
Belize (British Honduras).....	(2)	(1)
Benin.....	+2.3	0
Bermuda.....	(1)	-2.2
Bolivia.....	+30.9	+7
Botswana.....	+4	0
Brazil.....	-26.7	-10.9

See footnotes at end of table.

CHANGE IN OUTSTANDING INDEBTEDNESS ON FOREIGN LOANS AND CREDITS OF THE U.S. GOVERNMENT, BY OFFICIAL AND PRIVATE OBLIGORS, BETWEEN SEPT. 30, 1977 AND SEPT. 30, 1978 (EXCLUDING WORLD WAR I INDEBTEDNESS)—Continued

(In million U.S. dollars)

	Change between Sept. 30, 1977 and Sept. 30, 1978	
	Official foreign obligors	Official private obligors
British Solomon Islands.....	(2)	0
British Virgin Islands.....	(2)	(2)
Brunei.....	(2)	0
Bulgaria.....	(2)	(2)
Burma.....	-1.4	(2)
Burundi.....	(2)	0
Cameroon.....	-2.3	0
Canada.....	-4.6	-3.5
Cape Verde Island.....	(2)	0
Cayman Island (United Kingdom) (Caribbean region).....	(2)	-7.5
Central African Empire.....	(2)	0
Chad.....	(2)	0
Chile.....	-79.4	+32.6
China, People's Republic of (mainland).....	+2	(2)
China, Republic of (Taiwan).....	+61.7	-6.2
Colombia.....	-6.4	-1.2
Congo (Brazzaville) (People's Republic).....	0	0
Cook Island.....	(2)	0
Costa Rica (Cocos, Keeling Island).....	+2.4	(2)
Cuba.....	-1	(2)
Cyprus.....	+7.4	(2)
Czechoslovakia.....	(2)	(2)
Denmark.....	-2.2	-5.1
Dominica.....	(2)	0
Dominican Republic.....	-11.0	+1.0
Ecuador.....	+7.9	-2
Egypt, Arab Republic of.....	+589.4	(2)
El Salvador.....	+4.4	+1.7
Ethiopia.....	-17.4	(2)
Fiji Islands.....	0	(2)
Finland.....	-3.5	-4.9
France.....	-58.4	+2.2
French Guiana.....	(2)	0
French Polynesia.....	(2)	0
Gabon.....	+2.5	(2)
Gambia.....	(2)	0
Germany, Federal Republic of, (Bonn).....	-15.6	(2)
Germany, Soviet (Democratic Republic of East).....	(2)	0
Germany, Berlin.....	(2)	0
Ghana.....	-13.5	-2
Gibraltar.....	(2)	0
Gilbert Islands.....	(2)	0
Greece.....	+183.4	-9
Grenada.....	(2)	0
Guadeloupe.....	(2)	0
Guatemala.....	+2.0	+4.3
Guinea.....	+4.3	-8
Guyana.....	+3.8	0
Haiti.....	+5.9	(2)
Honduras.....	+1.7	+2
Hong Kong (United Kingdom).....	+3	-2.9
Hungary.....	0	(2)
Iceland.....	-2.6	(2)
India.....	-63.9	-13.7
Indonesia.....	+157.8	-5.5
Iran.....	-179.9	+16.3
Iraq.....	-1.2	(2)
Ireland.....	-10.3	(2)
Israel.....	+851.2	-4.9
Italy.....	-17.5	-1
Ivory Coast.....	+2.7	(2)
Jamaica.....	+8.3	-7
Japan.....	-3.4	-30.0
Jordan.....	+26.4	0
.....puchea (Kimmer Republic).....	+1	0
Kenya.....	+22.5	(2)
Korea (Democratic People's Republic of).....	(2)	0
Korea, Republic of (Seoul).....	+460.7	+154.3
Kuwait.....	(2)	(2)
Laos.....	(2)	(2)
Lebanon.....	+30.9	-2.1
Lesotho.....	(2)	0
Liberia.....	+4.8	-6.4
Libya.....	+2	(2)
Luxembourg.....	-1	(2)

See footnotes at end of table.

CHANGE IN OUTSTANDING INDEBTEDNESS ON FOREIGN LOANS AND CREDITS OF THE U.S. GOVERNMENT, BY
OFFICIAL AND PRIVATE OBLIGORS, BETWEEN SEPT. 30, 1977 AND SEPT. 30, 1978 (EXCLUDING WORLD WAR I
INDEBTEDNESS)—Continued

[In million U.S. dollars]

	Change between Sept. 30, 1977 and Sept. 30, 1978	
	Official foreign obligors	Official private obligors
Macao (Portugal).....	(0)	0
Madagascar (Malagasy Republic).....	(0)	0
Malawi.....	+3.8	0
Malaysia.....	+21.3	-6
Maldives Island.....	(0)	0
Mali.....	+1.0	0
Malta.....	(0)	0
Martinique (France).....	(0)	(0)
Mauritania.....	(0)	0
Mexico.....	+19.1	-4.0
Morocco.....	+42.4	-3.8
Mozambique.....	(0)	(0)
Nauru.....	(0)	(0)
Nepal.....	(0)	(0)
Netherlands.....	-18.5	-4.5
Netherlands Antilles.....	(0)	(0)
New Caledonia.....	(0)	0
New Hebrides.....	(0)	0
New Zealand.....	+3.7	-1
Nicaragua.....	+24.9	+5
Niger.....	(0)	0
Nigeria.....	-8.2	-4
Norway.....	-2.8	-51.5
Oman.....	+1	0
Pakistan.....	+127.9	-2.9
Panama.....	+7.5	-11.7
Paraguay.....	-1.0	-2
Peru.....	+42.8	-5.8
Philippines.....	+106.0	-30.9
Pitcairn Is.....	(0)	0
Poland.....	+404.3	+15.3
Portugal.....	+424.2	+13.7
Portuguese Timor (Now Indonesia).....	0	0
Qatar.....	(0)	0
Rhodesia.....	(0)	0
Romania.....	+19.7	(0)
Rwanda.....	(0)	+3
Saint Christopher-Nevi-Anguilla.....	(0)	0
Saint Helena.....	0	0
Saint Lucia.....	(0)	(0)
Saint Vincent.....	(0)	0
Saudi Arabia.....	-3.3	(0)
Senegal.....	+9.0	0
Sierra Leone.....	-4	+5.4
Singapore.....	+40.8	-1.3
Somalia.....	+4.9	(0)
South Africa.....	+2.0	(0)
Southwest Africa.....	(0)	0
Spain.....	+68.9	+63.8
Sri Lanka (Ceylon).....	+22.0	+2
Sudan.....	+8.2	-4
Suriname.....	-6	0
Swaziland.....	(0)	(0)
Sweden.....	+10.9	-1.4
Switzerland.....	+1.7	-3.7
Syria.....	+7.4	0
Tanzania.....	+9.7	(0)
Thailand.....	+16.8	+1.2
Togo.....	-1	0
Tonga.....	(0)	(0)
Trinidad and Tobago.....	-2.4	(0)
Tunisia.....	+30.3	-1
Turkey.....	+76.9	-11.7
Turks and Caicos Island.....	(0)	0
Tuvalu.....	(0)	0
Uganda.....	+1.7	(0)
U.S.S.R.....	+38.0	(0)
United Arab Emirates.....	-124.8	-20.2
United Kingdom.....	(0)	0
United States miscellaneous Pacific Islands.....	+1.0	0
Upper Volta.....	-2.7	(0)
Uruguay.....	(0)	0
Vatican City.....	(0)	0
Venezuela.....	-21.1	+2.6
Vietnam, North Democratic Republic of.....	(0)	0

See footnote at end of table.

CHANGE IN OUTSTANDING INDEBTEDNESS ON FOREIGN LOANS AND CREDITS OF THE U.S. GOVERNMENT, BY OFFICIAL AND PRIVATE OBLIGORS, BETWEEN SEPT. 30, 1977 AND SEPT. 30, 1978 (EXCLUDING WORLD WAR I INDEBTEDNESS)—Continued

[In million U.S. dollars]

	Change between Sept. 30, 1977 and Sept. 30, 1978	
	Official foreign obligors	Official private obligors
Vietnam, Republic of (Saigon).....	-3.8	0
Western Samoa.....	(1)	0
Yemen Arab Republic (Aden).....	+9	0
Yugoslavia.....	-3.6	+31.5
Zaire (Congo-Kinshas).....	+87.1	-8
Zambia.....	+30.8	(1)
Andean Development Corporation.....	0	0
Caribbean Development Bank.....	+1.7	+2.0
Cabel.....	+8.2	-2.4
Cafmi.....	0	0
Council of the Entente States.....	+1.1	0
East African Common Services Organization.....	-2	0
European Atomic Energy Commission.....	+10.6	0
European Coal and Steel Commission.....	-6.4	0
International Atomic Energy Agency.....	(2)	0
NATO.....	+7	0
United Nations.....	-3.4	0
University of East Africa.....	(1)	0
West Africa Development Bank.....	-1	0
African, regional.....	+1	-1
Western Hemisphere, regional.....	+3.6	+8
Western Hemisphere Unspecified.....	+7	+1.5
South Asia, regional.....	0	-3
Western Europe, regional.....	-11.7	-1
Worldwide unspecified.....	(1)	(1)

¹ Decrease, change less than \$100,000.

² Increase, change less than \$100,000.

Note: Totals may not add due to rounding.

Source: U.S. Treasury: Status of active foreign credits of the U.S. Government as of Sept. 30, 1977 and Sept. 30, 1978.

Senator BYRD. What is the total present and potential exposure of the United States? By that, I mean what official debts are owed to the United States? What credit guarantees have been extended by the United States and what is the callable capital for which the United States is obligated? What is that total figure?

Mr. BERGSTEN. The total would comprise the \$45.7 billion of disbursed direct credits, the \$13.3 billion of contingent liabilities, about \$12.5 billion of callable capital, which adds up to over \$71 billion.

I would, Mr. Chairman, however repeat the distinction I made earlier that, even though we think it proper to consider and have in front of us the contingent liabilities and the callable capital they are of a very distinctly different nature. There is little likelihood of their ever leading to an actual financial cost to the United States, particularly in the case of the callable capital of the multilateral development banks.

Senator BYRD. I agree with you on the callable capital. The fact is that the direct debt itself has increased \$3.6 billion in the past year?

Mr. BERGSTEN. Yes, sir.

Senator BYRD. Did you say earlier that the private banks have claims of \$200 billion on foreign countries?

Mr. BERGSTEN. Yes, sir.

There are some statistical questions as to what banks are covered and the extent of the data, but the best figure that the Comptroller of the

Currency has put together—on a much more extensive basis than ever before—totals about \$200 billion as of the middle of last year, which was the latest date for which we have comprehensive numbers.

Senator BYRD. Which five banks would be the most heavily involved?

Mr. BERGSTEN. Mr. Chairman, we do not have that by bank. What we do is aggregate the data which the banks submit to us on a confidential basis. We sometimes publish the data by groups of banks, grouped by asset size, but we would not publish the data by individual banks.

Senator BYRD. With regard to the lend-lease debt owed by Iran, what is the current thinking of the administration on the possibility of repayment of this debt due to the present Iranian situation?

Mr. BERGSTEN. That subject has obviously become much more complicated in the last few months. We did have discussions and Mr. Katz may wish to comment more, because the State Department carried out discussions with the Government of Iran last summer on the question of the lend-lease debt. The Iranians, as you may know, have made a counterclaim against the United States concerning Iranian railways which they feel were damaged by the United States and other allied military forces during World War II; the discussion covered both these topics. We had not reached a resolution of this issue prior to the recent developments there, which I am sure are going to provide a further complication, I am afraid to say.

Senator BYRD. Even without the further compensation, when was the last payment made?

Mr. KATZ. In 1975, Mr. Chairman. There was a payment made—there was a payment of \$750,000 in March 1973 and \$1.8 million in October 1975.

There have been some discussions since then, but they have not been productive. The last discussion was in the course of last year.

Senator BYRD. How much is owed now by Iran?

Mr. KATZ. With interest, Mr. Chairman, \$36.5 million.

Senator BYRD. The United States has been engaged in the process of normalizing relations with the People's Republic of China. In order to fully normalize relations, the claims-asset issue must be settled between the two. Would you please tell the committee what is the current level of certified claims against the People's Republic of China?

Mr. BERGSTEN. Mr. Chairman, that is an extremely complicated question because there are a variety of outstanding claims which we intend to discuss with the China authorities. These claims present a number of very difficult factual questions and also a number of difficult legal questions.

Senator BYRD. This country has certain claims totaling certain amounts. What is the amount? What is the total of the claims?

Mr. BERGSTEN. Well, Mr. Chairman, as I say, it depends on the analysis, which we are now doing but have not yet completed, as to what the value of the claim is and also which of the claims are valid for presenting to China.

Senator BYRD. You mean you do not have those figures now?

Mr. BERGSTEN. We do not have a total figure at this moment.

Senator BYRD. This is nothing new. This goes back 30 years, doesn't it?

Mr. BERGSTEN. That is part of the problem, Mr. Chairman.

Senator BYRD. Do you mean to say that the U.S. Government has no record, and you are just now composing a record?

Mr. KATZ. Mr. Chairman, may I try to help on this?

Senator BYRD. I would be glad to get any help we can.

Mr. KATZ. Mr. Chairman, there are basically two categories of claims. There are claims of private, U.S. nationals. These are claims that were examined and adjudicated by the Foreign Claims Settlement Commission which is an agency of the U.S. Government, and awards or evaluations were placed on those private claims totaling roughly \$196 million.

Senator BYRD. There are \$196 million in private claims?

Mr. KATZ. Yes, sir. These are claims primarily for the taking of property of American firms and persons in China. There are certain claims or amounts which are unresolved, unliquidated.

Senator BYRD. All of it is unliquidated, is it not?

Mr. KATZ. Yes, sir.

The clearest category of these private claims, because they have been examined and adjudicated. There is a debt outstanding for Export-Import Bank goods which were delivered in 1948-49, which were left there.

Senator BYRD. How much is this debt?

Mr. KATZ. That is approximately \$26 million. That was a credit which was extended to the Nationalist Government just prior to their leaving the Mainland and went to Taiwan. They accepted responsibility for it, for that portion of the credit for goods that they took with them to Taiwan.

