The original documents are located in Box 8, folder "FY 1976 - 12/10/74, International Programs, Selective Service (2)" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

7f. Thailand-Military Aid

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FOREIGN ASSISTANCE

1976 Budget

Issue#7f: Military Assistance to Thailand

Statement of Issue

What are the minimum amounts of grant military assistance required in 1976, 1977, and thereafter to retain rights to bases and intelligence sites in Thailand?

	1974	Budget	Est.	Alt. #1 Req.	Alt. #2 OMB Rec.	Alt. #1 Req.	Alt. #2 OMB Rec.
				($ millions)			
Grant MAP	32.5	60	10	30	20	25	10
FMS Credit	-	-	-	15	15	20	20
Total	32.5	60	10	45	35	45	30

Background

Grant military assistance is furnished to Thailand primarily as an implicit quid pro quo for the use of air bases and intelligence sites. U.S. forces stationed in Thailand have been drawn down to under 25,000. There are no final decisions on future reductions below the current level or on the residual U.S. military presence.

Thai decision-making is complicated by the fact that a caretaker government has been in power since October 1973. The pressure within Thailand for further U.S. force reductions will not be clear for some time. Thailand's economic position continues to improve with foreign exchange reserves standing at $1.5 billion now, up from $1.2 billion a year ago. Militarily, the Thai have more equipment than they need to effectively combat the insurgent movement.

During the period 1967-1972, $60 million in MAP was considered the level needed as the quid for the bases. The budget has included $60 million each of the three years 1973-75, but allocations after congressional cuts have been $38 million and $32.5 million, while in 1975 it is estimated at $10 million.

Alternatives

#1. Gradually phase down grant materiel with no termination date in the expectation that base rights issue can be avoided (State/DOD req.).

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#2. Phase out grant materiel in two years, meeting Thai demands for base rights quid with FMS credit if necessary (OMB rec.).

Analysis

The alternatives differ on the rate at which grant MAP should be phased out:

Grant Military Assistance

	1976	1977	1978	1979	1980
	($ millions)				
State	30.0	25.0	20.0	15.0	10.0
OMB	20.0	10.0	1.6a/	1.6a/	1.6a/

a/ Training only

Alternative #1 is the safe course vis-a-vis the Thai, but does not adequately take into account Thai capabilities to pay for military equipment through FMS credit or cash sales. The thesis that the Thai will threaten our base structure if grant military assistance is reduced rapidly is untested. The Thai would be risking a great deal, including $150-200 million annually in spending associated with bases in Thailand, a free air defense system, and a degree of positive U.S. commitment to Thai interests. The small amount of grant military assistance involved is insufficient to drive Thai decision-making. The most important factor may be the degree of anti-U.S. base sentiment which develops in the next few months during the Thai election campaigns.

The NSC supports the State recommended levels as the minimum needed to assure continued U.S. access to bases in Thailand. The bases are essential to U.S. long-term objectives in Indochina, and continued access will be needed for the indefinite future. Defense also supports the Alternative #1 approach but recommends even higher MAP levels ($35 million) in 1976 and 1977.

Agency Request: Alternative #1 -- gradual phase down with $30 million in MAP and $15 million FMS credit in 1976; $25 million in MAP and $20 million FMS credit in 1977; no specific termination date for MAP. NSC concurs.

OMB Recommendation: Alternative #2 -- $20.0 million in MAP and $15 million FMS credit in 1976; $10 million MAP and $20 million FMS credit in 1977; no grant MAP after 1977.

7g. Latin-America
Military Aid Grants

FOREIGN ASSISTANCE

1976 Budget

Issue#7g : Grant Military Assistance to Latin America

Statement of Issue

Should grant materiel programs in Latin America be phased out?

	1974	1975 Budget	1975 Est.	1976 Alt. #1 Req.	1976 Alt. #2 DOD/OMB Rec.	1977 Alt. #1 Req.	1977 Alt. #2 DOD/OMB Rec.
	($ millions)						
Materiel	5.6	8.9	.9	9.7	3.8	7.5	-
Training	8.5	10.3	10.1	11.5	11.5	11.2	11.2
Total	14.1	19.2	11.0	21.2	15.3	18.7	11.2

Background

Grant materiel assistance to Latin America has been declining for several years. In 1974 it was $5.6 million, of which $2.5 million went to Bolivia, with the balance parceled out in amounts averaging $0.4 million per country. Despite the $8.9 million request for 1975, actual levels are likely to be lower in view of congressional cuts and higher priorities elsewhere.

Alternatives

#1. Continue to request small amounts of grant materiel totalling $9.7 and $7.5 million to Latin American countries in 1976 and 1977 (State req.).

#2. Terminate all grant materiel programs in Latin America by the end of 1976 (DOD/OMB rec.).

Analysis

Despite original support by State's Bureau of Inter-American Affairs for phasing out the remaining grant materiel programs in nine Latin American countries (Bolivia, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Uruguay), State proposes to continue them indefinitely. The NSC believes that U.S. interests are well served by the very modest grant military aid programs in Latin America and that the benefits are considerably greater than the small cost would suggest. Accordingly, it supports the State request.

These are the lowest priority programs worldwide. No country is receiving grants sizable enough to affect its security or is unable to purchase the amount of materiel being provided. The value of graduating nine countries from the MAP as part of a congressional strategy outweighs any diplomatic value from continuing to offer miniscule amounts of grant materiel assistance to Latin America. Defense concurs.

Agency Request: Alternative #1 -- set no termination date for Latin American grant materiel programs and request $9.7 and $7.5 million for Latin America in 1976 and 1977. NSC concurs.

OMB Recommendation: Alternative #2 -- provide $3.8 million in grant materiel to Latin America in 1976 and terminate such assistance thereafter. Defense concurs.

8. Latin America-
Military Credit Sales

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FOREIGN ASSISTANCE

1976 Budget

Issue#8 : Level of Foreign Military Credit Sales (FMS) for Latin America

Statement of Issue

What should be the total amount of FMS credit requested for Latin America in 1976 and 1977?

1974	1975	1976		1977	
	Budget	Alt. #1 State Req.	Alt. #2 DOD/OMB Rec.	Alt. #1 State Req.	Alt. #2 DOD/OMB Rec.
		($ millions)			
118.2	200	202	200	246	200

Background

FMS credit is offered in Latin America to enable U.S. arms suppliers to remain competitive and to make it possible for poorer countries to meet their needs for military equipment. In the 1970-73 period, Argentina and Brazil, for example, committed over $800 million to military purchases from non-U.S. suppliers because of (1) a lack of concessional U.S. credit, (2) U.S. restrictions on the sale of sophisticated weapons, some of which are still in effect, and (3) the availability of more suitable items, especially ships, at better prices elsewhere. Few Latin American arms purchases involve significant amounts of cash, making credit terms a significant factor in choosing a supplier.

Alternatives

#1. Provide $202 million in 1976 (including $17 million for Venezuela) and $246 million in 1977 (including $13 million for Venezuela) (State Req.).

#2. Provide $200 million in 1976 and 1977, specifically excluding Venezuela (DOD/OMB Rec.).

Analysis

Although State's 1976 FMS request continues the 1975 request level, it increases to $246 million in 1977 due to sizable increases for Argentina and Brazil and State's desire to continue credit to Venezuela.

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Venezuela is the source of over 1/4 of all U.S. oil imports and supplies large amounts of iron ore to the U.S. Over $3 billion of private American money is invested in Venezuela and that country is the 12th largest market for U.S. exports. In this light, State argues that FMS credit for Venezuela should not be terminated, particularly if its regional rival, Colombia, continues to receive FMS credit.

The NSC believes that State's requested FMS credit levels are required to cover Brazil's planned purchases of materiel. NSC believes that, because FMS credit has loomed so important in Venezuelan eyes up to now and has been the catalyst for resolution of disputes between us, Venezuela should continue to receive FMS credit despite its oil earnings.

Economically, there is no reason to offer any FMS credit to Venezuela. In light of increasing oil revenues, accumulating foreign reserves, and sizable third country purchases, Venezuela is capable of purchasing its military needs without concessionary U.S. credit. If necessary, the balance between Venezuela and Colombia can be maintained by export license controls over the sale of U.S. arms.

