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"Counterpart Funds"
A Wasting Asset

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Dear Dick:

The phrase "counterpart funds" has a dirty connotation to a good many Americans accustomed to answering magazine quizzes on the news of the week. They would probably define such funds as "play money used by Members of Congress when they are on foreign junkets and which they don't have to account for."

The scandal of counterpart funds, however, is not their use by Members of Congress, but their lack of use by the federal government. Hundreds of millions of dollars' worth of U.S.-owned counterpart funds which can never be used to retire the national debt are wasting away in countries where the United States is in rough and tumble conflict with everything from anti-Americanism to the communist conspiracy.

The phrase "counterpart funds" originated in the Marshall Plan days. When the United States gave assistance to Europe, say in the form of diesel engines, those engines were sold to European citizens. They paid for the engines with local currencies such as French francs, Italian lire or British pounds. Americans who sold the engines received their dollars from Marshall Plan funds appropriated by Congress. The foreign currencies which were at that time not convertible to dollars were deposited in the countries where they were received and became known as "counterpart funds". The bulk of these funds was spent within Europe for purposes agreed upon between the U.S. and the European countries. A portion, however, - 10% as I recall - was reserved exclusively for the use of the United States. The United States used this counterpart for Embassy and other local expenses of U.S. agencies operating in Europe.

One provision of law authorized standing Committees of the Congress to utilize counterpart in the discharge of legislative functions abroad. It was this use, for the most part legitimate and beneficial, which gave rise to much criticism mitigated in recent years by stricter congressional accounting procedures.

As Marshall Plan aid ended and as aid programs began in the newer, under-developed countries, counterpart-type funds came into being in many of the new countries. Most of these funds were generated by a Title of P.L. 480 (The Surplus Agricultural Disposal Act) which authorizes the sale of surplus agricultural commodities for foreign currencies. Additional and increasing amounts of foreign currencies,

rupees in the case of India, will accrue to U.S. accounts, available for U.S. Government uses, when principal and interest payments on many past Development Loan Fund and other dollar loans are made.

There are limitations on the use of these currencies. Thus, since U.S.-owned Indian rupees, for example, are not convertible, they must be spent within India. They should not be spent in ways which might encourage inflation. There are other practical limitations on the spending of these currencies in such a way as not to impair broader policy objectives in India.

The most significant limitation on the use of U.S.-owned foreign currencies, however, is the self-imposed limitation embodied in Section 1415 of the Supplemental Appropriation Act of 1953 and subsequent legislation. This legislation provides, in effect, that U.S.-owned foreign currencies may not be used for U.S. purposes unless an equivalent dollar appropriation is made. Thus, when the United States needs to spend U.S.-owned rupees in India with a book value of \$1 million, the Congress must appropriate one million U.S. dollars. The \$1 million U.S. does not leave the Treasury. It buys nothing in India or for India. Instead the \$1 million U.S. appropriation gives bookkeeping dollar credit to the Commodity Credit Corporation for its earlier sales of surplus commodities for foreign currencies. This is a legitimate bookkeeping transaction. It should be recognized as a bookkeeping transaction and nothing more.*

Another effect of Section 1415 and related legislation is to keep these U.S.-owned foreign currencies under the control of the congressional appropriations process -- a perfectly legitimate objective.

Yet another not so desirable effect of Section 1415 and related legislation is to make it appear that \$1 million U.S. has been withdrawn from the U.S. Treasury for use in a foreign country when in fact this has not occurred. In this respect Section 1415 equates U.S.-owned foreign currencies to U.S. dollars which they are not and never will become. It creates the impression that the United States is spending dollars abroad when it is not.

Americans are chary of spending tax dollars, as they should be. But the same reasons which dictate care in spending dollars for foreign

*The taxpayer's dollar was spent when the Commodity Credit Corporation (by use of its authority to borrow from the U.S. Treasury) gave credit for (or bought) agricultural commodities which were in surplus. The subsequent sale of those commodities for foreign currencies was an attempt to salvage some international good from our surpluses by supplying food and at the same time getting a soft currency in payment. While it is true that sales of surpluses for foreign currencies without giving the Commodity Credit Corporation dollar credit therefor makes it look like farm surpluses are costing the taxpayer more than is the case, it is the burden of this paper to note that this factor should not prevent the use of the assets we still have.

aid do not necessarily apply to the expenditure of U.S.-owned foreign currencies. There are compelling reasons why they should be spent rapidly, but sensibly.