Then, in addition there is the category of potential debt which represents goods which were delivered during and after the war in conditions of civil war and the amount of that debt is unliquidated and needs to be determined what part of that might be a valid claim. It is that which is under consideration.

Senator BYRD. What is the total figure?

Mr. KATZ. I am trying to find that, Mr. Chairman. It is somewhere in the area of \$300 million. This is lend-lease and surplus property, goods and services that were provided primarily in 1946. There is one further outstanding debt of \$618,000 which is the postal debt. That is one that we think is easily resolvable. That is a rather normal transaction, but the primary ones are the private assets, private claims, for which we do have an amount. There is the Export-Import Bank, which is a clear amount, but the responsibility is at issue and that certainly is with respect to the lend-lease and surplus property.

Then finally there is the question of the U.S. Government property, buildings, essentially, the Embassy, consulate buildings. That is a question that needs to be resolved.

Senator BYRD. How much is it?

Mr. KATZ. There is no value on that, Mr. Chairman. These are buildings and real estate.

Senator BYRD. My time has expired. Senator Wallop?

Senator WALLOP. I thank the chairman.

There is a problem that I have with the response made to the chairman. It appears on the surface, that there is no national policy about debt repayment and establishing diplomatic relations. We have a na-

tional policy of recognizing the PRC and derecognizing Taiwan. There can only be one set of debt.

It would seem to me that outstanding debts would all be collected from the People's Republic. Would that not be a logical continuance of what national policy has been? We recognize only one Government of China and we have said that we virtually recognize Taiwan as being a part of the People's Republic.

Mr. KATZ. Senator, we do hold the People's Republic of China responsible for the payment of American property on the Mainland and we are in the process of getting ready for negotiations with them.

Senator WALLOP. You said the other debt, that it was difficult to define accountability?

Mr. KATZ. There are some peculiar—I think you would understand, Senator, that I do not want to say anything that will limit the kind of position that we want to say anything that will limit the kind of position that we want to take. These are outstanding questions that need to be resolved. We are on the verge of doing so.

There are clearly some peculiar aspects to that situation which, as a matter of fact, will come into the course of the negotiations, but there are unresolved financial claims issues with the People's Republic of China. They are going to be addressed as a matter of high priority.

There will, I should say, be consultations with the Congress on these matters as we proceed and it is not something we are going to push aside. We believe that they should be addressed and resolved at a very early date.

Senator WALLOP. How many debts have we rescheduled in the last 5 years?

Mr. BERGSTEN. Senator, we have been involved in reschedulings with six countries over the past 5 years. I could list those, if you would like me to: Zaire, Turkey, Pakistan, Chile, Peru, and at an earlier point, India. We have not participated in some of the recent reschedulings for India. Over the past 5-year period, eight countries have negotiated international debt reschedulings with their official creditors and the United States has participated in six of these.

Senator WALLOP. Are those debts, those reschedulings, just in terms of time and conditions, or do they also involve amounts?

Mr. BERGSTEN. No, there has been absolutely no forgiveness of debt. These are purely reschedulings of the payment of principal and interest—given the reality in each case of the country's financial inability to make these payments on schedule. I might say, Senator, that we have an extensive and detailed policy on debt rescheduling. We will only participate in debt reschedulings under certain prescribed conditions. These include the fact that the country itself is undertaking an economic stabilization program to put its house in order, usually under the aegis of the International Monetary Fund, and the fact that the country pledges to seek comparable treatment of its debt to private banks and other private creditors, so that there is equitable burden-sharing among official and private creditors. In addition, we participate only when there is equitable treatment of all governments which are major creditors to that country, including countries which may not be participating in the debt rescheduling exercise.

So we have an extensively worked out policy on debt reschedulings to be sure that we do it only under conditions that assure that the country is taking steps to put its house in order and so that the U.S. Government is treated as well as other major creditors of the country involved. I would be glad to submit a copy of our policy for the record, if you would like.

[The following was subsequently supplied for the record:]

NATIONAL ADVISORY COUNCIL,
ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES,
January 6, 1978.

Subject: Proposed Policy Statement on Debt Reorganization.

The National Advisory Council advises the Secretary of the Treasury that it approves the following proposed policy statement on multilateral debt reorganizations:

1. Debt-service payments on international debt should be reorganized on a case-by-case basis only in extraordinary circumstances where reorganization is necessary to ensure repayment. Debt relief should not be given as a form of development assistance.

2. Debt-service payments on loans extended or guaranteed by the U.S. Government will normally only be reorganized in the framework of a multilateral creditor-club agreement.

3. When a reorganization takes place that involves government credits or government-guaranteed credits, the U.S. will participate only if:

(a) The reorganization agreement incorporates the principle of non-discrimination among creditor countries, including those that are not party to the agreement;

(b) The debtor country agrees to make all reasonable efforts to reorganize unguaranteed private credits falling due in the period of the reorganization on terms comparable to those covering government or government-guaranteed credits;

(c) The debtor country agrees to implement an economic program designed to respond to the underlying conditions and to overcome the deficiencies which led to the need for reorganizing debt-service payments.

4. The amounts of principal and interest to be reorganized should be agreed upon only after a thorough analysis of the economic situation and the balance-of-payments prospects of the debtor country.

5. The payments that are reorganized normally should be limited to payments in arrears and payments falling due not more than one year following the reorganizing negotiations.

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on January 6, 1978.

ROBERT S. WATSON,
Secretary.

Senator WALLOP. You are very likely to have to reschedule amounts in the next few years, though, will you not?

Mr. BERGSTEN. It is always difficult to say, Senator. We do have one or two cases now where, in all candor, we have to foresee the possibility. As to the longer term, we just cannot say. I think it is noteworthy that, although there have been eight countries where reschedulings have been required over the last 5 years, that this is actually a lower rate of reschedulings than occurred earlier in the postwar period.

I make that point because comments are often made in the press and elsewhere, that with the buildup of OPEC surpluses and international lending over the past 5 years, there has been an explosion of debt problems. In fact, the pace of these reschedulings has been slower in these last 5 years than it had been in the earlier period. There have been some, and I would imagine, speaking pragmatically, that there will continue to be an occasional rescheduling over the next few years, but

the pace has not been rapid and, indeed, has been less rapid than the earlier period.

Senator WALLOP. You mentioned in your opening remarks that the OPEC surplus has decreased. How much of that decrease is due to the problems in Iran?

Mr. BERGSTEN. Virtually none of it, Senator, because the Iranian surplus began to decline only in the last couple of months of 1978. It might be a billion or so dollars. Even before we had any indication of that, it was clear to us that there was going to be a dramatic reduction in the OPEC surplus in 1978; it dropped to around a \$10 billion level from the previous years' \$32 to \$34 billion, even without the events in Iran.

Senator WALLOP. That does not take into account the recent crisis?

Mr. BERGSTEN. No; that was in 1978. In 1979, it is now harder to make a prediction because of the price rises and the unsettled market conditions surrounding the Iranian difficulties. Nevertheless, it is quite clear that the OPEC surplus will remain at levels vastly lower than they were in the years 1974 through 1977.

Senator WALLOP. One last thing. Do you ever reschedule the terms of conditions or amounts surrounding the distinct area of callable capital or liability?

Mr. BERGSTEN. There has never been a call of callable capital or a rescheduling of it. I will have to check, but I do not believe that there has been any rescheduling of the contingent liabilities of the Eximbank. Their direct credits have been rescheduled to a small extent, but I do not think that the insurance or guarantees have been used very much, let alone have been rescheduled.

I am corrected. Where there is a country rescheduling involving loans extended with Eximbank's guarantee, the lender may file a claim with the bank. If the claim is found to be valid under the contract of guarantee or insurance, the Bank will pay the lender that portion for which the Bank is liable. The portion which Eximbank pays is, in essence, made part of the rescheduling.

Senator WALLOP. So it does have a greater effect on the potential U.S. debt than it would appear from your first remarks?

Mr. BERGSTEN. Respecting Eximbank, that is right. I would like to submit to you the amounts involved in recent multilateral reschedulings where this has actually taken place.

[The following was subsequently supplied for the record:]

Credits insured or guaranteed by the Export-Import Bank which were rescheduled in accordance with recent multilateral debt reorganizations from 1974-1978 were as follows:

Country:	Amount (millions)
Chile (1974).....	\$11.2
Pakistan (1974).....	0
Chile (1975).....	3.9
Zaire (1976).....	19.6
Zaire (1977).....	17.2
Turkey (1978).....	12.9
Peru (1978).....	0 ¹

¹ This amount is not available because the bilateral agreement between the United States and Peru has not been signed as of Feb. 27, 1979.

SOURCE.—Information provided by Export-Import Bank.

Senator WALLOP. Thank you, Mr. Chairman.

Senator BYRD. Thank you, Senator Wallop.

One additional question in regard to China. Would you tell the committee what is the amount of the seized assets that the United States has at this point?

Mr. KATZ. Mr. Chairman, we have no seized assets. There are assets which are blocked. They currently total around \$80 million at the latest estimated values. That belongs to both the Chinese Government as well as to persons in China and designated Chinese nationals under the regulations outside of China. So that the total that is blocked by the Treasury at the present time is approximately \$80 billion.

Senator BYRD. Which is less than half of the private claims?

Mr. KATZ. Yes, sir.

Senator BYRD. What is the difference between seized and blocked?

Mr. KATZ. If they are seized, we would have legal title to them. I do not know what the legal concept normally—if they are blocked, they cannot be moved. The next step would be to take legal title to those. We do not have legal title. They are merely frozen by Treasury order.

Senator BYRD. To get back to some broader questions, how many countries owe money to the United States?

Mr. BERGSTEN. A lot, Mr. Chairman. My good staff tells me that the number is 169 countries and territories; that includes both official and private obligators.

Senator BYRD. I did not know that many countries existed in the world. I believe that there are, today, 159 countries in the world.

It is more than the membership of the United Nations which has 151 countries as members.

Mr. BERGSTEN. That is true. It includes territories, Mr. Chairman, such as the Vatican City, and the Trust Territory of the Pacific Islands. Also, in addition to the 169 countries, 19 institutions and regional groups owe the United States money.

Senator BYRD. In other words, every country in the world owes the U.S. money; is that it?

Mr. BERGSTEN. I hesitate to say "every," Mr. Chairman, but most.

Senator BYRD. I will tell you, maybe we could establish it this way. Would you tell us which countries do not owe the United States money?

Mr. BERGSTEN. That is a good question. We will have to do some matching of lists, but there cannot be many on that negative list, Mr. Chairman.

Senator BYRD. All right.

[The following was subsequently supplied for the record:]

The following countries do not have outstanding debts owed to the U.S. Government as of September 30, 1978:¹ Albania, Andorra, Bahrain, Bhutan, Cambodia, Comoros, Congo (Brazzaville) (People's Rep.), Djibouti, Equatorial Guinea, Fiji, Grenada, Guinea-Rissau, Liechtenstein, Mauritius, Monaco, Mongolia, Papua New Guinea, San Marino, Sao Tome and Principe, Seychelles, and Yemen (Sana).

Senator BYRD. For the record, there are 169 countries and territories which owe money to the United States?

Mr. BERGSTEN. Right.

¹ List of U.N. members as of December 1978; Status of the World's Nations, Department of State Publication 8735, Geographic Bulletin (revised), January 1978.

Senator BYRD. The amount owed by the 169 countries, territories, and a few international institutions totals \$45.7 billion; is that correct?

Mr. BERGSTEN. Yes, sir.

Mr. KATZ. Mr. Chairman, I found a country that does not owe us any money, Albania, but we do not have diplomatic relations with them.

Senator BYRD. Albania. Good for Albania.

Cuba does. I guess we do not have diplomatic relations with them?

Mr. KATZ. Yes, sir.

Senator BYRD. Cuba does owe money?

Mr. KATZ. Yes, sir.

Senator BYRD. During past Congresses, foreign aid appropriations have obtained provisions that countries delinquent in debt repayment for a year or more would receive no foreign aid unless they remove the arrearage. Since we do have delinquencies in various countries, what countries have had aid reduced or cut off because of delinquencies?

Mr. BERGSTEN. Mr. Chairman, in the language of the statute as it existed until last year's amendments to the Foreign Assistance Act, I believe there was a provision that, even when countries were in arrears for over a year, aid could continue if there were discussions underway towards the resolution of that problem or if the debt was disputed. As I recall, that language was eliminated from the act last summer in the 1978 extension of the Foreign Assistance Act. Since that time, there certainly has been no cutoff for a country for that purpose.

Senator BYRD. Have there been any cutoffs before last year?

Mr. BERGSTEN. I am trying to recall. I do not have the answer in front of me; we will have to submit a precise answer to you for the record.

[The following was subsequently supplied for the record:]

The Brooke amendment (section 603) of the Foreign Assistance and Related Programs Appropriations Act of 1978 prohibits the extension of assistance for programs funded under that act to foreign governments in default for over one year on loans extended under programs funded by the act. The programs funded under the FAA Act include loans administered by the Agency for International Development (i.e. development assistance loans and Security Supporting Assistance loans) and by the Department of Defense (i.e. foreign military sales credits—section 23—and Federal Financing Bank loans—section 24—of the Arms Export Control Act.)

As of December 31, 1978, no foreign assistance appropriated under the FAA Act of 1978 (i.e. for FY 1979) was terminated or suspended on account for the Brooke amendment (section 603). As of this date, only Ethiopia and Somalia have come under the Brooke amendment. The State Department is in the process of informing the Government of Ethiopia of the implications of this arrearage. In December 1978, the Government of Somalia paid 2.5 million Somalia shillings (about \$300,000) on its arrearage dating to 1967 and has officially agreed to make payments to eliminate this arrearage. While the Brooke amendment is rarely triggered, it has helped in a number of recent cases to encourage countries to eliminate serious arrearages on U.S. Government loans.

Senator BYRD. As far as you can indicate at the moment, despite the fact that there have been delinquencies, aid has not been reduced or eliminated.

Mr. BERGSTEN. I do not recall any case, Mr. Chairman.

Senator BYRD. Does the State Department have any information on that?