In the rest of Latin America, on the other hand, FMS credit is necessary in reasonable amounts. In 1977 Argentina and Brazil would be the beneficiaries of most of the $44 million increase State proposes.

Maintaining the $200 million level in 1977 should insure U.S. competitiveness. Because of higher quality and proximity of maintenance, spares, and training, U.S. arms enjoy an advantage in Latin American markets. Argentina should be able to pay cash or find commercial credit for an increasing share of its military needs. Brazil is experiencing a foreign exchange reserve crunch at a time when foreign debt is quite high and consequently will probably not require high FMS credit in the near future.

Agency Request: Alternative #1 -- $202 million in FMS credit in 1976 and $246 million in 1977, including $17 million and $13 million for Venezuela in 1976 and 1977. NSC concurs.

OMB Recommendation: Alternative #2 -- $200 million in FMS credits in 1976 and 1977 and no FMS credit for Venezuela after 1975. Defense concurs.

9. Morocco-Military
Credit Sales

FOREIGN ASSISTANCE

1976 Budget

Issue#9 : Military Credit Sales to Morocco

Statement of Issue

Should Foreign Military Credit Sales (FMS) for Morocco be increased to $30 million?

	1974	1975		1976		1977	
		Budget	Est.	Alt. #1 Req.	Alt. #2 DOD/OMB Rec	Alt. #1 Req.	Alt.#2 DOD/OMB Rec.
				($ millions)			
FMS Credit	3	14	14	30	14	30	14

Background

The Morocco FMS credit program in the past decade has ranged from $3 million to $12 million. The primary justification has been that credits were necessary to facilitate continued U.S. use of the Keneitra naval communications station. The request was increased to $14 million in 1975, because Secretary Kissinger was pleased with the warm reception and useful talks he had on his October 1973 visit to Morocco.

The 1976 request results from a subsequent visit of Secretary Kissinger. King Hassan believes that he received a commitment from the Secretary for a substantial increase in credit assistance to finance a force modernization program involving the formation and equipment of two infantry brigades. The Moroccan economy is doing extremely well because of the large rise in the price of phosphates, a major Moroccan export.

Alternatives

#1. Provide $30 million a year in 1976 and 1977 (State req.).

#2. Provide $14 million a year in 1976 and 1977 (DOD/OMB rec.).

Analysis

Alternative #1 would provide sufficient funds over a five-year period to equip one infantry brigade. State contends that this level would please King Hassan, and support Secretary Kissinger's statements to the King that the United States would assist in its military modernization effort.

The NSC recommends $30 million FMS credit for Morocco on the grounds that we want to retain our Defense Communications Station there and want Hassan's help in negotiations in the Arab world. Hassan places a high premium on improvement of his Armed Forces, and we have agreed to help. NSC believes that to do less would likely sacrifice the political leverage we gain from this modest program, particularly with the elimination of economic aid. NSC notes that to accommodate this level, either Morocco must be eliminated from the statutory ceiling on military aid to Africa, or the Africa ceiling removed.

Alternative #2 would continue the 1975 program of $14 million. This level, higher than that of previous years, was itself a political gesture to the King. Morocco is economically strong and should continue to be a beneficiary of the phosphate shortage and accompanying price rise. Because of its strong economic position, Morocco is able to obtain commercial loans or use cash to supplement FMS credit to finance its military purchases.

Agency Request: Alternative #1 -- $30 million in FMS credit, more than doubling the 1975 amount. NSC concurs.

OMB Recommendation: Alternative #2 -- $14 million in FMS credit, a continuation of the 1975 level. Defense concurs.

10.Greece-Military Credit Sales

FOREIGN ASSISTANCE

1976 Budget

Issue# 10: Military Credit Sales to Greece

Statement of Issue

What Foreign Military Sales (FMS) credit level should be requested for Greece?

	1974	1975		1976		1977	
		Budget	Est.	Alt. #1 Req.	Alt. #2 DOD/OMB Rec.	Alt. #1 Req.	Alt. #2 DOD/OMB Rec.
					($ millions)		
FMS Credit	71	71	71	105	90	110	90

Background

By statute (Hays Amendment), grant and credit assistance to Greece cannot exceed $71 million. Congressman Hays has proposed that this amendment be repealed now that democracy has been restored in Greece. The pending House Committee bill contains a repeal provision.

Alternatives

#1. Provide $105 million in 1976 and $110 million in 1977 (State req.).

#2. Provide $90 million in each year (OMB rec.).

Analysis

Last summer Greece purchased aircraft totaling $403 million. They have also indicated a desire to purchase substantial quantities of other major items on an expeditious basis.

Greek disillusionment with NATO and particularly the United States over the Cyprus issue is reflected in its decision to withdraw from NATO. The Greeks blame the United States for "tilting" toward Turkey. Whether or not this is a valid charge, there is no longer any question that Greek, as well as Turk, acquisitions are related primarily to the threat from each other.

The NSC supports State's requests for 1976 and 1977. Potential sales contracts will at least equal these levels. NSC believes our agreement to them will accommodate moderate Greek military modernization, help protect important U.S. base and facility rights, and encourage Greece to move closer to resuming full military participation in NATO.

Both alternatives are substantially higher than previous levels, thereby indicating our approval of the restoration of democracy. The issue is whether any political benefits accruing from the additional $15 million are sufficient to offset (1) the risk that, relative to Alternative #2, the additional amount might be perceived as contributing to a Greek-Turk arms race and (2) the additional budgetary cost.

Agency Request: Alternative #1 -- $105 million in 1976 and $110 million in 1977. NSC concurs.

OMB Recommendation: Alternative #2 -- $90 million yearly in 1976 and 1977. DOD concurs.

P.L. 480

11a. 1975 P.L. 480
Food Aid

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DEPARTMENT OF AGRICULTURE

1975 Budget

Issue 11: P.L. 480 Food Aid for 1975

Statement of Issue

What should be the level and composition of the P.L. 480 food aid program for 1975 in view of tight U.S. food supplies and budget constraints, on the one hand, and humanitarian and foreign policy needs on the other.

	P.L. 480 Outlays					
		1975				
	1974	Budget	Alt.#1	Alt.#2	Alt.#3	Alt.#4
	($ millions)					
Commodity Costs						
Title I	568	703	741	878	947	1155
Title II	283	176	352	352	352	352
Subtotal	851	879	1093	1230	1299	1507
Freight Costs	112	103	134	136	140	147
Receipts (-)	324	240	274	274	274	274
Total	639	742	953	1092	1165	1380
Grain Equivalent (Million Metric Tons)	3.1	4.3	3.8	4.1	4.5	5.3

Background

In September the President decided to increase the amount spent for P.L. 480 above the dollar level in the 1975 budget but to defer decisions on the ultimate size of the full-year program until December. In October, an interim program, designed to keep options open for a final decision, was approved and is now being implemented.

Since the September/October decisions, several events have occurred which will affect the size and cost of the food aid program:

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- Supplies are lower and demand higher than earlier anticipated, resulting in higher prices of wheat and rice.
- Secretary Kissinger made commitments to Egypt, India and Chile which exceeded the approved interim program.
- The World Food Conference intensified foreign and domestic pressures on the Administration to increase food aid.
- Several Congressmen have introduced legislation calling for more food aid, particularly for humanitarian purposes.

A decision on the full year P.L. 480 program is required now if any substantial additional amount of commodities is to be shipped before the end of the year and if the 1976 budget is to reflect accurately the 1975 program levels. An interagency group -- State, Agriculture, Treasury, AID, NSC, CIEP, CEA and OMB -- have developed four program alternatives.

<u>Alternatives</u>

#1. $953 million in outlays (2.7 million tons of wheat and .7 million tons of rice). A minimum program consistent with the President's decision to increase food aid and meet existing commitments. It is within USDA commodity availabilities.

#2. $1,092 million (2.7 million tons of wheat, 1.0 million tons of rice). The increase is targeted on humanitarian needs and is within the USDA commodity availabilities.