For one thing, we can be sure that soft foreign currencies kept in Uncle Sam's sock will not increase in value. European currencies ultimately became convertible but that is a different story. In these new states inflation is nearly inevitable and holdings of foreign currencies are almost sure to be reduced in value. Furthermore, they are now being accumulated in a number of countries faster than they are being spent and their magnitude is becoming a political liability at a time when their expenditure -- with little, if any, cost to the American taxpayer -- could be used for highly desirable purposes serving United States interests.

Take the case of India where the United States now has available for use, but unused, rupees with a value of \$315 million. Rupees are running out of our pockets and each year we accumulate an additional \$85 million worth of rupees. This is twice as many rupees as the United States is now spending each year in India. If our P.L. 480 sales for rupees continue as expected, if growing re-payments of principal and interest on past DLF loans accrue as scheduled, if India continues to pay interest on our large rupee deposits as in the past, it will be only a short time until our rupee holdings will exceed a half billion dollars in value.

If there were a real possibility that some day these sums might be converted to dollars and be returned to the United States Treasury, or if they might at some future time be used to purchase goods or commodities for use in the United States without injuring U.S. interests there might be some rationale in conserving these rupees. But these U.S.-owned rupees will not be convertible in our lifetime or that of our children. Most serious consideration should now be given to spending these funds for purposes that will advance our interests. To leave these funds idle and accumulating is wasteful of an American asset and inviting trouble -- some of which is already developing in the form of press articles and rumors suggesting that in time the United States will own the bulk of Indian currency and then what? These large U.S.-owned rupee funds are a natural and growing target for anti-U.S. elements in India. They should be spent.

Possible uses of U.S.-owned rupees in a constructive manner include the following: For one thing, much more could be done in the educational and cultural fields.

One of the needs in India is for textbooks in the English and Indian languages. Although the United States Mission in India is now authorized to spend \$1 million worth of rupees annually for the publication in India (not for export) of specialized American textbooks (with the approval of the American publishers), this program should be expanded. If the United States doesn't publish such books someone else will and one can be sure textbooks published under other auspices will not be American textbooks.

Rupee funds might be used to begin to make a dent in the paper back and children's book markets which are now penetrated heavily by communist publications. Rupees could be used to publish a woman's magazine which might compete with "Soviet Woman" which is now published in eleven languages, including Hindi.

Rupee funds might be used to pay for teaching English, expanding the Fulbright program, helping some Peace Corps projects, endowing libraries and professional chairs of American studies, and paying for many other activities that would serve joint United States and Indian interests.

At a modest cost the United States could keep Embassy cars in better repair; could authorize mission personnel to travel more widely within India; could give promotions to deserving Indian employees and provide them with limited medical care; and could build additional housing for mission personnel who now live in rented facilities.

The United States should not let its bookkeeping techniques and administrative red tape inhibit use of rupee funds (and other currencies we own elsewhere in excess) for purposes which will serve American interests. Failure to utilize for national purposes the wasting assets of U.S.-owned foreign currencies seems inexcusable. Although the Congress may be responsible for the partial road bloc presently embodied in Section 1415 described above, the Executive branch is not without some blame. It took months of prodding by Senator Williams of Delaware to induce the Executive branch to put its U.S.-owned foreign currency records in a usable form. Furthermore, the President has used in only limited instances his authority (Sec. 104 of P.L. 480) to waive the applicability of Section 1415 when he finds such waivers not inconsistent with provisions of the Agricultural Surplus Disposal Act.

It does no good to look for scapegoats in the Congress or in the Executive branch. Reasonable men looking at the problem should find it easy to agree that the time has come to take the counterpart fund off the backs of American representatives overseas. What is needed in Washington, I suspect, is a person (not a committee) to take charge. This man's job must be to put U.S.-owned excess foreign currencies to good use. This means the expeditious drafting of Presidential waivers to Section 1415, and, in consultation with congressional committees, the drafting of legislation which will preserve budget and congressional appropriation controls and at the same time unshackle government assets which are wasting.

This seems so simple and reasonable 10,000 miles from Washington.

Very truly yours,

Carl Marcy
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