Mr. KATZ. No, sir, I cannot recall any such case.

Senator BYRD. In speaking of delinquencies, have any of the delinquencies been for more than a year, and what countries have had delinquencies for more than a year?

Mr. BERGSTEN. Excuse me, Mr. Chairman?

Senator BYRD. Of the various delinquencies that have occurred, have any of them been for more than a year, and what countries have been involved?

Mr. BERGSTEN. In our list of arrearages of 90 days or more that we put up on the wall—you might put that chart back up—certainly a number of those countries have been in arrears for more than 1 year. All those in the first category that represent two-thirds of the total, have been in arrears for more than 1 year. All of those, as the heading indicates, we call extraordinary political arrearages because they have been marked by disputes over the legitimacy of the U.S. claims or, in the cases of Cuba, Vietnam, and Cambodia, because they involve changes in governments.

Senator BYRD. Would you list for the record the names of the countries where there have been delinquencies for more than 1 year?

Mr. BERGSTEN. Yes; we will certainly do that.

[The following was subsequently supplied for the record in addition to a response to a request on p. 21:]

PAYMENTS TO U.S. GOVERNMENT AGENCIES DUE AND UNPAID OVER 1 YR AS OF DEC. 31, 1978, BY PUBLIC AND PRIVATE OBLIGORS, ON LONG-TERM U.S. GOVERNMENT LOANS AND CREDITS

Country and date of oldest arrearage due and unpaid over 1 yr as of Dec. 31, 1978	Creditor agency	Principal and interest due and unpaid 90 days or more as of Sept. 30, 1978, on arrearages over 1 yr	Status of arrearage re: Sec. 603 of the 1978 FAA Act (the "Brooke amendment") ¹
Angola:			
Dec. 15, 1977	Export-Import Bank	\$100,027 (Interest)	No FAA Act appropriations in 1978.
Sept. 12, 1977	do ²	\$97,434 (Interest)	
Antigua: Mar. 15, 1976	do ²	\$427,130	Do.
Argentina: Apr. 30, 1966	do ²	\$251,301	Do.
Bolivia: June 4, 1977	Agriculture	\$7,410	USDA programs not funded under the FAA Act.
Brazil:			
Aug. 11, 1974	Export-Import Bank	\$5,246	No FAA Act appropriations in 1978.
May 10, 1975	do ³	\$1,391,068	
Dec. 31, 1975	OPIC ⁴	\$74,958	
Central African Empire: Sept. 15, 1975	Export-Import Bank	\$378,209 (Interest)	Do.
Colombia:			
July 9, 1975	Agriculture	\$33,131	Do.
Oct. 31, 1977	Export-Import Bank	\$102,450	Export-Import Bank programs not funded under the FAA Act.
Costa Rica: June 30, 1977	do ²	\$31,500 (Interest)	
Cuba: Dec. 18, 1958	do ³	\$73,215,265	No FAA Act appropriations in 1978.
Czechoslovakia: July 1, 1952	Treasury (surplus property sales)	\$7,880,225	Do.
Egypt: June 23, 1974	Agriculture	\$1,675	USDA programs not funded under the FAA Act.
Ethiopia:⁵			
Dec. 31, 1977	do	\$54 (principal)	Do.
Dec. 31, 1976	Department of Defense	\$6,136,066	State Department is currently working on an approach to raise this matter with the Ethiopians.
Ghana: June 30, 1977	Agriculture	\$18,215 (Interest)	USDA programs not funded under the FAA Act.
Guatemala: Jan. 20, 1977	AID ⁶	\$75,918	Inter-American social and economic program loan not under a program for which funds were appropriated under the FAA Act.
Guinea:⁷			
Sept. 1, 1977	AID	\$1,343,916	Local currency loan under Public Law 480 not funded under FAA Act.
Mar. 23, 1969	AID	\$930,851	Negotiations to settle the delinquency continue. ⁴

See footnotes at end of table.

PAYMENTS TO U.S. GOVERNMENT AGENCIES DUE AND UNPAID OVER 1 YR AS OF DEC. 31, 1978, BY PUBLIC AND PRIVATE OBLIGORS, ON LONG-TERM U.S. GOVERNMENT LOANS AND CREDITS—Continued

Country and date of oldest arrearage due and unpaid over 1 yr as of Dec. 31, 1978	Creditor agency	Principal and interest due and unpaid 90 days or more as of Sept. 30, 1978, on arrearages over 1 yr	Status of arrearage re: Sec. 603 of the 1978 FAA Act (the "Brooke amendment") ¹
India: ² July 22, 1966	AID ²	\$3,899,363	Local currency loan under Public Law 480 not funded under FAA Act.
Indonesia: ² June 1, 1974	OPIC ²	\$285,714 (principal)	OPIC program not funded under the FAA Act of 1978.
Iran: Dec. 31, 1977	Agriculture	\$1,954 (principal)	USDA and Treasury programs not funded under the FAA Act.
Jan. 1, 1946	Treasury (surplus property sales)	\$36,090,522	
Iraq: Mar. 31, 1975	Agriculture	\$1,148 (principal)	No FAA Act appropriations in 1978
Jamaica: ² Dec. 31, 1976	do	\$224,880	USDA and Export-Import Bank programs not funded under FAA Act.
Nov. 10, 1977	Export-Import Bank ²	\$200,954 (interest)	
Kampuchea: Sept. 12, 1975	Agriculture	\$12,333,437 (interest)	No FAA Act appropriations in 1978.
Laos: June 23, 1975	AID	\$658 (interest)	Do.
Mexico: Jan. 31, 1971	Export-Import Bank ²	\$1,590,213	Do.
Morocco: ² Dec. 18, 1976	Agriculture	\$39 (principal)	USDA programs not funded under FAA Act.
Paraguay: ² Sept. 12, 1976	do	\$106,225	Do.
Peru: ² May 11, 1968	AID ²	\$58,445	Local currency loan under Public Law 480 not funded under FAA Act.
Rhodesia: Dec. 30, 1970	AID	\$1,925,395	No FAA Act appropriations in 1978
Somalia: ² June 15, 1971	AID	\$1,948,323	Loan authorized by the former development loan fund. Payment of about \$390,000 received in December 1978. ⁴
June 30, 1967	AID ²	\$1,296,978	Loan under an FAA program, however borrower is a private entity.
Syria: ² Aug. 8, 1977	Agriculture	\$384,651	USDA programs not funded under the FAA Act.
Taiwan (authorities on): May 1, 1948	Treasury (surplus property and lend-lease)	\$87,415,654	No FAA Act appropriations in 1978.
Vietnam (Saigon): Dec. 28, 1975	Agriculture	\$888,111 (interest)	Do.
May 28, 1975	AID	\$10,941,074	
Zaire: ² Mar. 18, 1977	Agriculture	\$8,534,143	USDA programs not funded under the FAA Act.
Apr. 20, 1977	do ²	\$498,698	Implementing agreements to re-schedule arrearages are pending signature.
Aug. 31, 1975	AID	\$9,174,193	

¹ The Brooke amendment to the Foreign Assistance and Related Programs Appropriations (FAA) Act of 1978 (and the FAA Act of 1976) prohibits the extension of assistance for AID and DOD programs funded under that act to foreign governments in default over 1 yr on loans extended under other programs funded by the act.

² Payment due from private obligor without government guarantee.

³ Country for which assistance was appropriated in 1978 under the Foreign Assistance and Related Programs Appropriations Act of 1978.

⁴ AID maintains that this was not a loan but the purchase by AID of a promissory note of Guinea payable to a United States corporation.

⁵ The Government of Somalia has officially agreed to make payments to eliminate this arrearage.

Source: U.S. Treasury: Amounts Due and Unpaid 90 Days or More on Foreign Credits of the United States Government as of Sept. 30, 1978.

DOLLAR COLLECTIONS ON U.S. GOVERNMENT FOREIGN CREDITS, FISCAL YEAR 1978, BY COUNTRY (PRELIMINARY)

[Entries in thousand of dollars]

	Principal	Interest		Principal	Interest
Afghanistan.....	913	1,688	Netherlands.....	13,862	11,717
Algeria.....	12,564	23,693	Netherlands Antilles.....		1,170
Angola.....	746	77	New Zealand.....	4,279	7,167
Argentina.....	44,563	18,540	Nicaragua.....	3,725	3,399
Australia.....	56,531	12,816	Niger.....	31	42
Austria.....	4,935	1,785	Nigeria.....	8,643	2,503
Bangladesh.....	252	9,620	Norway.....	57,953	16,922
Bahamas.....	22,039	1,037	Pakistan.....	36,622	28,101
Barbados.....	56	113	Panama.....	20,268	2,649
Belgium.....	6,690	4,791	Paraguay.....	2,224	1,313
Belize.....	70	15	Peru.....	67,941	20,642
Bermuda.....	2,210	231	Philippines.....	61,134	28,069
Benin.....	30	327	Poland.....	122,049	34,073
Bolivia.....	16,083	7,271	Portugal.....	63,985	19,606
Botswana.....		436	Romania.....	27,505	6,836
Brazil.....	126,253	96,228	Rwanda.....		27
Burma.....	426	109	Ryukyu Islands.....	866	338
Cameroon.....	2,688	1,489	Saudi Arabia.....	3,766	397
Canada.....	19,709	16,938	Senegal.....	49	500
Cayman Islands.....	1,001	632	Sierra Leone.....	420	555
Central African Empire.....		94	Singapore.....	4,038	6,100
Chile.....	95,694	37,388	Somalia.....	106	122
China—Taiwan.....	59,031	55,178	South Africa.....		18
Colombia.....	31,246	20,215	U.S.S.R.....	5,977	25,645
Costa Rica.....	3,366	2,160	Spain.....	24,639	49,809
Cyprus.....	1,765	423	Sri Lanka.....	3,730	4,104
Denmark.....	11,018	3,920	Sudan.....	1,582	1,549
Dominican Republic.....	16,856	8,096	Surinam.....	582	229
Ecuador.....	8,729	3,122	Swaziland.....		46
Egypt.....	35,030	16,706	Sweden.....	2,056	1,955
El Salvador.....	2,504	1,687	Switzerland.....	3,720	5,521
Ethiopia.....	1,469	2,300	Syria.....	1,881	1,148
Finland.....	10,475	3,349	Tanzania.....	2,200	1,721
France.....	49,719	11,335	Thailand.....	22,088	6,090
Gabon.....	1,696	1,593	Togo.....	100	119
Germany, Federal Republic of.....	14,376	4,419	Trinidad and Tobago.....	2,447	978
Ghana.....	5,692	5,366	Tunisia.....	11,209	7,955
Greece.....	76,999	43,317	Turkey.....	28,608	30,692
Guatemala.....	3,609	3,317	Uganda.....	117	106
Guinea.....	1,287	957	United Kingdom.....	152,958	89,209
Guyana.....	882	2,162	Upper Volta.....		65
Haiti.....	1,328	1,356	Uruguay.....	6,102	2,337
Honduras.....	3,702	2,126	Venezuela.....	43,708	7,297
Hong Kong.....	2,900	2,335	Yemen (Aden).....		15
Iceland.....	2,231	775	Yugoslavia.....	39,544	24,175
India.....	95,289	67,459	Zaire.....	3,373	6,588
Indonesia.....	42,150	52,668	Zambia.....	2,102	3,318
Iran.....	179,667	40,150	Zimbabwe.....	2,367	2,875
Iraq.....	1,24	87	Camsf.....		200
Ireland.....	10,173	1,421	Caribbean Development Bank.....		389
Israel.....	161,617	182,214	Andean Development Corporation.....		86
Italy.....	14,614	13,309	East African Common Services.....		35
Ivory Coast.....	2,803	2,912	European Atomic Energy Community.....	139	1,684
Jamaica.....	5,774	4,428	European Coal and Steel Community.....	6,400	504
Japan.....	64,376	42,775	United Nations.....	4,702	716
Jordan.....	39,671	7,747	Africa Unspecified.....	323	1,212
Kenya.....	3,012	4,202	Entente States (OBS).....		341
Korea, Republic of.....	214,769	81,622	American Republics Unspecified.....	914	561
Lebanon.....	6,129	4,410	Western Hemisphere.....		10
Liberia.....	10,392	2,323	West Indies Unspecified.....		7
Luxembourg.....	204	22	Far East Unspecified.....	222	119
Madagascar.....	61	114	Western Europe Unsp/Dev.....	11,767	5,679
Malawi.....	6	489	Worldwide Unsp/Dist RWO.....		1
Malaysia.....	17,320	6,525			
Mali.....	68	32	Total.....	2,605,665	1,483,166
Malta.....		100			
Mauritania.....	170	337			
Mexico.....	46,990	40,884			
Morocco.....	38,490	14,910			
Mozambique.....		158			
Nepal.....	4	2			

Senator BYRD. How much money has been repaid to the United States on debts owed by foreign governments during the fiscal year 1978? You keep it by fiscal year, I assume?

Mr. KATZ. Mr. Chairman, in fiscal year 1978, dollar repayments totaled roughly \$4 billion.

Senator BYRD. \$4 billion repayments?

Mr. KATZ. Yes, sir.

Senator BYRD. From what country, or countries, did that \$4 billion come from?

Mr. KATZ. We do not have that broken down, Mr. Chairman. We will be glad to supply that for the record.

Senator BYRD. Would you supply that for the record? ¹

As I understand it, we must have loaned some \$7 billion, because the debt is up by \$3.6 billion.

Mr. BERGSTEN. Yes; I said between \$6 and \$7 billion and about \$3 billion in repayments of principal. The Export-Import Bank lending alone—we will give you these numbers in detail—in the fiscal year was around \$3 billion and then the foreign assistance programs would have made up the bulk of the difference.

Senator BYRD. With regard to the foreign assistance program, of course, we are speaking now about the loans, not about the grants.

Mr. BERGSTEN. That is right. The loans from AID and from Public Law 480. We do have here the changes, Mr. Chairman, between December 31, 1977, and September 30, 1978. These are net figures, taking into account the increase of lending net of the repayments.