#3. $1,165 million (3.1 million tons of wheat, 1.0 million tons of rice). The increase is targeted on countries of foreign policy interest and exceeds USDA wheat availabilities.

#4. $1,380 million (3.7 million tons of wheat, 1.15 million tons of rice). The increase fulfills both humanitarian and foreign policy requirements and exceeds USDA availabilities for both wheat and rice.

Analysis

(1) Commodity Situation. The impact of P.L. 480 on food prices and supplies is difficult to predict because of the unprecedented commodity price fluctuations in the current short supply situation. In addition, an indeterminate amount of P.L. 480 may substitute for expected commercial export sales and thus have no price impact. There is substantial interagency disagreement over commodity availabilities, and availability projections have fluctuated widely during the last six months.

By Law, the Secretary of Agriculture determines commodity availabilities according to a formula which requires him to provide first for domestic use, commercial exports and "adequate carryover." The remainder, if any, is available for P.L. 480 or additional stocks. Approval of Alternatives #3 or #4, which exceed the official USDA estimate of wheat available for P.L. 480 by 400,000 and 1 million tons respectively, would require a determination by the Department of Agriculture either to lower its estimate of "adequate carryover" or revise its forecast of domestic and commercial export demand. The Secretary of Agriculture's current determination of wheat available for P.L. 480 is attached.

Feedgrains and vegetable oil. All agencies agree that these commodities are in very tight supply and that only small additional amounts can be made available only for humanitarian programs.

Wheat. The determination that 2.7 million tons of wheat are available for food aid this year assumes a nine percent drop in domestic consumption, a ten percent reduction in year-end stocks and a 12.5 percent increase in average farm prices form last year.

- Treasury argues that P.L. 480 wheat availabilities are too high given other demand and would prefer a 2.1 million ton wheat program. Current high feed grain prices are causing a decpitalization of our livestock industry; increased P.L. 480 shipments would further increase grain prices with the result that red meat prices are likely to rise again in late 1975 and in 1976.

- State and NSC believe that the program should be increased to the Alternative #4 level of 3.7 million tons, noting the substitution of some food aid for commercial sales and pointing out the uncertainty surrounding commodity projections.

° OMB is concerned about the current low level of stocks, and argues that any additional demand created by P.L. 480 would further reduce this cushion against unexpected commercial demand and could increase the likelihood of export controls and domestic price increases.

USDA/CEA calculations indicate that raising shipments from 2.7 to the 3.7 million tons in Alternative #4 could raise farm prices of wheat from the currently estimated $4.50 per bushel to the $4.80 to $5.10 range (6-13 percent). This would be as much as 27 percent above last year's average. These price projections are only illustrative, however, because individual estimates run from virtually no price impact to the possibility of runaway prices.

These estimates illustrate the price pressures which successively higher levels of food aid place on food prices, thereby increasing the risks of adverse political reaction from affected domestic groups. Although the pressure for export controls seems to have abated, the higher levels of food aid under Alternatives #3 and #4 also create a greater, although undetermined, risk of reviving domestic pressure for such controls because of the impact of higher wheat prices on domestic users and consumers.

<u>Rice</u>. Because of a record harvest USDA projects a rice availability of at least 1 million tons. This assumes a return of year-end stocks to comfortable levels and a 17 percent drop from last year's extremely high prices. Alternative #1 (690,000 tons) is well below this level and would probably further ease prices, but would also generate strong producer pressures to ship more rice under P.L. 480. Alternative #4 (1.15 million tons) could raise prices as much as ten percent, but might not be feasible to ship because of logistical limitations.

(2) <u>Budget Considerations</u>. All of the proposed alternatives would significantly exceed the original 1975 budget outlay estimate of $742 million and fulfill the President's commitment to increase the amount we spend on food aid.

Alternative

#1	a $211 million increase; 28 percent.
#2	a $350 million increase; 47 percent.
#3	a $423 million increase; 57 percent.
#4	a $638 million increase; 86 percent.

Unless offsetting rescissions or deferrals are made in other programs, each alternative would require an increase in the USDA outlay ceiling.

Country Program Considerations

Countries receiving U.S. food aid may be divided into five major groups. There is little interagency dispute about three of these groups.

- South East Asia. All alternatives provide Vietnam and Cambodia with the full amount of P.L. 480 commodities that they require. As much as $58 million programmed for Vietnam may not be needed if its crops are good and stocks remain high, and thus may become a reserve for contingencies.

- Middle East. All alternatives provide sufficient food aid to support U.S. peace efforts in Egypt, Israel, Syria and Jordan.

- Title II Programs. These people-to-people feeding programs for humanitarian purposes, conducted by the U.S. Voluntary agencies (CARE and Catholic Relief Services) and through the UN World Food Program are being continued at about last year's levels under all alternatives.

Most of the variation among the alternatives occurs in the other two groups of countries.

Traditional Recipients. Indonesia and Pakistan in the past have been recipients of large scale food aid to reinforce political ties with the U.S., but these countries are now relatively well off economically. Korea, which would be one of the largest P.L. 480 recipients under Alternatives #3 and #4, would receive food as a quid-pro-quo for voluntary textile export restraints. The needs of Chile are substantially met under all options.

South Asia. Because Bangladesh, India and Sri Lanka have been hit by a combination of domestic crop shortfalls and high import prices for food and oil, much of the recent public and Congressional pressure for more food aid has centered on meeting the needs of these countries. India, however, has some foreign exchange available for food purchases and may be prepared to buy more wheat commercially. Bangladesh faces problems of internally distributing any large food imports.

Summary of Alternatives

Alternative #1. This alternative would ship the full 2.7 million ton availability of wheat and 690,000 tons of rice. It would:

- Provide 500,000 tons of wheat to India but limit shipments to Bangladesh to 350 tons of grain and not assist Sri Lanka.

- Provide 70,000 tons of rice to Korea, and 100 tons of rice to Pakistan but nothing for Indonesia.

At $953 million outlays, the alternative would be $211 million above the budget. Pressure on wheat prices would probably be minimal unless the Treasury analysis of the wheat situation is correct. Rice prices could decline slightly. Despite the increase in wheat above the 1.9 million tons originally planned in the budget, the alternative falls short of meeting humanitarian needs and would lead to criticism that the United States is ignoring the world food crisis. Insufficient food would be provided to meet the expectations of the traditional recipients, possibly creating political problems with these countries. Congressional pressures would intensify to increase rice shipments to 1 million tons.

Alternative #2. This alternative would raise rice shipments by 310,000 tons over Alternative #1 to 1 million tons. Both wheat and rice would be programmed at USDA availability levels. Under this alternative:

- Virtually all of the increment would go to South Asia except for $15 million set aside as a contingency reserve.

- Traditional recipients would be held to the Alternative #1 level.

Outlays would rise by $350 million over the budget. There would probably be no significant increase in rice prices above current levels. While the shipments to South Asia would constitute a substantial response to humanitarian needs, the recipients and food aid proponents in the United States would probably push for even higher levels.

Alternative #3.

This alternative would add 400,000 tons of wheat above the USDA availability level bringing total wheat to 3.1 million tons. It would:

- Reduce the volume of shipments to South Asia slightly below Alternative #2. (There would be a greater decline in dollar terms because of the substitution of the low cost wheat for high cost rice.).

- Come close to meeting the expectations of traditional recipients by providing large scale rice shipments.

Outlays in 1975 would increase by $423 million. The wheat shipments may increase wheat prices and arouse domestic resentment.

Alternative #4.

This alternative would further increase wheat shipments to 3.7 million tons and raise rice shipments to 1.15 million tons, going above the USDA availability levels for both commodities. It would meet all major requirements in South Asia and satisfy traditional recipient expectations. Budget outlays would rise by $638 million over the original 1975 figure or by 87 percent. The wheat increase could put very substantial pressures on prices. While the rice price rise might be small there could be logistical difficulty in moving the additional 150,000 tons of rice.