The net claims that we had under development assistance rose by \$860 million. Military sales rose by \$750 million. The Export-Import Bank total rose by \$500 million; Public Law 480 rose by almost \$500 million; and the Commodity Credit Corporation and other miscellaneous programs rose by almost \$900 million, adding to a total increase in net U.S. claims or foreign debt outstanding to the U.S. Government of \$3.46 billion for the 9-month period from December 1977 to September 1978. We will be glad to supply a finer breakdown for the full year for the record.

[The following was subsequently supplied for the record:]

CHANGE IN OUTSTANDING LONG-TERM PRINCIPAL INDEBTEDNESS OF FOREIGN COUNTRIES ON U.S. GOVERNMENT CREDITS BY PROGRAM (EXCLUSIVE OF INDEBTEDNESS ARISING FROM WORLD WAR I) BETWEEN SEPT. 30, 1977, AND SEPT. 30, 1978

	Under Export-Import Bank Act	Under foreign assistance (and related) acts	Under Agricultural Trade Development and Assistance Act						Total
			Loans of foreign currencies		Long-term dollar credits	Lend-lease surplus property, and other war accounts	Commodity Credit Corporation export credits	Other credits ¹	
			To foreign governments	To private enterprises					
Worldwide total as of Sept. 30, 1977.....	11,441.5	18,213.5	1,160.7	81.4	5,332.9	1,380.6	1,152.7	2,806.9	41,570.1
Worldwide total as of Sept. 30, 1978.....	11,436.5	20,402.9	1,094.1	62.0	5,872.9	1,335.8	1,915.6	2,913.1	45,032.8
Change.....	-5.0	+2,189.4	-66.6	-19.3	+540.0	-44.8	+762.9	+106.2	+3,462.7

¹ Includes French "Freelec" settlement.

Source: U.S. Treasury: Status of Active Foreign Credits of the U.S. Government as of Sept. 30, 1977, and Sept. 30, 1978.

² See p. 20.

Senator BYRD. Which Department, State or Treasury, is involved in the rescheduling of debt?

Mr. BERGSTEN. Both are, Mr. Chairman.

Senator BYRD. With what countries are you now in the process of rescheduling debt?

Mr. BERGSTEN. Right at the moment, there are no multilateral debt renegotiations going on. We are in the process of working out U.S. implementation of debt rescheduling with both Zaire and Turkey. Those, I think, are the two outstanding at the moment. I am sorry; Peru is also in the same category. There has been an international arrangement, and we are now working out the bilateral implementation of it.

Senator BYRD. Now, with regard to Eurodollars, I suppose Treasury is more involved in that than the State Department?

Mr. KATZ. I am sorry, Mr. Chairman. I did not hear.

Senator BYRD. With regard to Eurodollars, Treasury would be involved with that; not the State Department. What is the total amount of Eurodollars now?

Mr. BERGSTEN. That is a question that fascinates analysts. It depends on how one wants to define the Eurodollar market. On the most comprehensive basis, we would use the figure of about \$700 billion as the gross size of the Eurocurrency market, but that includes a lot of inter-bank deposits, so when you take out the double counting, we would use a figure as of the middle of last year, which is the most recent for which we have it, of somewhere around \$450 billion.

I hasten to say that that is not only the Eurodollar market; that is the Eurocurrency market. Although the dollar is by far the largest currency used in that market, there is an increasing amount of Euro-Deutsche mark, Euro-Swiss francs, Euro-yen. So, the figure I gave you is the total of all currencies in the Eurocurrency market, including dollars.

Senator BYRD. The bulk of it is dollars, is it not?

Mr. BERGSTEN. Roughly 80 percent, three-quarters to 80 percent is dollars, so you can apply those ratios to the figure I gave you, and we would think that the Eurodollar market was somewhere on the order of \$400 billion.

Senator BYRD. How has the administration intervened in the Eurodollar market?

Mr. BERGSTEN. Mr. Chairman, we have not really intervened directly in the Eurodollar market. From time to time we take steps to see if we need to improve our capability for monitoring the numbers and to assure ourselves that the regulatory authorities, the Comptroller of the Currency, the Federal Reserve System, and the FDIC, to a lesser extent, have a full capability to include the Eurocurrency market activities of branches of U.S. banks abroad within the scope of their regulatory activities. We have not intervened in the Eurocurrency markets in any direct way.

Senator BYRD. Private banks operate in the Eurodollar area and they can, in effect—is this right—create additional Eurodollars?

Mr. BERGSTEN. Again, that is the subject of a lot of heated dispute in intellectual circles. They do create additional deposits and loans,

there is no question about it. The question is whether that is additional to loans that would have been generated by domestic banking systems anyway. I think there is a consensus that there is some small multiplier effect in the Eurocurrency markets and that there is some additional creation of credit, although only to a small extent.

Senator BYRD. In the Eurodollar area, banks do not need to keep the same reserves, do they, which they need to keep operating in the United States?

Mr. BERGSTEN. That is right.

Mr. KATZ. That is right, Mr. Chairman. There is no reserve requirement on Eurodollar deposits so that you do not have that same—

Senator BYRD. This, in effect, does have a multiplier effect.

Mr. BERGSTEN. Can have.

Senator BYRD. You contend it does not?

Mr. BERGSTEN. The question is, from the demand side of the picture, whether someone coming in to get a loan from a Eurocurrency bank would have otherwise gotten that loan from a national bank in his own country and whether in comparing the two there is any net increase in credit creation. From the supply side of the market, there is that potential; what a lot of studies have shown is that it is not clear whether in fact there is actually much credit creation.

Senator BYRD. Is the magnitude of the Eurodollar market disturbing?

Mr. BERGSTEN. We do not find it disturbing, Mr. Chairman, but it is something, as I indicated, that we have tried to monitor and make carefully sure that we are fully on top of in terms of both data concerning its magnitude and its area of dispersion and also of coverage by our bank regulatory authorities. Debt, we do believe, with proper surveillance and monitoring of the type I mentioned, is a positive element in the world financial system, providing additional sources of investment capital and also additional sources of trade finance, short-term finance, that will help smooth world trading patterns and world trade financing.

There was a great deal of alarm expressed, as you recall, Mr. Chairman, 4 or 5 years ago tied up with the big increase of the OPEC surplus and the concomitant increase in deficits around the world, a concern that the private banking system, which to a large extent meant the Eurocurrency markets, would be unable to handle the recycling of that big increase in funds. In retrospect, I think we can look over this last 5-year period and conclude that the banking system was remarkably successful in playing a sharply increased financial intermediary role, channeling funds from surplus to deficit countries and minimizing—of course, not eliminating—the economic cost to the world of the big surpluses of 4 to 5 years ago.

But we do believe that with careful monitoring, with adequate data and understanding of the way the system works and its geographical location, that it can continue to play a constructive role in the world financial picture.

Senator BYRD. You say that careful monitoring the Eurodollar market is a reason not to be alarmed by it. In part of your answer you say that the Treasury Department is "on top of" the Eurodollar situation. But you have previously stated that you do not know the amount of Eurodollars now outstanding. How can you be "on top of" the Eurodollar situation when you don't know how many there are?

Mr. BERGSTEN. I think we do know the magnitudes involved with sufficient precision; that is, the amounts, the size, and the changes in size from year to year.

We have worked with the Bank for International Settlements in Switzerland to improve the data base by having all the member countries of that Bank participate in a reporting system through which comparable numbers are compiled to enable us to get a picture of the total system.

Senator BYRD. What you are doing, then, is in the nature of compiling information, nothing else?

Mr. BERGSTEN. Well, no. We have taken a number of steps through the regulatory agencies to improve the ability to monitor international lending. One thing they have done which is extremely important is to improve country risk assessment. The Office of the Comptroller of the Currency, the Fed and the FDIC are, in fact, about to implement a uniform system of country risk evaluation in their examination procedures in order to have both a uniform and more comprehensive basis for evaluating the country risks in the portfolios of U.S. lending institutions.

The three agencies have developed a bank reporting system which surveys the country exposure of U.S. banks in a way that, for the first time—and this I mentioned to you last year because it was brand new at the time—enables us to see where the ultimate responsibility lies in banks' loans. Also, in the past when money went through intermediaries in the Eurocurrency market, there was not a complete picture of the recipient countries, so that the regulatory agencies did not have a full picture of the true exposure of U.S. banks in particular countries. Now, they have done that.

The regulatory authorities have been improving their training programs for examiners to enable them to understand, and therefore to be much more effective in monitoring, the international lending of the U.S. banking system.

There have been a number of other steps that the regulatory agencies have taken, individually or together, both internally and internationally with their counterparts in other countries, to substantially improve our ability both to understand what is going on and to monitor that activity. I believe that these improvements enable us to say with confidence that we do have a firm grip on the problem and can understand any problems that may develop over the years ahead.

Senator BYRD. Treasury, then, as I take it from what you say, is not concerned as to the magnitude of the Eurodollar market?

Mr. BERGSTEN. That is right, Mr. Chairman. We think that both its magnitude and the changes in its magnitude have been handled effectively and without causing international difficulties.

I should note that the growth rate of the international currency and lending market has slowed down a good bit in the last year or two, again tied in with the reduction in OPEC surpluses and in international payments imbalances. The growth of the Euromarket has leveled off a bit and is less rapid now that the market itself has matured and the shock of the 1973 OPEC price increase has diminished.

Senator BYRD. The Treasury has issued—and I believe it is planning to continue to issue—a foreign currency denominated treasury security in the currencies of countries, such as Germany and Switzer-

land. This means, as I take it, that foreigners may purchase U.S. Treasury securities, which are, on their face value, denominated in foreign currency. Is that what you have been doing?

Mr. BERGSTEN. That is right, Mr. Chairman, as a part of our dollar defense program. On November 1, we announced the mobilization of up to \$30 billion of foreign currencies to enable us to intervene in the exchange markets to support the value of the dollar, if necessary. One of the several means through which we mobilize those currencies is to borrow them directly, and we have had one issue in Deutsche marks and one issue in Swiss francs, to enable us to mobilize those currencies for possible use in the exchange markets.

Senator BYRD. So it is a U.S. instrument denominated in Deutsche marks or Swiss francs?

Mr. BERGSTEN. That is right, and paying a substantially lower interest rate than we can get borrowing in those countries.

Senator BYRD. Are American citizens eligible to buy such bonds?

Mr. BERGSTEN. No; they are not, Mr. Chairman. The purpose in floating the issues is to mobilize foreign currencies that we might use to defend the dollar. Obviously, if someone sells dollars in order to get the Deutsche marks to buy the securities, we have defeated our own purpose. So what we have tried to do when working with the German and Swiss authorities is minimize as best we and they, working together, can, the risks that the purchasers of those securities would be moving out of dollars into the Deutsche marks or or Swiss francs to buy the securities. Therefore, we have limited the sale to residents of those countries under the supervision of the banking authorities of those countries in order to minimize the risk of the type of transaction I mentioned.

Senator BYRD. Many feel that the Eurodollar market influences interest rates. Do you agree?

Mr. BERGSTEN. The availability of the Eurocurrency market certainly can affect capital flows in and out of the United States, which at particular times can influence monetary conditions here in the United States. The banks can borrow readily from foreign banks, including their own branches on the Eurocurrency market, to get capital at times when they are short domestically.

This is a difficult question because in the kind of integrated economic system which we have, U.S. banks can always borrow from German banks or from Japanese banks in Germany and Japan without a Eurocurrency market. By facilitating international financial exchanges, the Eurocurrency market probably does lubricate that process and make it a bit easier.

Senator BYRD. Mr. Katz, I have not given you the opportunity to present your statement. The entire statement will be placed in the record. You may want to comment on certain aspects of it, or you may want to go through the entire statement. Whatever you prefer to do.

Mr. KATZ. Mr. Chairman, I would just as soon as have it inserted for the record. I could summarize it, if you wish, but I think that it would repeat a lot of the ground already covered. I would be very happy just to have it inserted in the record.

Senator BYRD. Fine. It will be inserted in full in the record.

Let me ask you a couple of questions.

On page 2 of your statement, at the bottom of the page:

Many poor, developing countries will require a substantial rise in official concessional assistance to accelerate growth and to assure that the benefits of development reach the poor and serve their basic human needs.

Why would that not be true for the loan system of the World Bank?
Mr. KATZ. It would primarily.

Senator BYRD. You are speaking here, are you not, of direct loans?

Mr. KATZ. No, sir. I really am speaking of the world. I am not speaking of the United States. That would—this part of my statement really deals with the general condition in the world, and the point that was intended to be made is, they are going to need financing. Much of this will come through private capital markets or through hard loan windows, but they do require concessional assistance as well. Much that we would expect to come from the multilateral institutions, some from bilateral aid, some from the United States.

We would expect the bulk of it to come internationally.

Senator BYRD. You would expect the bulk of it to be made through international banks?

Mr. KATZ. From the development banks, yes, sir. From the soft-loan windows of the banks.

Senator BYRD. To which the United States is the dominant donor.

Mr. KATZ. A substantial donor.

Mr. BERGSTEN. Mr. Chairman, taking the development banks as a group, the United States puts in about 25 percent of the resources.

Senator BYRD. What does it put in the soft loan window?

Mr. BERGSTEN. In IDA, the U.S. share in the latest replenishment was 31 percent and it is our intention to reduce that share further in the sixth replenishment of IDA—those negotiations have just begun in the last month or two.

Senator BYRD. On page 3, Secretary Katz, you say, "Among the industrial countries, we expect in 1979 a significant reduction in imbalances in current account positions." What was the 1978 imbalance?

Mr. KATZ. For the United States?

Senator BYRD. Are you speaking about the United States or are you speaking generally?

Mr. KATZ. I am speaking generally. The United States certainly had a large deficit. There were other countries that had large surpluses, Japan and Germany. A number of the European countries had deficits. The reasons that Mr. Bergsten stated earlier, we anticipate in 1979 some amelioration of this condition.

That depends on what happens to the international oil market which is currently disturbed because of Iran, but absent that situation, we expect this reduction in imbalances.

Senator BYRD. What was the U.S. imbalance?

Mr. KATZ. Mr. Bergsten has the numbers in front of him.

Mr. BERGSTEN. In 1978, Mr. Chairman, the U.S. current account deficit, which includes our trade in goods and services, was \$17 billion to \$18 billion. The major surplus on the other side of that equation was Japan whose surplus was on the same order of magnitude as the U.S. deficit.

Senator BYRD. What do you see as the U.S. deficit for 1979?

Mr. BERGSTEN. We think that it will be at least cut in half, Mr. Chairman, to perhaps \$8 or \$9 billion, and significantly to an annual rate much lower than that, perhaps \$4 or \$5 billion, by the latter part of 1979.

We are experiencing now, since the start of 1978, actually, a very steady reduction in the U.S. current account deficit. In the second half of 1978, it was half of what it was in the first half of 1978. For the year 1979, we expect it to be cut in half from where it was for the full year 1978, so there is steady progress. However, it is still too high.

Senator BYRD. Secretary Katz's statement on page 3 says, "At the same time, Europe and Japan should grow faster this year. The OPEC price rise has complicated our efforts and is expected to add roughly \$3 billion to the U.S. payments abroad in 1979." I guess you mean the U.S. efforts to reduce our payments imbalance.

Mr. BERGSTEN. That is right. In the absence of that event, we were expecting the U.S. current account deficit to drop to \$5 billion in 1979 and we had so indicated publicly back in the month of November.

Senator BYRD. Do you mean that you add \$3 billion to what the trade imbalance was for the previous year.

Mr. KATZ. To our payment. It is not \$3 billion net. It may be in the end. But on the basis of the OPEC price rise in December, we expected that our oil bill would go up by this amount.

Mr. BERGSTEN. It means to add roughly \$3 billion from where we would otherwise have been when we were expecting the current account deficit to drop to about \$5 billion next year. Now, we are seeing something on the order of \$8 or \$9 billion, which would still cut in half the deficit from the level of 1978.

Senator BYRD. Japan and Europe will be affected, even to a greater degree than the United States, by the price rise, will they not?

Mr. BERGSTEN. Not in absolute terms, Mr. Chairman, because in absolute terms we import more than they do. You are right in the sense that a greater share of their total demand is met by imports, but in absolute terms, because we are so big, it does hurt us more.

Senator BYRD. On page 9, Secretary Katz, you say that the Department of State and the U.S. embassies overseas have the responsibility for pursuing collections. What has been done in regard to this?

How has the collection process been?

Mr. KATZ. It has varied by country. I did refer to the Iranian case, which unhappily has not been successful and has become further complicated. There have been certain other arrearages which have been corrected. I would be glad to provide for the record a listing of those.

Senator BYRD. Why do you not do that?

You say on May 20, 1978—on page 12—multilateral understanding with Turkey provided debt relief of roughly \$1.1 billion which the United States share was \$191 million of debt service falling due June 30, 1979. You say Turkey was provided debt relief of \$1.1 billion; what was the total Turkey indebtedness?

Mr. KATZ. To the United States?

Senator BYRD. I am not sure that your statement applies only to the United States.

Mr. KATZ. The \$1.1 refers to the world. These are payments to the world of \$1.1 billion, which were rescheduled and \$191 million of that were payments to the United States which were rescheduled.

Senator BYRD. What do you mean, "provided debt relief?"

Mr. KATZ. The deferral of payments through the period June 30, 1979, payments in that amount which were due between that period and June 30, 1979, were deferred for later payment.

Senator BYRD. Turkey was provided debt relief of \$1.1 billion. What did she owe altogether, \$1.1 billion?

Mr. KATZ. It was just for that period of time. She owed payments of \$1.1 billion in this period of roughly 1 year. Her total debt is about \$10.9 billion of which \$6 billion is short term. It was not her total debt that was rescheduled, but just the payments of principal and interest due in this period, through June 30, 1979.

Senator BYRD. On page 14, you say the U.S. policy explicitly conditions our participation in debt reorganization on agreement by the debtor country to make all reasonable efforts to reorganize private credits on terms comparable to those covering government credits.

What countries have done this?

Mr. KATZ. I believe most recent recipients of debt relief—this was true in the case of Turkey. It was true in the case of Peru, I know. Zaire is another case.

I am sorry. I misspoke, Mr. Chairman. In the case of Zaire, they have not yet negotiated an understanding with the private debt holders. That is one of the reasons we have not proceeded with a rescheduling of 1978 maturities.

Senator BYRD. What does this mean on page 14? "It is now standard creditor club practice to reference the principle of comparable treatment in the text of multilateral understandings." What does that mean?

Mr. KATZ. It refers to the previous sentence, that is, to provide for comparable treatment of private and governmental debt.

Mr. BERGSTEN. This was a point I was making earlier to Senator Wallop. There are a number of criteria that we always seek to apply in working out any of these multilateral debt rescheduling. One of the critical ones to us, as Assistant Secretary Katz was suggesting, is insisting that the debtor country make all reasonable efforts to reorganize unguaranteed private credits, falling due in the period of the reorganization, on terms comparable to those covering government or government-guaranteed credits. This is intended to assure that the U.S. Government gets most-favored-creditor treatment, one might say.

Senator BYRD. Is that being done?

Mr. BERGSTEN. That is being done, in each of these cases. We insist that the debtor government make that commitment. In the case of Zaire, a reorganization has not been worked out with the private banks. We have held off participating in any subsequent official debt reorganizations.

Senator BYRD. Looking forward for 6 months, how do you see interest rates?

Mr. BERGSTEN. Mr. Chairman, I wish that I could tell you, but I have learned, as a Treasury official, it is a risky practice to pronounce on the likely future of interest rates. I am afraid that is one where I should not venture a guess, even if I could, but I find it difficult to do so at this point in time, anyway.

Senator BYRD. What is the Treasury paying for short-term money now?

Mr. BERGSTEN. The last note—let me see if anybody has it precisely—our last 2-year notes must have been about 9.8 percent.

Senator BYRD. The effective yield has been slightly over 10, has it not?

Mr. BERGSTEN. No; I think on the short-term notes it has been in the high 9's lately. On bills—this was in December—it was running slightly over 10 percent and that has dipped off a bit—9.8 percent was our latest offering of notes which was only a couple of weeks ago.

Senator BYRD. In the new budget which the Congress is now working on—I am taking this figure from memory; I think it is right—there is a figure of \$65.7 billion for interest costs.

How did you arrive at that \$65.7 billion? You had to take some interest rate to do that.

Mr. BERGSTEN. As you know, Mr. Chairman, the interest rate on most of those obligations, or many of those obligations, is a fixed rate. For the next issues that come out during the course of the year, you are quite right that an assumption has to be made on what the rate is going to be, and I frankly do not have that off the top of my head. We will submit that for you.

[The following was subsequently supplied for the record:]

Budget estimates for interest on the public debt are made by the Office of Management and Budget. Estimated interest on securities outstanding at the time of estimate is calculated by multiplying the effective interest rate on each security by the amount of that security outstanding.

For outstanding securities that will mature within the estimate period, the OMB methodology assumes that these will be refunded by the issuance of like securities, e.g., bills, notes, bonds, with like maturities. For borrowing to raise new cash, the methodology assumes that the maturity of new issues will be comparable to the maturity distribution of the outstanding debt.

In the past, the budget has generally assumed, as a convention, that interest rates would remain at the levels prevailing at the time the estimates were made. Beginning with the 1980 budget, a different convention is used—interest rates are assumed to fall as inflation declines. Under this new convention, which is not meant to be a forecast, the interest outlay estimates assume that the 13-week bill rate will decline gradually from 9.3 percent, the rate prevailing at the time the estimates were made, to an average of 9.0 percent for the remainder of fiscal 1979 and 7.9 percent in fiscal 1980. The assumed interest rates are applied to the estimated amounts of refunding and new cash borrowing.

The interest rates used by OMB to estimate interest on the public debt for fiscal year 1979 and fiscal year 1980 are as follows:

Maturity	Interest rate ¹ (percent)	
	Fiscal year 1979	Fiscal year 1980
13 weeks ²	9.0	7.9
26 weeks ²	9.3	8.2
52 weeks ²	9.6	9.0
1 to 3 years.....	9.8	9.1
3 to 6 years.....	9.3	8.8
Over 6 years.....	9.0	8.8

¹ Fiscal year averages.

² Bank discount basis.

Senator BYRD. I want to thank you two very much. I may have additional questions that you can answer for the record.

Thank you.

Mr. KATZ. Thank you, Mr. Chairman. We will be very glad to provide answers.

Senator BYRD. I thank you both.

[The following was subsequently supplied for the record:]

QUESTIONS TO FRED BEGSTEN FOR THE RECORD OF THE FOREIGN DEBT HEARINGS
HELD FEBRUARY 5, 1979

(1) Please update and revise the attached table 1 for each year beginning with 1970. Also include in the table a column showing the amount of debt repaid for each year.

(2) What factors cause you to believe that the current accounts deficit for 1979 will be less than the 1978 deficit? Do the projections for lower trade deficits depend upon a recession in the United States and, if so, how much would such a recession reduce trade deficits?

(3) Please provide us with an exact figure for Euro dollars abroad and explain how you arrive at such a figure?

(4) If the holders of Euro dollars abroad decide to exchange such dollars for other currencies, would this not have an adverse effect upon the price of the dollar? Because of the magnitude of Euro dollars outstanding, is not the Administration concerned that the \$30 billion rescue program could fail if holders of Euro dollars lose confidence in the American economy? Is not the fundamental factor which determines the strength of the American dollar abroad the health of our domestic economy and our ability to control inflation?

TABLE 1.—FOREIGN DEBTS OWED TO THE UNITED STATES, AMOUNT DELINQUENT, AND AMOUNT RESCHEDULED

[In billions of dollars]

	World War I debt	Post-World War I debt	Total	Amount delinquent
June 30, 1972.....	25.8	30.6	56.4	0.7
June 30, 1973.....	25.0	33.2	58.2	(1)
June 30, 1975.....	(1)	34.5	(1)	(1)
June 30, 1977.....	26.7	42.0	68.7	.6
June 30, 1978.....	25.6	43.8	69.4	.6

¹ Not available.

Amount rescheduled

	Millions
1972.....	\$190
1973.....	84
1974.....	557
1975.....	95
1976.....	46
1977.....	68

QUESTION 1

FOREIGN INDEBTEDNESS TO THE U.S. GOVERNMENT ON LONG-TERM LOANS AND CREDITS, 1970-78

[In billions of dollars]

	World War I debt outstanding ¹	Post-World War I debt outstanding	Total long-term debt outstanding (1 and 2)	Repayments of—		Principal and interest due and unpaid 90 days or more	Amount committed for reschedulings following multilateral debt reorganizations
				Principal	Interest		
	(1)	(2)	(3)	(4a)	(4b)	(5)	(6)
1970.....	24.0	27.2	51.2	1.7	0.8	0.4	0.215
1971.....	24.3	29.0	53.3	2.1	.8	.3	.009
1972.....	24.7	30.1	54.8	2.1	.8	.3	.190
1973.....	25.1	32.6	57.7	2.6	.9	.4	.052
1974.....	25.5	32.1	57.6	4.8	1.1	.3	.473
1975.....	25.9	34.5	60.4	2.4	1.1	.3	.095
1976.....	26.3	38.1	64.4	2.6	1.3	.3	.046
1977.....	27.2	41.6	68.8	2.7	1.5	.3	.068
1978.....	27.5	45.0	72.3	(1)	(1)	4.3	.294

¹ Includes interest due and unpaid.

² Estimated.

³ 1978 data on repayments is not available as of Feb. 28, 1979.

⁴ As of Sept. 30, 1978.

Note: Cols. 1-3, information provided for the fiscal year; cols. 4-6, information provided for the calendar year.

QUESTION 2

What factors cause you to believe that the current accounts deficit for 1979 will be less than the 1978 deficit? Do the projections for lower trade deficits depend upon a recession in the United States and, if so, how much would such recession reduce trade deficits?

Part of our trade deficit is cyclical in nature—it reflects differences between rates of growth in the major industrial nations. And it reflects the high cost of oil imports and reduced price competitiveness due to exchange rate changes in 1975-76. Recently we have seen a distinct turn-around in these underlying trends. American goods have become more price competitive; a cheaper dollar has assisted the saleability of our products. Our growth rate has slackened: in 1977 the U.S. economy grew at a 5½ percent pace; in 1979 we project a 2¼ percent rate. And growth differentials between nations have begun to change. While our lower growing economy pulls in less foreign exports, faster growing economies abroad are buying more American goods.

The benefits of these underlying improvements began to show up in last year's trade flows. For example, U.S. trade performance in manufactured goods improved considerably between the first and last quarters of 1978. And slower growth at home, combined with our new domestic energy program, should help retard the growth of U.S. oil imports, even though higher oil prices will add to our import bill this year.

Our trade balance showed marked improvement during 1978, and we expect this to continue. In the second and third quarter of 1978, the trade deficit narrowed to a \$31½ billion annual rate (balance of payments basis), some \$14 billion below the rate of the preceding 6 months. In the fourth quarter of the year, the trade deficit averaged about \$2½ billion, a \$30 billion annual rate. Export volumes have risen strongly since March 1978; growth in non-oil import volume has slowed down substantially. We expect continued strong export growth and a very small increase in import volume in 1979. Although the oil price rise will add about \$4 billion to oil imports, the trade deficit should decline to about \$25-to-28 billion for the year as a whole and, owing to our growing net invisibles surplus, the current account deficit could drop by about 50 percent from the \$17 billion estimated for 1978.

QUESTION 3

Question. Please provide us with an exact figure for Eurodollars abroad and explain how you arrive at such a figure?

Answer. Because different people define and measure the "Eurodollar" market, and the "Eurocurrency" market of which it is a part, in different ways, it is not possible to provide a single number. There is frequently confusion between Eurodollars and all Eurocurrencies, and sometimes people use the term loosely to describe all international banking transactions. Sometimes a gross figure is used and sometimes a portion of the deposits of one bank with another are netted out. The key feature of most if not all definitions of a Eurodollar is the appearance of an asset or liability denominated in dollars on the balance sheet of a bank or bank branch physically located outside the United States.

It is essential to note that many of the assets or liabilities represent a re-depositing process among reporting banks, reflecting the nature of Eurocurrency activity as a wholesale bankers' market. Use of the gross numbers, however computed, would be seriously misleading. Estimating the amount of this "double counting" is a complex task and cannot be done precisely.