Agency Positions

State, AID, and NSC staffs recommend Alternative #4. They believe that a response of this magnitude is necessary in order to meet the pressing humanitarian needs which all recognize and at the same time to achieve our foreign policy goals. They recognize that there may be some risk of higher prices, perhaps in the extreme case leading to some reconsideration of the need for export controls. But they believe that this risk can be minimized through careful management and implementation of the program.

The Agriculture Department supports Alternative #3. Despite the increase in wheat shipments above the availability level, USDA believes the minimum carryover for wheat could be adjusted to accommodate Alternative #3 without significantly distorting the domestic economic situation with regard to wheat price or availability.

CIEP recommends Alternative #2. While recognizing the need for budget restraint consistent with Alternative #1, they believe that for a relatively small dollar increment the Administration could enhance its image worldwide and win domestic support by the additional humanitarian shipments. They also believe that higher rice levels could increase support for the Administration's proposed commodity legislation for rice at no inflationary risk. They are very concerned about tight wheat supplies and strongly oppose Alternatives #3 and #4 because of their inflationary potential and the risk of stimulating export controls.

CEA recommends Alternative #1 as being the least inflationary course.

The Treasury Department does not support any of the four alternatives. They recommend a P.L. 480 program which includes not more than 2.5 million tons of wheat and 1 million tons of rice. They prefer the country distribution shown in Alternative 3.

OMB Recommendation: OMB believes that the current budget policy and the threat of continuing inflationary pressures in the food sector require holding the budget increase to the Alternative #1 level. Should some further increase be judged necessary, OMB prefers Alternative #2 over Alternative #3. The high Alternative #4 would incur unacceptably high risks of price increases, conflict with current budget policy and contrast adversely with the nine percent,$339 million reduction in food stamps which has just been proposed.

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P.L. 480 1975 FUNDING ALTERNAITVES
AND COUNTRY PROGRAMS

($ millions)

	Alt. #1	Alt. #2	Alt. #3	Alt. #4
TITLE I COMMODITIES				
Southeast Asia:				
Cambodia	158	158	158	158
Vietnam	101	101	101	101
Subtotal	259	259	259	259
Middle East:				
Egypt	88	88	88	88
Israel	9	9	14	26
Jordan	4	4	5	7
Syria	32	32	32	32
Subtotal	133	133	139	153
Traditional Recipients:				
Chile	53	53	53	65
Korea	30	30	106	124
Indonesia	-	-	30	43
Pakistan	18	18	44	53
Subtotal	101	101	233	285
Asian Subcontinent:				
Bangladesh	98	171	138	191
India	88	116	88	169
Sri Lanka	-	11	11	11
Subtotal	186	298	237	371
Other Countries and Carry-In:				
Other Countries	9	19	27	35
Carry-In	53	53	53	53
Reserve	-	15	-	-
Subtotal	62	87	80	88
TOTAL TITLE I COMMODITIES	741	878	947	1,155
TITLE II COMMODITIES	352	352	352	352
TOTAL COMMODITIES	1,093	1,230	1,299	1,507
Freight Costs	134	136	140	147
Deduct: Receipts	-274	-274	-274	-274
PUBLIC LAW 480 - TOTAL	953	1,092	1,165	1,380

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12/7/74

SUMMARY COMPARISONS OF P.L. 480 ALTERNATIVES

	1975 Budget	1975 Alternatives #1	#2	#3	#4
Commodities a/ (tons, millions)					
Wheat	1.9	2.7	2.7	3.1	3.7
Rice	1.0	.7	1.0	1.0	1.2
Feedgrain	1.4	.4	.4	.4	.4
Outlays ($ millions)	742	953	1,092	1,165	1,380
Increase over 1975 budget	-	(+211)	(+350)	(+423)	(+638)

a/ Current USDA "availabilities"

Wheat	2.7
Rice	1.0
Feedgrain	.4

U.S. Supply/Distribution

Wheat

In millions of bushels and thousands of metric tons

ITEM	1972/73		1973/74		1974/75	
			Bu.	MT 1/	Bu.	MT 1/
A. Supply						
1. Carryin			439	11,948	249	6,777
2. Production			1,711	46,566	1,781	48,471
3. Imports			4	109	1	27
4. Total			2,154	58,622	2,031	55,275
B. Disposition						
1. Domestic Use			757	20,602	688	18,724
2. Exports						
(a) Commercial			1,089	29,638	1,000	27,216
(b) P.L. 480			59	1,606	100	2,722
(c) Total Exports			1,148	31,243	1,100	29,937
3. Total Use			1,905	51,845	1,788	48,661
4. Carryover			249	6,777	243	6,613
C. Prices						
1. Season Average			$4.00		$4.50	
Loan Rate			1.25		1.37	
D. Calculation of P.L. 480 Availability						
1. Domestic Use & Comm'l Exports			1,846	50,240	1,688	45,940
2. Adequate Carryover			249	6,777	243	6,613
3. Total Requirements			2,095	57,017	1,931	52,553
4. Excess Supply to Projected Requirements (A4-D3)			59	1,606	100	2,722
5. Recommended for P.L. 480 Availability			59	1,606	100	2,722

1/ All MT figures converted directly from corresponding bushel figures, and may not add due to rounding.

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11b. 1976 P.L. 480
Food Aid

DEPARTMENT OF AGRICULTURE

1976 Budget

Issue 11b: P.L. 480 Food Aid Program for 1976

Statement of Issue

What should the level and composition of food aid be in 1976 in view of uncertainties in commodity availabilities and continuing pressures for a sizable increase in the U.S. food aid program particularly for humanitarian purposes?

P.L. 480 Outlays ($ millions)

	1974	1975 Alt.#1	1975 Alt.#4	1976 Alt.#1 AID Req.	1976 Alt.#2 OMB. Rec.	1976 Alt.#3 USDA Req.
Title I Commodity Costs	568	741	1155	921	662	617
Title II Commodity Costs	283	352	352	326	283	262
Subtotal	851	1093	1507	1247	945	879
Freight Costs	112	134	147	180	151	138
Receipts (-)	324	274	274	246	235	235
Total	639	953	1380	1181	861	782
Grain Equivalent (million metric tons)	3.1	3.8	5.3	6.2	4.7	3.8

Background

Members of Congress, the public and foreign governments will be watching the level of food aid planned for in 1976 compared with that chosen for 1975 as an indication of U.S. intentions regarding the future of food aid. In that context, the commodity level of food aid chosen for 1975 sets a minimum for the 1976 program if the Administration is to signal its responsiveness to continuing pressures for large scale food aid.

USDA plans no acreage limitations on P.L. 480 commodities in 1976. Thus, with normal weather conditions, supply is expected to ease and prices to fall below current levels by roughly 20%. However, major uncertainties remain regarding commodity availabilities and prices as well as the likely needs abroad for food aid in 1976.

Alternatives

#1 Undertake a large scale food aid program of $1,181 million (State/AID Req.)

#2 Provide for a program of $861 million (OMB Rec.)

#3 Mount a P.L. 480 program of $782 million (USDA Req.).

Analysis

The Level

The major focus of recent public and Congressional pressures to increase food aid has been largely on expanding commodity levels; comparisons between the levels of food aid in 1975 and 1976 are likely to be on the same basis. An additional element in considering the level for 1976 is fulfillment of the U.S. pledge at the World Food Conference to participate in providing ten million tons of grain for food aid; the U.S. share in the global commitment, to be negotiated in early 1976, is likely to be about 40% or four million tons.

P.L. 480 Levels

	1975				1976		
	Alt.#1	Alt.#2	Alt.#3	Alt.#4	USDA Req.	OMB Rec.	State/AID Req.
Commodity Levels (million metric tons of grain)	3.8	4.1	4.5	5.3	3.8	4.7	6.2
Budget Outlays	953	1092	1165	1380	782	861	1181

The higher grain level per dollar in 1976 reflects the lower USDA price estimates for that year.

Program Composition

Only the State/AID request and the OMB recommendation for 1976 include proposed program composition by country. They both:

- Provide full needs for Southeast Asia.
- Provide substantial food aid for possible needs in South Asia and for five smaller country programs.
- Provide the full request level for Chile and a sizable worldwide reserve for contingencies.