Emphasizing the uncertainty of the estimate, the net size of the Eurodollar market as of mid-1978 could be put at roughly \$300 billion.

The attached table shows the derivation of two alternative measures of the gross Eurodollar market as of mid-1978. It would be possible to develop other numbers—e.g., by utilizing a different geographic coverage or working from the asset rather than the liability side of banks' balance sheets—and thus these two measures might be taken as indicating a rough range of estimates.

*Main components of Eurocurrency and international banking market
(liabilities of U.S. and Euro-Banks) ¹*

	<i>June 1978</i>
Liabilities to nonresidents:	
1. Dollar liabilities of banks in Europe, Canada and Japan-----	324
2. Dollar liabilities of U.S. branches in offshore centers-----	92
3. Gross size of Eurodollar market, first definition-----	415
4. Other foreign currency liabilities of U.S. and Euro-Banks-----	137
5. Gross size of Eurocurrency market, first definition-----	562
6. Dollar liabilities of banks in United States-----	79
7. Domestic currency liabilities of Euro-banks-----	70
8. Gross size of international banking market as shown by BIS-----	701
9. BIS estimate of double counting due to interbank deposits among banks-----	236
10. Net size of international banking market as shown by BIS-----	465
Foreign currency liabilities to all customers:	
11. Liabilities to residents-----	134
12. Of which: in dollars-----	(100)
13. Gross size of Eurocurrency market, second definition (lines 5 and 11)-----	686
14. Gross size of Eurodollar market, second definition (lines 3 and 12)-----	515

¹ Consisting of banks in countries reporting to the Bank for International Settlements plus branches of U.S. banks located in the Bahamas, Cayman Islands, Hong Kong, Panama, and Singapore.

QUESTION 4

Question. If the holders of Eurodollars abroad decide to exchange such dollars for other currencies, would this not have an adverse effect upon the price of the dollar? Because of the magnitude of Eurodollars outstanding, is not the Administration concerned that the \$30 billion rescue program could fail if holders of Eurodollars lose confidence in the American economy? Is not the fundamental factor which determines the strength of the American dollar abroad the health of our domestic economy and our ability to control inflation?

Answer. Obviously, any decision or switch from dollar denominated assets to foreign currencies will have an impact in the foreign exchange market. This applies whether the holder of dollars has placed his deposit with a bank in the Eurocurrency market or with a bank in the U.S. It applies whether the holder is a foreigner or a resident of the U.S.

As suggested by the question, the strength of the dollar over time will be determined by the "fundamentals"—performance of and prospect for growth, inflation, relative interest rates, trade and current account, etc. We now have a set of policies directed at each of the areas:

We are drastically reducing the budget deficit;

We are tightening the availability of credit and are allowing interest rates to rise;

We are attacking inflation directly through wage-price guidelines;

We are reducing our dependence on imported oil;

We are embarked on a long-term campaign to promote exports.

The success of the intervention arrangements for which the foreign currencies were mobilized will be determined by our success in implementing those policies and not by the magnitude—or even the existence—of the Eurodollar market. Foreign-held dollar balances do not constitute an independent source of dollar stability.

[The prepared statements of Messrs. Bergsten and Katz follow:]

STATEMENT BY HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS

THE INTERNATIONAL ECONOMIC SITUATION

In the year since I last appeared before this subcommittee, we have made considerable progress in addressing the economic problems facing the world economy.

Among these problems, the most serious were those related to the global imbalances in trade and payments associated with the oil-price increases in 1973 and 1974. The OPEC members registered enormous trade and current-account surpluses. The major industrial countries experienced a severe recession, and there were very large trade imbalances within the group. The deficits of the non-OPEC developing countries mushroomed.

Forty years earlier, the major countries responded to economic difficulties by blocking trade and restricting capital movements. The result was massive unemployment and a decade of misery. This time the approach was different, and the costs were vastly reduced. We are now more certain that cooperation among governments in formulating and implementing consistent and responsible economic policies can be achieved. And we are now more aware of the capacity of international capital markets to function as shock absorbers.

During the past year, the global pattern of trade and payments has changed significantly. In particular, the surpluses of the OPEC members have declined sharply, while the deficits of the non-OPEC developing countries have risen only moderately. At the same time, a few large imbalances remain among the industrial countries, particularly the United States, Germany, and Japan. While the current-account deficit for the United States in 1978 was unsustainably high at around \$17 billion, we are confident that our deficit in 1979 will be much smaller—by 50 percent or more. The bad news in this area is the oil-price increase announced by OPEC in December. The increase will hurt growth, inflation, and balance-of-payments adjustments prospects.

There were several noteworthy actions taken during the past year. Among them were:

Implementation by the United States of a broad array of economic policies to establish the fundamental economic conditions required for a strong dollar at home and abroad. Most importantly we are acting forcefully to bring inflation down through a coordinated program of fiscal austerity, monetary tightening, and voluntary wage-price restraint. In addition, we have joined with other countries in closely coordinated direct action in the foreign exchange market to prevent any resumption of the disorders which led to the precipitate decline of the dollar last fall.

Substantial completion of a package of agreements within the Multilateral Trade Negotiations, with final texts expected to be submitted to Congress by early April. This is, of course, a matter of great concern to the Congress, and I expect to get to know many of you a lot better while exchanging views on the subject in the months ahead.

The strengthening of the international monetary system by the adoption of revised Articles of Agreement for the IMF and measures to increase the IMF's ability to provide balance-of-payments financing including the establishment of the Supplementary Financing Facility, agreement on new allocations of Special Drawing Rights (SDRs) during the next three years, and approval, subject to the necessary legislative approval by member governments, of a 50 percent increase in IMF quotas.

The enactment of energy legislation by the Congress which should reduce oil consumption in the United States by 500,000 barrels per day by the end of 1979. This is equivalent to \$2.5 billion in annual imports at the prices recently announced by OPEC.

INTERNATIONAL DEBT

In the context, I want to present our views on international debt. Last year I pointed out in these hearings that the easy distinction between creditor countries and debtor countries has become blurred. It is no longer the case that developing countries are debtors and industrial countries are creditors. Developments in the U.S. balance of payments during the past year have emphasized this point only too well.

The composition of international debt has also been changing. In the early post-war years, international debt was largely associated with short-term trade financing. In the 1960s, the composition shifted in the direction of long-term official flows as bilateral and multilateral aid programs became an important channel of international funds.

The multilateral development banks—the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank—have become the primary source of official assistance to less developed countries. In 1979, it is expected

that their commitments will reach \$12.5 billion and that their disbursements will amount to more than \$5.5 billion. This level of lending activity has enabled the banks to pay an extremely effective role in stabilizing and lengthening the overall maturities of the international debt structure of less developed countries. Following the 1973 increases in oil prices, the banks have been particularly constructive in recycling funds, raising revenues from bond issues in surplus countries and relending them for soundly-conceived projects with lengthy maturities in developing countries. The continuity of bank lending, the choice of projects, the maturities and grace periods of loans have given these countries much needed additional flexibility to carry out their development programs. The banks have also played another indirect but extremely important role in the adjustment process of these countries by recommending and assisting with necessary economic policy changes.

In the 1970's, we have also seen the emergence of medium- and long-term commercial bank lending as the major component of international debt. From the present vantage point, we would expect private capital markets to continue to finance the bulk of the world's current account deficits. This is likely for two reasons:

Official lending has grown rapidly during the past decade, but tight budgets are likely to have a restraining effect on this growth in the next decade.

The international banking community has demonstrated an impressive capacity to channel financial assets to deficit countries.

Compared to several years ago, we now have a considerable amount of data on international lending. The data on public borrowing by developing countries are quite detailed and comprehensive. The World Bank recently published a report on the public debt of 96 developing countries. This report puts the total public debt of these countries at \$160 billion at the end of 1976—an increase of 23 percent from the year-end 1975 figure. Preliminary estimates for 1977 suggest a comparable increase.

These are very rapid rates of increase. However, these increases are directly related to the huge but temporary global imbalances I mentioned earlier, and future increases in LDC indebtedness will be more moderate as the world continues to develop a more stable pattern of trade and payments.

There are other reasons to be confident about the LDC debt situation:

The aggregate current-account deficit of the non-OPEC developing countries seems to be flattening out at a level of about \$25 billion which does not strain the available sources of financing.

While net external borrowing remains at a high level, a significant part of it is in excess of current needs, and has been used to build up foreign-exchange reserves.

Rising exports from the non-OPEC developing countries in aggregate are keeping pace with rising debt-service payments.

Ample liquidity in international capital markets has enabled numerous LDCs to replace maturing debts with lower-cost, longer-term debts. For example, according to market reports, recently South Korea was able to borrow at $\frac{3}{4}$ percent over LIBOR and Mexico borrowed at $\frac{1}{2}$ percent over LIBOR.

During the past two years, only four countries have found it necessary to reschedule debt-service payments to their official creditors (Peru, Sierra Leone, Turkey, and Zaire).

As long as world economic conditions remain favorable, there is no reason to expect that the developing-country debt situation will deteriorate.

DEBTS OWED TO U.S. BANKS

There has been considerable interest during recent years in the level and composition of U.S. banks' claims on foreigners. Last year, I was able to provide you with some new data showing overseas lending by U.S. banks as of June 30, 1977. By now, we have three semi-annual reports, the last one containing data as of June 30, 1978. The data indicate that U.S. bank lending to foreigners grew slowly in the first half of 1978. In fact, measured in real terms, there was a decline in claims on foreigners in this period. This contrasts sharply with the rate of growth experienced in the 1974-76 period which was on the order of 15-25 percent per year in current terms.

The composition of this lending is also of interest. Concern has been expressed that banks may be relying heavily on short-term deposits to fund much longer-term loans to foreigners. The data do not confirm this. About two-thirds of the \$200 billion in the non-local currency claim of U.S. banks on foreigners as of June

30, 1978, has a maturity of one year or less. Another 25 percent had a maturity of 1-5 years. Only 7 percent of the claims were longer than five years.

Similarly, concerns have been expressed that the banks are too heavily exposed in loans to developing countries. Only one-fourth of U.S. banks' foreign-currency claims were on borrowers in developing countries, and only about 8 percent on public borrowers in these countries. Over 70 percent of the claims were on developed countries that are members of the OECD, OPEC countries, and off-shore banking centers. A full 50 percent of all U.S. bank claims on foreigners were on other banks.

During the past year, the Federal Reserve, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency have taken further steps to carry out their regulatory responsibilities in the area of international lending more effectively. Particularly notable is the joint system they have created for evaluating country risk associated with U.S. bank lending abroad. Bank losses on foreign loans continue to be smaller than losses on domestic loans.

DEBTS OWED TO AND GUARANTEED BY THE U.S. GOVERNMENT

Judging by the mail we receive, the American taxpayer is more concerned about debts owed by foreigners to the U.S. Government than about debts owed to U.S. banks. We receive a steady stream of letters asking about the status of World War I and World War II debts, demanding that the OPEC member prepay their debts, or suggesting that the best way to make the dollar stronger is to get Japan and Germany to pay off their debts to us.

We assure each correspondent that we care about these debts, and we do. We point out that all of them have resulted from programs authorized by the Congress to facilitate U.S. exports and to provide foreign assistance. We remind them that the vast majority of the post-World War II debts are paid on time. We explain how we are attempting to collect the relatively small portion of this debt which is in arrears, noting that adverse political situations have caused most of the overdue payments.

As of September 30, 1978, the total foreign debt on the books of the U.S. Government amounted to \$73.2 billion. The composition of the debt is summarized in Chart One. The largest category, \$45.7 billion, is post-World War II debt. About 99 percent of this debt was accounted for by long-term credit programs: aid loans to developing countries, military credits, agricultural credits, and loans from the Eximbank. The remaining 1 percent was accounted for by short-term credits and accounts receivable.

The smaller category, \$27.5 billion, consists of World War I debts. I regret to say that, during the past year, we have made no progress in collecting these debts beyond the continuing repayments from Hungary and Greece. They have been carried on our books for so long that the interest now exceeds the principal—even though the interest accrues at less than 4 percent per year un-compounded.

About \$1 billion in principal and \$2 billion in interest was collected in the years immediately following the end of World War I. But the financial disorder in Europe in the 1920s and 1930s provided an excuse for these countries to stop payment. The unilateral termination of war reparation payments by Germany also contributed to the breakdown since most countries were owed more by Germany than they in turn owed the United States. Naturally, World War II—which has left Germany divided—did not help matters. The closest we came to settling these debts was in 1953 when the United States participated in an agreement on German external debts. In this agreement, we agreed to defer action on World War I debts "until a final general settlement of this matter". The agreement was ratified by the Senate. Candidly speaking, I believe that the settlement of these debts lies beyond the foreseeable future.

ARREARAGES AND DELINQUENCIES

The prospects for reducing arrearages and delinquencies are somewhat better. As of September 30, 1978, total arrearages and delinquencies on post-World War II debt stood at \$612 million. I am sorry to admit that this is \$21 million higher than the figure I reported to you a year ago. The increase is attributable largely to technical factors, however. It does not reflect any slackening in our effort to reduce arrearages.

Two-thirds of the increase or \$14 million is accounted for by Zaire. As you will recall, the United States agreed to reschedule debt-service payments from Zaire falling due in 1976 and 1977. When implementing agreements between Zaire and

the individual USG creditor agencies are signed, \$23 million of the \$34 million in arrearages due from Zaire will be eliminated. Another \$7 million shows up in Category III.A. (Chart 2) on Turkey's account. As soon as all of the agency implementing agreements are signed pursuant to the multilateral rescheduling arrangement we took part in last May—which we expect to occur shortly—these amounts will no longer appear as arrears. Unfortunately, these increases conceal the significant progress we have made in reducing arrearages in short-term loans and accounts receivable, and in military sales and other military accounts.

You will notice in Chart 2 that the largest category of arrearages, about \$200 million, relates to logistical support provided to other countries during the Korean War. While most countries to whom we provided such support have repaid the United States or are in the process of doing so, six countries have objected to paying—Colombia, Ethiopia, Greece, the Philippines, Thailand, and Turkey. The House Committee on Government Operations has recommended that Congress consider legislation to remove these debts from the records of the U.S. Treasury. The National Advisory Council on International Monetary and Financial Policies has endorsed this recommendation.