The OMB recommendation differs from the State/AID request by:

- Eliminating the program for Korea. The Korean program is the largest single program proposed for 1976. The tight commodity situation in 1974 and 1975 has prevented fulfillment of the U.S. commitment to provide large scale food aid to Korea in exchange for limitations on Korean textile exports to the U.S. If the supply situation for P.L. 480 commodities should ease in 1976, pressures will increase to resume large scale food aid. However, by contributing to upward pressures on prices of food and textiles in the United States and so contributing to inflation, the Korean textile agreement no longer serves U.S. interests. Moreover, a $150 million program for Korea--neither one of the neediest LDC's nor among those most seriously affected by rising oil prices -- may provoke public and Congressional criticism and lead to efforts to restrict food aid to largely humanitarian purposes.
- Eliminating programs for Egypt, Syria, Jordan, and Israel. The Middle East program for 1975 in large part serves as an immediate and visible signal of U.S. support for Syrian and Egyptian willingness to take steps toward settlement while large dollar appropriations are pending in Congress. These funds are expected to be made available later this fiscal year, to be disbursed in part in 1976. With the availability of other funds from 1975 appropriations and from appropriations or a Continuing Resolution in 1976 (which would include funds for the Middle East at the level appropriated in 1975) food aid should no longer be required for these countries.

° Reducing Title II for countries able to assume the burden of financing their own nutrition programs.

Agency Requests

The State/AID request, Alternative #1, of $1181 million in outlays, would continue large programs for Korea and the Middle East. It would also be consistent with increasing food aid over any of the 1975 alternatives and would provide 6.2 million tons of grain, well over the four million tons of grain likely to be the U. S. contribution to the ten million ton worldwide level of food aid.

The USDA request, Alternative #3 of $782 million in outlays would provide only 3.8 million tons of grain, below the expected U.S. contribution to the worldwide level of food aid and below commodity levels of all the 1975 alternatives except Alternative #1.

The OMB Recommendation. Alternative #2 of $861 million in outlays, would eliminate programs in Korea and the Middle East while planning commodity levels above those of Alternatives #1, 2, or 3 for 1975 but would fall below that of Alternative #4. It would also enable the United States to provide 4.7 million tons of grain, more than enough to meet a four million ton world food aid commitment.

PROPOSED COUNTRY
DISTRIBUTION OF P.L. 480
FUNDING LEVELS FOR
1976

	($ Millions)	
	AID Req.	OMB Rec.
Country Programs		
Southeast Asia:		
Cambodia	86	86
Vietnam	112	127*
Indochina Reserve	15	15
Subtotal	213	228
Middle East:		
Egypt	81	--
Israel	3	--
Jordan	20	--
Syria	20	--
Subtotal	124	--
Traditional Recipients:		
Chile	65	65
Korea	150	--
Pakistan	28	28
Subtotal	243	93
Asian Subcontinent:		
Bangladesh	111	111
India	138	138
Sri Lanka	18	18
Subtotal	267	267
Other Countries and Reserve		
Other Countries	24	24
Worldwide Reserve	50	50
TOTAL TITLE I COMMODITIES:	921	662
Title II Donations	326	283
TOTAL COMMODITIES	1247	945
Freight costs	180	151
Deduct: Receipts	246	235
PUBLIC LAW 480 - TOTAL	1181	861

* The larger figure in the OMB Rec. for Cambodia reflects a shift of commodities from Title II to Title I. The total level of commodities for Cambodia remains the same in both options.

DEPARTMENT OF AGRICULTURE

1976 Budget

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DISTRIBUTION OF P.L. 480
FUNDING LEVELS FOR
1976

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Smaller Agencies

STATE DEPARTMENT

THE WHITE HOUSE

WASHINGTON

December 6, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: 1976 Budget decisions: State Department

The State Department requests and my recommendations with respect to 1976 budget amounts are presented in the attached tabulation (Tab A). Four issues have been identified for your consideration (detail at Tab B). We have not yet had an opportunity to discuss my recommendations with the Department.

I. Operating expenses

The Department requests a $69 million increase over the 1975 level of $356 million. Half of the increase is for mandatory expenses, primarily the effect of inflation abroad on overseas operating costs. The discretionary increase ($35 million) is for 400 additional employees and improving communications and other logistical support services.

OMB recommends all of the mandatory cost increases. We believe, however, that the Department should continue to meet essential new personnel requirements by reprogramming lower priority positions, and that one third of the request for logistical improvements will allow the important needs to be met. We recommend a total increase of $45 million.

Decision: Approve agency request ______
Approve OMB recommendation ___ND___

II. Exchange of persons

State requests a large increase to $80 million from the 1975 level of $53 million in the belief that American political, economic, scientific, educational and cultural contacts with foreign societies must be broadened, especially with Latin America, Eastern Europe and the Near East. OMB believes budget policy and management limitations make a 50% increase inappropriate. Our $58 million recommendation continues the program slightly above the current level by covering mandatory cost increases and modest bicentennial activities.

Decision: Approve agency request ____________
Approve OMB recommendation ____________

III. Japan-U.S. Exchange Program

State proposes no appropriation at this time to fulfill a Nixon 1973 commitment to reciprocate a Tanaka $10 million gift to U.S. universities for Japanese studies. The Department prefers first compromising with Senator Javits on his bill authorizing a special $32 million appropriation for grants to American, as well as Japanese, institutions for Japanese and American studies.

Our recommendation to seek an appropriation of $15 million of U.S.-owned yen earmarked for exchange programs would fulfill the Nixon commitment, not add to the budget deficit, and avoid a compromise with Senator Javits which would result in larger appropriations and a new independent agency (which Javits desires) to administer the program.

Decision: Approve agency request ____________
Approve OMB recommendation ____________

IV. Soviet refugees to countries other than Israel

Since 1973 the Congress has initiated appropriations to aid Russian Jewish refugees. Most have been going to Israel, but recently more have been coming to the United States and this trend is expected to continue. The House Foreign Affairs Committee has reported that the Congressional appropriation should be used only for refugees going to Israel. The Department agrees but has not yet decided how to aid refugees coming to the United States and has made no budget request.

The OMB recommendation would include $13 million in the regular State refugee appropriation to aid refugees going to countries other than Israel. The only other alternatives are to ignore Congressional objections and use the Congressional appropriation or to make transfers of AID funds which, however, are limited to $10 million and should be reserved for unforeseen refugee problems in other areas which regularly occur.

Decision: Approve agency request ____________
Approve OMB recommendation ____________

Attachments

TAB A

DEPARTMENT OF STATE
(Excluding International Boundary and Water Commission)

1976 Budget

Summary Data

	(In millions) Budget authority	Outlays	Employment, end-of-period Full-time Permanent	Total
1974 actual	763	718	22,325	23,642
1975 January budget	787	758	23,059	24,663
current estimate	840	807	xxxx	xxxx
supplementals recommended*...	39	37	xxxx	xxxx
OMB recommendation	879	844	22,873	24,489
1976 planning ceiling	815	825	xxxx	xxxx
agency request	975	974	23,279	24,895
OMB recommendation	937	937	22,873	24,489
Transition period				
agency request	420	378	23,279	24,895
OMB recommendation	406	365	22,873	24,489
1977 OMB estimate	1,028	1,000	22,873	24,489

* $30 UN forces in Middle East and $9M pay increase

TAB B

Issue Paper
Department of State
Issue #1: Operating Expenses

Statement of Issue

Should the Department increase its employment and improve its logistical support services and facilities?

Background

Since 1967, State has reduced its employment by 16%, while absorbing new requirements such as additional visa workloads and new diplomatic installations in China, the Middle East, and Africa. In the same period, however, the operating costs of the Foreign Service abroad and the Department in Washington have increased 75%, largely because of salary increases, overseas inflation, and the devaluations of the dollar.

The last several budgets have requested funds for mandatory cost increases -- e.g., continuing inflation abroad -- and modest increases in logistical support ($4 million last year). Although the Department sought personnel increases in these years in its budget requests to OMB, the Presidential Budget allowed none, on the grounds that essential new staff requirements could continue to be absorbed by reprogramming existing staff.

For 1976, OMB recommends $34 million in mandatory increases requested by the Department, largely for increased foreign national salaries and overseas operating costs resulting from inflation abroad. The question is the extent to which additional personnel and discretionary increases in logistical support should be permitted.

Alternatives

#1. Provide fairly substantial increases in personnel and logistics (Agency req.).

#2. Allow no additional personnel, but provide a modest increase in logistics (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1974 BA	1974 O	1975 BA	1975 O	1976 BA	1976 O
Alt. #1 (Agency req.)	325	329	356	356	425	416
Alt. #2 (OMB rec.)	325	329	356	354	401	395

Agency Request: Alternative #1. The Department requests about 400 additional personnel and $11 million for additional overseas installations, export promotion activities, and scattered staff increases. The Department also requests $24 million for logistical support (new automated systems, equipment, furnishings, and facilities), including $9 million to improve its communications. The total discretionary request of $35 million is three times that sought from OMB last year.

OMB Recommendation: Alternative #2. No additional personnel would be allowed, on the grounds that the Department can continue to reprogram low priority positions to meet essential new requirements. Only one third of the requested non-salary costs of new installations would be financed, since the opening of most of the requested new overseas posts is uncertain. About a third of the other logistical increases would be provided, with the Department selecting the highest priority items. The total recommended discretionary increase is $11 million, almost three times the amount requested of the Congress for 1975.

Issue Paper
Department of State
1976 Budget
Issue #2: Exchange of Persons

Statement of Issue

Should the exchange of persons program be sharply increased to significantly broaden personal and institutional contacts with foreign societies.

Background

The program's basic objective is to improve communication between key elements of American society and foreign societies so that the environment for U.S. political, economic, military and cultural relations may be improved. Emphasis in recent years has been on political, economic, media, cultural and scientific exchanges, although academic exchange remains the largest element. More specific objectives are difficult to define and results are hard to measure. In view of today's overwhelming private commercial, academic, scientific, cultural and media interchange with many countries, the Department has been trying to tailor its program more toward places and types of exchanges that do not receive much private attention. The program is carried out by binational commissions abroad, academic committees in the United States, and about 130 non-governmental, non-profit institutions receiving contracts or grants.

Alternatives

#1. Provide sharp increases in institutional support and the number of grants ($80 million - agency req.).

#2. Continue 1975 level by providing $4 million mandatory cost increases and $1 million for special bicentennial activities ($58 million - OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1974 BA	1974 O	1975 BA	1975 O	1976 BA	1976 O
Alt. #1 (Agency req.)	51	47	53	52	80	70
Alt. #2 (OMB rec.)	51	47	53	52	58	55

Benefits and costs of the program are difficult to ascertain in the short-run. Over the long-run the Department is convinced the program results in foreign understanding of American society, government and institutions that serves us well. Determination of program and budget levels are largely a matter of judgment based on faith in future benefits, administrative feasibility, and budget policy.

Agency Request: Department leadership believes a quantum increase is important and that it should be sustained over the next five years. Secretary Kissinger reportedly wants the program to broaden American contacts and relationships, especially in Latin America, Eastern Europe and the Near East.

OMB Recommednation: OMB believes budget policy and management limitations warrant denial of a 50% program increase. A $5 million increase, covering $4 million of mandatories and $1 million for bicentennial activities would be in line with recent modest budget increases. This "hold the line" approach would be reasonable in terms of current budget policy. The program could continue some modest development and improvement.

Issue Paper
Department of State
1976 Budget
Issue #3: Japan-U.S. Exchange Program

Statement of Issue

Should a special appropriation of $15 million of U.S.-owned yen be sought to fulfill the Nixon commitment to make grants to Japanese institutions for American studies to reciprocate the Japanese Government's $10 million of grants made in 1973 to American institutions for Japanese studies programs?

Background

When Prime Minister Tanaka in 1973 announced $10 million in grants to ten American universities for Japanese studies, President Nixon responded by indicating that he would soon seek appropriation of the remaining $15 million of yen balances in a post-war account (GARIOA) held by the U.S. "to strengthen Japan-U.S. cultural and educational exchanges." Earlier in 1973, Senator Javits had introduced legislation: (a) authorizing a $32 million trust fund, the income and principal of which would be available for grants to Japanese and American institutions for Japanese-American studies, and (b) establishing a joint congressional-executive-public member commission, (i.e., a new independent executive agency of doubtful constitutionality) to administer the trust fund and the grant program.

Because of major problems presented by the Javits bill, State prepared an alternative Administration bill that limited appropriations to the remaining GARIOA yen balances, placed administrative responsibility in the Secretary of State, and substituted a public advisory commission for an operating commission. The Senate Foreign Relations Committee did not accept the Administration's bill, and the Senate passed the Javits bill without debate. There has been no action taken on either the Javits bill or the Administration's bill by the House Foreign Affairs Committee, and there is little likelihood of action yet this session.

The Department desires to fulfill the Nixon commitment but believes a compromise must be worked out with Javits first. Such a "compromise" would authorize appropriation of both the $15 million of yen and the $32 million in the Javits bill, initiate grants to American institutions, and probably result in a new, independent agency. Javits has indicated that he does not desire to compromise.

Alternatives

#1. Attempt to reach a compromise with Senator Javits.

#2. Seek a $15 million yen appropriation in 1976 (OMB rec.)

Analysis

Budget Authority/Outlays ($ Millions)	1976 BA	1976 O
Alt. #1	17	11
Alt. #2 (OMB rec.)	15	10

Alternative #1 would result in increased budget costs, would initiate a State program of support grants for American academic institutions, and would likely result in a new independent agency.

Alternative #2 fulfills the Nixon commitment to reciprocate Prime Minister Tanaka's 1973 grants to American institutions, simply and directly by seeking an appropriation. It precludes State from initiating support grants to American educational institutions. Alternative #2 does not require basic authorizing legislation, since there is already sufficient authority in the Fulbright-Hays Act. However, a 1976 appropriation authorization would have to be sought.

Agency request: None at this time. The Department prefers to try to compromise with Javits rather than pre-empting his initiative and risking his opposition. The Department would seek a 1976 supplemental appropriation later based on that compromise.

OMB Recommendation: Alternative #2. Key members of the Senate Foreign Relations and House Foreign Affairs Committees and the appropriation committees would have to be told that the President personally wants the yen appropriation to fulfill this commitment and no more.

Issue Paper
Department of State
1976 Budget
Issue #4: Soviet Refugees to countries other than Israel

Statement of Issue

Should a $13 million appropriation be sought to aid in the resettlement of Soviet refugees migrating to countries other than Israel, primarily the United States?

Background

In 1973 and 1974, Congress initiated $50 million and $36 million appropriations to aid the resettlement of Soviet refugees in Israel and other countries. Most of these amounts were granted to an American Jewish voluntary agency to transport refugees to Israel, construct housing and aid in their resettlement in that country. In 1973 only 300 Soviet refugees sought resettlement outside Israel, but in 1974 this increased to about 3,000, most coming to the United States, and $3 million was granted to other Jewish agencies both to maintain the refugees in Europe until a permanent home was found for them and to aid in their resettlement here. The number of refugees going to countries other than Israel is expected to increase to 12,000 in calendar years 1975 and 1976 now that an understanding on emigration has been worked out with the U.S.S.R.

No request was made in the 1975 budget to cover any costs of Russion refugees on the assumption that the Congress would initiate another appropriation. Congress has authorized an appropriation of $40 million expected to be included in the foreign aid appropriation act. However, the House Foreign Affairs Committee, at the behest of some Jewish leaders, has instructed that the $40 million be used largely only for refugees going to Israel. In the interim, $5 million of AID appropriations has been been transferred to State to meet the urgent needs of the increased numbers of refugees not going to Israel.

The Department has made no budget request for the estimated 1976 requirement of $13 million. Department staff are now seeking the Secretary's approval to seek congressional agreement that the expected $40 million appropriation be used to cover 1975 needs with the understanding that an appropriation will be sought for 1976 needs.