The second largest category of delinquencies is also the subject of special interest at the present time. As of September 30, 1978, there were about \$103 million in arrearages on payments listed as due from the authorities on Taiwan. In addition, as footnote 1 to Chart 2 indicates, the United States is owed about \$50 million in principal and interest due in connection with four Eximbank loans extended to China in 1946. There also remain some other debts which we will be discussing with the People's Republic of China at an appropriate time.

CONTINGENT LIABILITIES

Before concluding, I want to say a few words about guarantees provided by U.S. Government agencies for the repayment of debts owed by foreigners to U.S. banks and other American lenders. These "contingent liabilities" represent off-budget activities with budgetary implications that are potentially quite large. The Treasury Department is particularly concerned about such programs because they have a significant impact on the allocation of funds generated by the savings and investments of private individuals and financial institutions throughout the country.

The latest Treasury Department report on contingent liabilities of the U.S. Government shows that, as of June 30, 1978, our contingent liabilities totalled \$13.3 billion. These liabilities arise from guarantees provided by the Eximbank, the AID Housing Office, the Department of Defense (for military sales), and the Overseas Private Investment Corporation (OPIC). The Eximbank accounts for more than 56 percent of these contingent liabilities. There is some measurable risk involved in these guarantees because on rare occasions borrowers fail to make payments, and the guarantees are called. When this happens, the agency concerned must pay off the private lender. Usually, this is done out of the reserves of the agency. However, most payments that are missed are subsequently made to the guaranteeing agency.

There is another category of contingent liabilities that is not included in Treasury's quarterly report. This category includes the "callable capital" subscriptions of the United States to the multilateral development banks of which it is a member—the World Bank, the Inter-American Development Bank, and the Asian Development Bank. Total callable capital of all member countries, amounting to \$44 billion as of September 30, 1978, stands behind the bonds floated by these banks in the international capital markets.

The chance that callable capital will ever need to be used to service the funded debt obligations of the multilateral development banks is extremely unlikely. In the first place, all of these banks have substantial resources for servicing their bonds. Paid-in capital and accumulated reserves total over \$6.0 billion at the World Bank, over \$1.9 billion at the IDB, and \$1.5 billion at the ADB. In the second place, the countries which have borrowed from these banks have an extraordinarily good record of repayment. For example, in the more than thirty-year history of the World Bank, there has never been a loan default. Furthermore, since annual repayments from any individual borrower are only a small portion of these banks' capital and liquidity, it would take the simultaneous cessation of all loan repayments for an extended period of time by many major borrowers before a call on callable capital would be necessary. Hence, it seems most unlikely that these particular contingent liabilities will ever be drawn down.

CONCLUSION

I appreciate this opportunity to share with you some of our views on the international economic situation and international debt. Rather than speculate on the levels of debt that will be attained during the next twelve months, I would like to close by reflecting briefly on the three-fold virtues of international debt, which is, of course, the same thing as international credit.

First, credit facilitates trade. If trade were all conducted on a cash-and-carry basis, much less of it would take place.

Second, credit also fosters economic growth. Low-income countries that find it difficult to generate high levels of internal savings can borrow externally and thereby achieve significantly higher rates of growth than would otherwise be possible. Conversely, countries that generate excess savings are afforded opportunities to invest them profitably abroad.

Third, credit is an indispensable element of a smoothly functioning international monetary system characterized by 150 separate national currencies. Without access to credit, international payments imbalances would lead to greater exchange-rate instability, and deficit countries would try to eliminate their deficits by restricting economic growth and erecting barriers to free trade.

International credit is thus an integral part of an effectively functioning world economy. Properly managed and supervised, it facilitates the daily operation of our own economy.

Indeed, one of the great successes of the international economic policy of the United States in the postwar period has been the development and evolution of an open system of international capital and money movements. Such a system comports with our philosophy of free markets as well as with our pragmatic need for more trade, jobs, and income. We should seek its further strengthening in the years ahead.

Total foreign debt outstanding to the U.S. Government as of Sept. 30, 1978

	<i>Outstanding (millions)</i>
I. World War I indebtedness ¹ -----	\$27, 463
World War I credit-----	25, 541
German World War I ² indebtedness-----	1, 922
II. Post World War I indebtedness on U.S. Government credits-----	45, 715
(a) Long-term credits -----	45, 013
Foreign assistance and related acts-----	20, 403
Export-Import Bank Act-----	11, 436
Agricultural Trade Development and Assistance Act-----	7, 029
Lend-lease and other war accounts-----	1, 336
Commodity Credit Corporation export credits-----	1, 916
Other credits -----	2, 893
(b) Accounts receivable credit-----	414
Military logistical support-----	218
Military Sales Act-----	37
Atomic Energy Act-----	93
Other -----	66
(c) Short-term credits: Commodity Credit Corporation-----	288
III. Public and private U.S. claims settled by the U.S. Government ³ -----	32
Grand total-----	73, 210

¹ Includes interest due and unpaid.

² Actual indebtedness is denominated in reichsmarks. These figures are estimates only.

³ Includes 1966 "Freeloc" settlement with France.

Arrearages of 90 or more days on foreign loans and credits of U.S. Government agencies (excluding World War I debts)

	<i>Sept. 30, 1978</i> <i>(millions)</i>
I. Extraordinary political arrearages:	
1. Authorities on Taiwan-----	¹ \$107.6
2. Cuba-----	76.0
3. Vietnam and Cambodia-----	24.3
4. Unresolved Korean war logistical support-----	199.7
Total political-----	407.6
(Percent of overall total, 67.)	
II. Major arrearages—Public long-term:	
1. Iran-----	36.1
2. Zaire-----	² 34.0
Total major arrearages-----	70.1
(Percent of overall total, 11.)	
III. Other major arrearages:	
(a) Public:	
1. Long term-----	34.1
2. Short term and accounts-----	84.1
Receivable, of which:	
Foreign military sales, logistical support, MAAG-----	46.1
Land lease-----	.6
Post office-----	18.6
Other-----	18.6
(b) Private:	
1. Long-term-----	13.0
2. Short-term and accounts receivable-----	2.1
Total, other arrearages-----	134.1
(Percent of overall total, 22.)	
IV. Total, groups I, II, III-----	612.0

¹ Excludes, as of Sept. 30, 1978, \$49,800,000,000 of principal and interest due from the authorities on Taiwan from assets left on the Asian Continent, for which Export-Import Bank by agreement with that Government has deferred from pressing.

² Includes amounts rescheduled by bilateral rescheduling agreement with Zaire, TIAS, No. 8731 (1976). Once implementing agreements have been concluded by the agencies concerned, these amounts will no longer be reported as being in arrears. Negotiations are being finalized to reschedule 1977 arrearages.

NOTE.—Items may not add to totals due to rounding.

**LONG-TERM DEBT OUTSTANDING TO THE U.S. GOVERNMENT BY PROGRAM,
EXCLUDING WORLD WAR I DEBT**

[In millions of dollars and equivalents]

	Dec. 31, 1974	Dec. 31, 1975	Dec. 31, 1976	Dec. 31, 1977	Sept. 30, 1978
Foreign Assistance Act and related programs:					
Development assistance-----	12,635	12,998	13,435	14,010	14,872
Military sales-----	1,627	2,270	3,462	4,779	5,531
Export-Import Bank Act-----	8,126	9,621	10,594	10,949	11,436
Agricultural Trade Development and Assistance Act-----	5,040	5,721	6,208	6,578	7,029
Other Programs ¹ -----	5,352	4,979	5,122	5,294	6,165
(Lend-lease/surplus property and other war accounts)-----	(1,649)	(1,520)	(1,421)	(1,368)	(1,336)
Total-----	32,780	35,589	38,821	41,610	45,033

¹ Primarily 1946 British loan, lend-lease and other war accounts, and Commodity Credit Corporation.

² Includes 1966 "Freeloc" agreement with France.

STATEMENT OF JULIUS L. KATZ, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. Chairman: I welcome your invitation to appear before your subcommittee to discuss issues related to international debt. I would like to begin with an assessment of the current debt situation and its implications for the international economy. The second part of my statement will focus on foreign government debts owed to the United States, and our policy for dealing with these debts. Finally, I will comment on the status of the "debt issue" as it is being discussed in the North/South dialogue.

As we are all aware, the world economy has faced serious difficulties in recent years. The combined result of the 1973-74 oil price increase and the most severe global recession in four decades, produced unprecedented imbalances in the external payments position of many countries. The task of resuming a sustained pattern of world growth, and at the same time assuring adequate finance both to encourage and cushion the required internal adjustments, was a formidable one.

On the whole, the international financial system has held up well under the strains that were imposed upon it. Many countries have achieved improved growth performance or moved toward adjustment of their external payments position, often in the context of comprehensive stabilization programs. As a result, substantial progress has been made and is being made in moving towards a more sustainable distribution of payments imbalances.

Despite the progress, however, serious problems remain. A number of countries continue to face financial difficulties or are encountering serious problems in implementing effective stabilization programs. Very often social and political constraints curb the speed with which government are able to adopt strict austerity measures which impact adversely on their populations. At the same time, adequate external financing is not always available to facilitate a rate of economic growth sufficient to cushion necessary adjustment. While some developing countries can obtain adequate financing to sustain such growth from the private capital markets or through the hard-loan windows of the multilateral development banks, many poorer developing countries will require a substantial rise in official concessional assistance to accelerate growth and to assure that the benefits of development reach the poor and serve their basic human needs.

Among the industrial countries, we expect in 1979 a significant reduction in imbalances in current account positions. A major cause of these imbalances has been the divergent trends in the major economies, with United States growth and inflation exceeding that of Japan and some European countries. U.S. growth is projected to slacken in 1979 and we are working for a substantial moderation in inflation.

At the same time, Europe and Japan should grow faster this year. The OPEC price rise has complicated our efforts to reduce our payments imbalance, and is expected to add roughly \$3 billion to U.S. payments abroad in 1979. Nonetheless, this should be more than offset by the favorable trend toward more convergent growth and inflation rates, and our 1978 current account deficit of \$18 billion should be cut in half in 1979.

The large payments imbalances and inflation differentials were the major factors in the instability which plagued foreign exchange markets in the first ten months of 1978. The United States in concert with Germany, Japan, and Switzerland took strong action in November 1978 to calm the markets and halt the decline in the dollar, which we felt had gone far beyond levels warranted by economic fundamentals. Since November 1, the dollar has remained stable and markets calm. We will continue to work towards a better economic convergence and a stronger dollar. Continued substantial reduction in German and Japanese surpluses will be necessary, with the United States seeking to reduce its deficit through a strong export-promotion program, reduced energy dependence, a strong anti-inflation program, and continued vigilance to ensure stable exchange markets.

INDEBTEDNESS

While external borrowing is recognized as a normal feature of economic growth, and was an integral component of United States growth in the 19th century, recent events have added a new dimension to the debt situation. Given the magnitude of adjustment problems which were confronted, a large number of deficit

countries sought an increased level of external financing to avert a disastrous economic contraction and to allow a more orderly adjustment process stretched over a period of years. As a result, the external debt of the non-oil developing countries more than doubled between 1973 and 1977. The indebtedness of a number of OECD and Soviet Bloc countries also increased sharply.

The growth in indebtedness does not in itself, however, threaten to produce major debt servicing difficulties. The nominal increases in debt in recent years appear far less dramatic in the context of continuing inflation and growth of real output and trade in the world economy. The ratio of non-oil developing country debt service to exports of goods and services, for example, has risen only from about 11 percent in 1973 to about 14 percent in 1978.

In this context, the recent rise in indebtedness does not pose the threat of widespread debt servicing problems. On the contrary, individual country analysis shows clearly that there is no general debt crisis. It also shows that while the financing needs of many deficit countries remain large, particularly for those with political and social constraints which curb the speed of balance of payments adjustment, acute debt servicing problems are likely to be restricted to a handful of countries.

The foreign economic policy implications of indebtedness extend across the entire range of global economic management. Thus the level and structure of current indebtedness reinforce strongly the need for efficient global management in the area of aggregate demand, trade, adjustment finance, and—for the poorest developing countries—it emphasizes the importance of the quality and quantity of foreign assistance flows. While industrial country efforts to maintain a healthy international economy constitute their most important contribution to global debt management, there is also a need for the international community to respond effectively when individual countries encounter debt servicing difficulties. We believe those exceptional situations where debt reorganization is necessary to ensure repayment should be addressed efficiently, and equitably, and normally in the framework of a multilateral creditor club. In our view, the multilateral framework is essential in order to ensure equitable burdensharing among creditor countries.

It is equally important to condition multilateral debt renegotiations on the debtor country undertaking a comprehensive economic program designed to strengthen its underlying balance of payments situation. Most recent reschedulings, that involved a creditor club have, in fact, been related to standby arrangements with the International Monetary Fund. This linkage of debt relief with performance standards has proved a key element in restoring debtor countries' normal commercial/financing relationships with both creditor governments and—somewhat later—with private lenders. The conditional nature of debt relief has also limited the incidence of renegotiation applications by confining them to serious debt situations and discouraging requests for the use of debt relief as a means of normal resource transfer.

DEBT OWED TO THE UNITED STATES

I would now like to turn to the matter of debt owed to the United States. As of September 30, 1978 outstanding indebtedness on United States Government credits (exclusive of indebtedness arising from World War I) totaled \$45.7 billion, of which \$45.0 billion relates to long-term debt with a maturity of over one year.

The composition and country-distribution of this long-term debt has changed little since the Committee's hearing a year ago. Approximately 50 percent of the debt relates to humanitarian or development loans which have been extended on concessional terms. Another 25 percent is attributable to loans at market related rates by the Export-Import Bank for the purpose of encouraging overseas sales of United States goods and services. Smaller amounts of debt relate to other categories such as Commodity Credit Corporation loans and lend-lease and other World War II related accounts.

The bulk of debt owed by industrial countries relates to Export-Import Bank lending. The more advanced developing countries also have an increasing portion of their portfolio of official United States debt in commercial type credit (i.e. loans extended by the Export-Import Bank and the Commodity Credit Corporation), while low income country debt remains concentrated heavily in

concessional loans. For example, approximately 95 percent of the \$1.3 billion owed by the least developed countries was extended either under the Foreign Assistance (and related) Acts (\$563 million) or public Law 480 (\$701 million).

Israel is the largest single debtor country accounting for approximately 9 percent of our long-term debt. The non-oil developing countries account for 54 percent, the industrial countries (including Greece and Turkey) for 25 percent, OPEC countries for 7 percent, and the Soviet Union and Eastern Europe for 5 percent.

United States policy is designed to protect the assets represented by the loans extended by our official lending agencies. While individual lending agencies retain the primary responsibility for insuring debtor country compliance with mutually negotiated repayment schedules, the Department of State and United States Embassies overseas have the responsibility for pursuing collections.

Most debts owed to the United States are being paid on time. Collections, including interest, on long-term credits extended since 1940 now exceed \$50 billion. In fiscal year 1978, dollar repayments totaled roughly \$4 billion. In contrast, principal and interest payments due and unpaid 90 days or more totaled \$612 million as of September 30, 1978. In assessing the relevance of these current arrearages, it is important to note that a large portion of the delinquencies are attributable to few unique situations where circumstances have impeded our ability to collect. For example, about one-third of current arrearages relate to Korea Conflict Logistical Support Claims, whose validity has not been clearly established. The House Government Operations Committee has recommended action to take these off the books. Another third of current arrearages relate to debt owed by China, Cuba, Cambodia and Vietnam. Following the normalization of relations with the People's Republic of China, we are reviewing the situation and expect to have early discussions of appropriate claims with the Chinese authorities.

Delinquencies other than the five cases cited above total approximately \$200 million, one-half of which are attributable to Zaire (\$38 million), Iran (\$37 million), and Ethiopia (\$26 million). The Zairian arrearage is reflection of the serious economic crisis which has characterized Zaire's balance of payments in recent years. Although Zaire has initiated a multilateral renegotiation of its debt within the framework of a Paris Club, a process which resulted in relief of debt service owed in 1976 and 1977, the creditor countries have not provided relief on 1978 and 1979 maturities because Zaire has not yet adopted a stabilization program that would allow Zaire to reach agreement on a stand-by arrangement with the IMF, an agreement on which creditors have conditioned further relief. The Iranian arrearage is a longstanding problem involving two surplus property agreements signed in 1945 and 1948. Since 1975, Iran has conditioned payment on progress in settling a claim they have against the United States for damages to Iranian railways by allied military forces during World War II. Recent events in Iran will likely further complicate efforts to resolve this issue. While there has been some progress in reducing arrearages owed by Ethiopia, we expect continued difficulties with our collection efforts at least until the security situation in that country improves.

Remaining delinquencies are distributed among a large number of countries, and relate to a broad variety of lending and credit programs now administered by United States Government agencies. A large portion of these delinquencies, however, reflect technical factors rather than conscious decisions by foreign governments to avoid repayment.

DEBT RENEGOTIATIONS

It is United States policy to participate in multilateral debt reorganizations only in extraordinary circumstances where the reorganization is necessary to insure that creditors get repaid, and to help the country to re-establish normal financial relationships. While this objective should in the long-run facilitate a sustainable pattern of economic growth, development criteria per se are not an integral part of the renegotiation process.

Although a larger number of countries have faced considerable economic difficulty in the recent past, the incidence of multilateral debt reorganization has remained small. There have been five multilateral rescheduling agreements

concluded in the last three years with the United States participating in the agreements for three of the countries, viz., Zaire, Turkey and Peru.

I have already noted the critical nature of Zaire's balance of payment position, and I expect that additional multilateral relief will be necessary once Zaire adopts an effective stabilization program.

The May 20, 1978 multilateral understanding with Turkey provided debt relief of roughly \$1.1 billion, of which the United States share was about \$191 million, on debt service, falling due through June 30, 1979. Turkey's economic situation continues to be very difficult, however, and the task of correcting the large imbalance in the country's external account will not be easily resolved. It is likely, therefore, that a new multilateral meeting will be convened to consider a Turkish request for further debt reorganization.

Under the terms of a November 3, 1978 Paris Club understanding with Peru, the United States will reorganize approximately \$55 million in payments due in 1979 and \$49 million of payments scheduled for 1980. This will represent about 20 percent of the amount to be rescheduled by the 14 countries participating in the multilateral understanding.

I have already noted the importance we attach to linking multilateral debt relief to debtor country actions designed to restore a viable balance of payments position. This is a necessary principle agreed by all creditor countries. It reflects the fact that past experience has shown that the key to the effectiveness of a renegotiation generally will rely on the country's implementation of its economic policy commitments rather than the amount or terms of debt relief extended.

Recent developments in indebtedness have also highlighted the relationship of multilateral renegotiations to private lenders. There has been a significant expansion of private lending. The non-oil developing countries, for example, now have about 60 percent of their debt—and about 75 percent of their annual debt service obligations—related to private sources. The lending standards of the private lenders have, however, generally been high, and private lending is concentrated in countries with the most promising economic prospects. Nevertheless, in those few situations where debt renegotiation proves necessary, private debt often will constitute a major factor in the servicing difficulty.

Creditor club negotiations affect government and government guaranteed debt, and private lenders do not participate in club negotiations. Moreover, most creditor governments—including the United States—have no legal authority to bind private creditors. At the same time, creditor governments believe that the risks of lending should be shared by public and private creditors. United States policy now explicitly conditions our participation in debt reorganization on agreement by the debtor country to make all reasonable efforts to reorganize private credits on terms comparable to those covering government credits. It is now standard creditor club practice to reference the principle of comparable treatment in the text of the multilateral understanding.

"DEBT" IN THE NORTH/SOUTH DIALOGUE

I would now like to review the status of our debt policy within the context of the ongoing dialogue between the industrial countries and the developing world. For a number of years, "debt" was a highly contentious issue, with the Group of 77 (the caucus of developing countries in the United Nations) arguing that the traditional "case-by-case" approach to determining eligibility for debt relief was no longer valid. Citing the economic difficulties faced by the developing countries, the Group of 77 maintained that generalized (i.e., across the board) debt relief was necessary to assist in achieving developmental objectives. Few countries were, however, interested in relief on commercial debt, and discussions focused on relief for the official concessional debt held by low-income countries.

Most creditor countries, however, wished to preserve the traditional case-by-case approach for dealing with acute debt crises and to maintain a distinction between multilateral debt relief and development assistance. They also doubted that generalized debt relief is an efficient mode of resource transfer since benefits would be distributed on the basis of the historical profile of borrowers rather than on current country performance or need.

Given the wide divergence in views, substantive North/South agreement on the debt issue has been slow to emerge. In March 1978, however, a ministerial level meeting of the UNCTAD Trade and Development Board adopted a resolu-

tion may have defused debt as a confrontation issue. The resolution had two basic elements.

The first was a commitment by donor countries to seek to adopt measures for the benefit of poorer developing countries that would allow the terms of past aid loans to be adjusted to the easier terms of today or to adopt equivalent measures. The commitment, sometimes referred to as a commitment to retroactive terms adjustment (RTA), is clearly framed as a device for increasing the concessional element of aid, rather than debt relief. Each donor country is left free to determine the nature and distribution of the measures, Most donor countries, the United Kingdom, Sweden and the Netherlands being notable exceptions, are expected to restrict retroactive terms adjustment to those countries on the United Nations list of 30 relatively least developed countries.

The second element of the March resolution was an agreement on four basic concepts to guide international action on future debt problems, with a commitment to continue efforts to expand these concepts.

For our part, we supported a Congressional initiative which provides authority to undertake case-by-case terms adjustment for past AID loans to the least developed countries. Under recently passed legislation, such countries may be permitted to make dollar payments due on past AID loans in local currency that will be used for mutually agreed development activities. Authority to extend these provisions will not become effective until October 1, 1979, and an appropriations request of \$20 million has been included in AID's FY 1980 program. This amount represents about 4 percent of total AID reflows which now exceed \$500 million annually.

While we do not expect "debt" to disappear as a North/South issue, we hope that the constructive spirit which characterized the Ministerial meeting last March will carry over into future discussions. In this context, we are encouraged by the growing recognition that debt cannot be addressed on a narrow basis, and that the best way to avoid debt problems in the future is to combine sound global economic policies with sound national economic policies.

In closing, Mr. Chairman, I would like to restate my belief that if a reasonably healthy international economy can be maintained, serious debt servicing problems should continue to be confined to a relatively few countries where they can be handled effectively in a manner similar to the approach used in the past.

[Thereupon, at 11:30 a.m., the hearing in the above-entitled matter was recessed, to reconvene at the call of the Chair.]

APPENDIX

MEMORANDUM

Re hearing on foreign indebtedness to the United States.

To: Subcommittee on Taxation and Debt Management Generally.

From: Finance Committee trade staff.

Date: February 1, 1979.

On Monday, February 5, 1979, the Subcommittee on Taxation and Debt Management Generally will hold a hearing on foreign indebtedness to the United States. The hearing will begin at 10:00 A.M. in Room 2221, Dirksen Senate Office Building. Scheduled witnesses include Mr. C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and Mr. Julius Katz, Assistant Secretary of State for Economic Business Affairs.

Extent of foreign indebtedness.—Total foreign indebtedness to the U.S. Government now exceeds \$70 billion. This figure is the sum of outstanding World War I debts (\$27.5 billion) and other outstanding foreign credits of U.S. Government agencies as of September 30, 1978 (\$45.7 billion). These figures do not include contingent liabilities of the United States on insurance and guarantees of private contracts, which are equivalent to about \$13 billion. Neither does it include callable capital used to guarantee bond issues of international financial institutions. Such capital is a contingent liability, but will almost never have to be drawn upon; it is fully appropriated by the Congress.

Delinquencies.—Principal and interest due and unpaid for 90 days or more on U.S. credits total \$612 million. Of this amount, approximately \$524 million is due from official foreign government obligors, while approximately \$88 million is due from foreign private obligors. Over 100 countries have principal and interest due and unpaid for 90 days or more. Countries with amounts exceeding \$20 million due and unpaid include the Republic of China (Taiwan) (\$109 million), Finland (\$40 million), Iran (\$37 million), the Philippines (\$48 million), Thailand (\$20 million), Turkey (\$95 million), and Zaire (\$38 million). Some of the arrearages are technical in nature, pending conclusion of negotiations or discussions between the borrower and the collecting agency.

Reporting and settlement of foreign debts.—No present statutes require a consolidated report on the status of active foreign credits of the United States. Such a report is, however, prepared by the Treasury Department and includes both long-term and short-term loans and credits to foreigners. This report is prepared pursuant to the requirements of the Foreign Assistance Act of 1961 and various requests from Congressional committees.

The U.S. Government has no authority to cancel international debt owed it. However, the Government has engaged in debt rescheduling when obligors have indicated problems in repayment. The specific policy response toward a rescheduling request is developed through the National Advisory Council on International Monetary and Financial Policies, which is chaired by Treasury. That actual negotiation of the government-to-government rescheduling agreement is usually carried out by the State Department with the assistance of Treasury following multilateral discussions. When it comes to the detailed rescheduling of the individual loans, such as an Export-Import Bank loan to Zaire, those details are negotiated by the operating agency.

Since 1970, the U.S. Government has engaged in nearly 30 debt rescheduling exercises involving over one dozen countries. In 1977, three debt rescheduling exercises were held involving India, Zaire, and Sierra Leone. In 1978, debt rescheduling exercises were held with Peru and Turkey. United States policy on debt rescheduling has four major elements:

(1) Debt service should be reorganized on a case-by-case basis and only in extraordinary circumstances were necessary to assure repayment.

(2) Debt service payments normally should be reorganized in the framework of a multilateral creditor club arrangement.

(3) When a reorganization takes place, the United States will participate only if the debtor country agrees to make all reasonable efforts to reorganize unguaranteed private credits falling due in the period of reorganization and to implement an economic program designed to respond to the underlying conditions and to overcome the deficiencies which lead to the need for reorganization of debt-service payments.

(4) The amounts of principal and interest to be reorganized should be limited to payments in arrears and payments fallen due not more than one year following the reorganizing negotiations.

TABLES SUBMITTED BY THE TREASURY DEPARTMENT
LONG-TERM DEBT OUTSTANDING TO THE U.S. GOVERNMENT BY PROGRAM,
EXCLUDING WORLD WAR I DEBT

(In millions of dollars and equivalents)

	Dec. 31, 1974	Dec. 31, 1975	Dec. 31, 1976	Dec. 31, 1977	Sept. 30, 1978
Foreign Assistance Act and related programs:					
Development assistance	12,635	12,998	13,435	14,010	14,872
Military sales	1,627	2,270	3,462	4,779	5,531
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(Lend-lease/surplus property and other war accounts)	(1,649)	(1,520)	(1,421)	(1,368)	(1,336)
Total	32,780	35,589	38,821	41,610	45,033

¹ Primarily 1946 British loan, lend-lease and other war accounts, and Commodity Credit Corporation.

* Includes 1966 "Freelec" agreement with France.

*Total foreign debt outstanding to the U.S. Government as of
Sept. 30, 1978*

	<i>Outstanding (millions)</i>
I. World War I indebtedness ¹ -----	\$27,483
World War I credit-----	25,541
German World War I ² indebtedness-----	1,922
II. Post World War I indebtedness on U.S. Government credits-----	45,715
(a) Long-term government credits-----	45,013
Foreign Assistance and Related Acts-----	20,403
Export-Import Bank Act.-----	11,436
Agriculture Trade Development and Assistance Act--	7,029
Lend-lease and other war accounts-----	1,336
Commodity Credit Corp. export credits-----	1,916
Other credits-----	2,893
(b) Accounts receivable credit-----	414
Military logistical support-----	218
Military Sales Act-----	37
Atomic Energy Act-----	93
Other-----	66
(c) Short-term credits: Commodity Credit Corp-----	288
III. Public and private U.S. claims settled by the U.S. Government ³ ---	32
Grand total-----	73,210

¹ Includes interest due and unpaid.

² Actual indebtedness is denominated in reichsmarks. These figures are estimates only.

³ Includes 1966 "Freelec" settlement with France.