Alternatives

#1. Seek nothing for 1976 and rely on Presidential transfers or anticipated appropriation to be initiated by the Congress.

#2. Seek $13 million for 1976 in recognition of a firm requirement.

Analysis

Budget Authority/Outlays ($ Millions)	1975 BA	1975 O	1976 BA	1976 O
Alt. #1	5	5	-	-
Alt. #2 (OMB rec.)	5	5	13	11

Alternative #1 reflects past practice which is now opposed by some important American Jewish leaders and Members of Congress who want all aid to go to Israel. Not requesting an appropriation in 1976 may lead to congressional demands that AID transfers (limited to $10 million) finance aid for refugees going elsewhere than Israel or result in a larger appropriation initiated by Congress to cover the need.

Alternative #2 recognizes a requirement that has regularly been financed by the U.S. Government. It also is consistent with the recent Administration understanding with the Congress and the USSR which is expected to result in sharply increased flows of refugees to the United States. Furthermore, it will free-up the limited $10 million transfer authority so that the President can utilize it for other, currently unforeseen refugee emergencies.

Agency Request: None at this time. Staff are recommending that the Secretary seek a 1976 appropriation.

OMB Recommendation: Alternative #2.

Export-Import Bank

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: 1976 Budget decisions: Export-Import Bank of the United States

The agency request and my recommendations with respect to 1976 budget amounts for the Export-Import Bank are presented in the tabulation attached (Tab A). We have not yet had an opportunity to discuss my recommendations with the Bank.

One key issue has been identified for your consideration (detail at Tab B).

Program Level

The Export-Import Bank recommends a $17.3 billion program level, an 84 percent increase over the estimated 1975 level, in order to meet all potential new business.

OMB recommends a $10.4 billion program level, a 10 percent increase over 1975, in order to encourage greater selectivity in lending and to moderate the federal government's demand on the domestic credit market.

Decision: Approve agency recommendation __________
Approve OMB recommendation __________

Attachments

TAB A

TAB A

EXPORT-IMPORT BANK OF THE UNITED STATES

1976 Budget

Summary Data

(In millions)

	Limitation on Program Activity a/	Program Activity at 100%	Employment, end-of-period Full-time Permanent	Total
1974 actual....................	5,265	8,991	399	405
1975 January budget............	6,403	13,570	420	425
enacted..................	... b/	...	...	...
supplemental recommended..	0	0	0	0
OMB recommendation........	6,403	13,570	420	425
1976 planning ceiling..........	xxx	xxx	xxx	xxx
agency request............	9,457	17,275	500	521
OMB recommendation........	5,698	10,400	420	425
Transition period				
agency request............	2,364	4,319	500	521
OMB recommendation........	1,425	2,600	420	425
1977 OMB estimate..............	5,698	10,400	420	425

a/ Eximbank's statutory limitation includes guarantees and insurance counted at 25 percent of face value.

b/ Congressional action is uncompleted.

TAB B

TAB B

EXPORT-IMPORT BANK OF THE UNITED STATES

1976 Budget

Statement of Issue

What level of Eximbank lending should be permitted in 1976?

Eximbank Program Levels
($ billion)

	1974	1975 Budget	1975 Est.	1976 Alt. #1 Req.	1976 Alt. #2 OMB Rec.
Direct Loans	3.9	3.6	3.5	6.1	3.9
Discount Loans	0.9	2.0	1.3	2.3	1.4
Guarantees and Insurance	4.2	8.0	4.6	8.9	5.1
Total Program	9.0	13.6	9.4	17.3	10.4
Outlays*	1.2	1.3	1.3	1.8	1.1

Background

The Eximbank provides direct credits to support U.S. exports, and refinances (discounts) and insures export loans by U.S. banks and exporters. Direct loans are currently charged a 7 or 8 percent interest rate. The Bank normally provides credits for 30 to 45 percent of the value of an export transaction, the balance being covered by a cash downpayment and commercial financing.

The Bank has grown rapidly over the past five years. This has been the result of its aggressiveness in seeking new business and of the fact that its interest rate remained low as commercial export credit rates were rising. With generous program limits, there was no incentive for the Bank to be selective in its use of funds. As a result, Exim has tended to become the lender of first resort at the expense of private credit.

In 1974, the Bank for the first time in several years found itself constrained by its budget ceiling. Forced to begin restraining demand for its financing, Exim raised its interest rates (from 6 percent to 7 and 8 percent) and began supporting a smaller portion of export transactions. Nevertheless, the Eximbank has continued to seek increases in its ceilings to

* Eximbank outlays are excluded by statute from the Budget totals.

allow it to extend credits to all comers regardless of demonstrable need for subsidized financing.

The Eximbank's 1976 budget request of $17.3 billion represents an increase of 92 percent over the 1974 level, 27 percent over the 1975 Budget, and 84 percent over the estimated 1975 level. This growth is considerably higher than that of exports as a whole. The budget request follows a pattern established over the past few years: sizable increases in the proportion of exports financed by the government and budget limits that exceed the business which can actually be done by the Bank without significantly relaxing loan criteria.

Alternatives

#1. $17.3 billion. Provide authority sufficient to meet the demand for loans under current Eximbank lending policies (Agency req.).

#2. $10.4 billion. Limit program growth to established growth in exports thereby keeping pressure on Exim to limit its program to priority uses (OMB rec.).

Analysis

The Eximbank request would result in Exim financing 22 percent of the value of all nonagricultural exports in 1976, compared with 12 percent in 1970, 14 percent in 1974 and an estimated 13 percent in 1975. The Bank argues that it must continue to meet demand, especially since "our nation is facing the specter of large outflows of payments for energy and raw materials" over the next few years.

The request must be considered in terms of both its domestic impact and its impact on the international economic position of the United States. Domestically, Exim's subsidy diverts credit from other priority uses such as homebuilding, business investment, and State and local governments. Also, because the goods are exported rather than consumed at home, Exim's subsidy has a less favorable effect on inflation and business activity than an equivalent subsidy applied to production for domestic use.

In terms of our international position, the United States must export all it can, but artifically swelling the level of exports through a subsidy does nothing to lower the real cost to the economy of energy and raw materials imports. Further, credit such as Exim provides does not get repaid for 8 to 15 years, causing a capital outflow until repayment occurs and a weakening of the near-term balance of payments. Finally, interest subsidies tend to give some foreign buyers an advantage over their U.S. competitors. Pan Am and TWA have recently complained of this in airline competition.

In our view, Exim is justified in providing below-market interest rates only if necessary to meet foreign government credit competition. Efforts are now underway to reduce this competition among the U.S., Europe and Japan. In early October, an agreement in principle was reached by these countries not to provide official credits to support exports to each other or to the oil-rich countries, although in practice Exim disagreement with details of the agreement has made it ineffective. Work on a more specific "gentlemen's agreement" limiting official rates and maturities is now at an advanced state. Continuing budgetary constraints would encourage Exim to play a more positive role in these negotiations.

The OMB recommendation would provide such a constraint by increasing Exim's program ceiling by the expected rate of growth in U.S. exports. This will require added discipline on the part of the Bank to restrain demand for its loans, perhaps by increasing its interest rate or by developing a screening procedure to better identify transactions where commercial financing is unavailable.

Agency Request: Alternative #1, a $17.3 billion program.

OMB Recommendation: Alternative #2, a $10.4 billion program.

SELECTIVE SERVICE

SELECTIVE SERVICE SYSTEM

With the success of the All-Volunteer Force it is appropriate to consider placing the Selective Service System in a deep standby posture. The Selective Service System opposes any reduction below their budget request which maintains the system at current full-scale levels.

	($ in thousands) Budget authority	Outlays	Full-time permanent employment
1974 actual	54,251	59,505	2,333
1975 current estimate	45,003	47,000	2,176
1976 agency request*	44,151	46,661	2,176
1976 OMB recommendation*	29,000	29,000	200
Effect of OMB recommendation on agency request	-15,151	-17,661	-1,976
Transition period	2,000	2,000	200
1977 estimate	8,000	8,000	200

* Does not include up to about $6 million and 400 in employment which will be provided in the President's budget for support of the Reconciliation Service Program.

SELECTIVE SERVICE SYSTEM
1976 BUDGET

Statement of Issue

What should be the posture of the standby draft maintained by the Selective Service System?

Background

Based on a comprehensive interagency study, on March 16, 1973, President Nixon directed the Selective Service System to move to a standby draft posture after 1974 that would eliminate local boards and state headquarters. In the 1975 budget, implementation of this decision was deferred pending further demonstration of the viability of the volunteer force and passage of legislation providing needed compensation incentives. Both of these conditions have been met, and the remaining arguments supporting an active standby draft posture focus on the time required to reconstitute the full system and begin delivery of draftees in an emergency.

A standby draft system should be assessed on its cost and its ability to meet DOD requirements for delivery of draftees in a full mobilization which are: (1) first inductees delivered within 30 days of mobilization, and (2) 480 thousand inductees delivered within 180 days of mobilization. Under current processing procedures, only the existing system meets these requirements. However, new procedures designed to expedite the processing of non-resisting registrants, permit consideration of other alternatives.

Alternatives

1. Maintain the current system intact. Eighteen year old males register within 30 days of their birthday and local boards classify about one-fourth of the eligible pool. In addition to a national headquarters, 56 State headquarters and 632 local board administrative sites are maintained (Agency req.)

2. Phase down local board operations through FY 1977. Develop and prove new procedures for processing non-resisting draftees and standby reservists. Implement and determine viability of annual registration. Defer standby classification processing until induction authority is requested. Continue to appoint local board members in order to minimize time required to reconstitute local board operations in a crisis. Successful implementation of this alternative would deliver inductees in excess of minimum Defense requirements (DOD recommendation).

3. Same as 2 but implement fully by end of FY 1976 on the assumption that annual registration and the new procedures are viable.

4. Suspend State headquarters and local board operations, and defer all further registration and classification activity. This alternative provides 411,000 of the DOD requirement for 480,000 by 180 days after mobilization. It would meet the full requirement within another week. It assumes that full mobilization is unlikely without some advance warning; given two months warning, the alternative would meet the full DOD requirements. This alternative would require amendments to the Selective Service Act and transfer of the Reconciliation program to another agency, probably the Department of Labor.

Analysis

Budget Authority/Outlays ($000)*

	1974 BA	1974 O	1975 BA	1975 O	1976 BA	1976 O	July 1-Sept 30 1976 BA	July 1-Sept 30 1976 O	1977 BA	1977 O	1978 BA	1978 O
Alt. 1	54,251	59,505	45,003	47,000	44,151	46,661	11,100	11,100	44,000	44,000	44,000	44,000
Alt. 2	54,251	59,505	45,003	47,000	41,887	42,000	7,800	7,800	27,900	27,900	18,000	18,000
Alt. 3	54,251	59,505	45,003	47,000	38,854	39,000	4,500	4,500	18,000	18,000	18,000	18,000
Alt. 4	54,251	59,505	45,003	47,000	29,000	29,000	2,000	2,000	8,000	8,000	8,000	8,000

Total Employment - end of period

	1974	1975	1976	July 1-Sept 30 1976	1977	1978
Alt. 1	2,469	2,319	2,319	2,319	2,319	2,319
Alt. 2	2,469	2,319	1,413	1,413	400	400
Alt. 3	2,469	2,319	400	400	400	400
Alt. 4	2,469	2,319	200	200	200	200

* Not included above is up to about $6 million and 400 in employment which will be provided in the President's budget for support of the Reconciliation Service Program under all alternatives.

Alternatives 2 and 3 fund a standby draft posture that ultimately costs $25 million less to operate annually than does Alternative 1. Under the proposed processing procedure, all three alternatives perform about equally well in terms of draftee and standby reservist inductions in a full mobilization crisis. Alternative 2 phasing reduces the Alternative 3 performance risks associated with initial implementation of the annual registration plus development of the recommended procedural changes.

Relevant to this decision is the status of the Reconciliation Service Program. While only some 300 people have been assigned to alternative service under the program thus far, this number could increase by thousands in the two months remaining for enrollment. An allowance of up to $6 million in the budget would provide for maximum enrollment with the funds to be rescinded if enrollments continue at current levels.

The attached table shows phased manpower deliveries under each of the alternatives.

Agency Request

Alternative 1. The FY 1976 budget request submitted by Selective Service would continue to fund the existing posture as described in Alternative 1. In defense of their position, they (a) cite Congressional reluctance to amend the Selective Service Act -- action they feel is required under the alternative concepts of operations; (b) note that Alternative 1 is the only posture that meets minimum DOD mobilization requirements under existing processing procedures; (c) have serious doubts about the proposed procedural changes; (d) note that the alternatives fail to provide for the Reconciliation program; (e) find Alternative 4 unacceptable because it would require major changes in the law and would not meet minimum DOD requirements; (f) note that reducing the system as proposed could lead to repeal of the act; and (g) feel the alternative staffing is inadequate. The agency believes that over 2,500 manyears would be required under Alternative 3, as compared to some 2,300 under the current system, in spite of the reduced mission.

DOD Recommendation

Alternative 2 or 1. The Assistant Secretary of Defense (Manpower & Reserve Affairs) has no objection to a plan which protects the Selective Service System capability to meet DOD minimum manpower needs for draftees and standby reservists under an all-out mobilization. The local board system should be maintained more or less in current form until any new concepts or procedures have been tested and proven responsive. Recent studies of manpower mobilization system requirements show that under modern conflict scenarios the responsiveness of the manpower delivery system is particularly critical in the early days and weeks of mobilization and deployment. A complete phaseout of local board staffs should not be planned at this time in order to retain immediate local access to the Selective Service System by trained personnel in the Standby Reserve.

OMB Recommendation

Alternative 4. Induction authority is assumed, in all the alternatives, to coincide with mobilization date. If some advance warning is provided, as appears likely, induction authority could be provided earlier and the full range of Defense requirements would be met. This alternative reflects the President's decision of March 16, 1973 to eliminate state headquarters and local boards.

ALTERNATIVE STANDBY DRAFT POSTURES
MANPOWER DELIVERY PERFORMANCE

Alternative	First Inductee Deliveries	Total Manpower Deliveries By (000) M+30	M+60	M+90	M+180
1	M+25	691	691	766	767
2	M+25	655	655	735	756
3	M+25	655	655	735	756
4	M+62	-0-	40*	97	411
DOD requirement	M+30	-	82	-	483

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Other

ARMS CONTROL AND DISARMAMENT AGENCY

Comments

Accommodation to agency reaction.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual..................	8,065	8,894	156
1975 current estimate......	9,410	9,155	167
1976 agency request.........	10,940	10,535	170
1976 OMB recommendation....	10,690	10,300	167
Effect of OMB recommendation on agency request....................	-250	-235	-3
Transition period..........	2,760	2,600	167
1977 estimate..............	11,000	11,100	167

BOARD FOR INTERNATIONAL BROADCASTING

Comments

Issue paper attached.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual..................	49,625	50,674	6
1975 current estimate......	49,800	49,800	7
1976 agency request........	69,488	69,488	7
1976 OMB recommendation....	62,540	62,540	7
Effect on OMB recommendation on agency request...................	-6,948	-6,948	--
Transition period..........	18,200	18,200	7
1977 estimate..............	61,300	61,300	7

Board for International Broadcasting
(In millions of dollars)

	1974 Actual	1975 Curr. est.	1976 Agency request	1976 Recommended budget level
Budget authority	49.6	49.8	69.5	62.5
Outlays	50.7	49.8	69.5	62.5

The Board for International Broadcasting makes grants to Radio Free Europe (RFE) and Radio Liberty (RL) to broadcast in twenty-four languages to Eastern Europe and the Soviet Union. The Board evaluates the radios' adherence to U.S. foreign policy, professional broadcasting standards, and economical administration. The Board accepts $4 million of the recommended reduction, but one issue remains.

Question

Should the budget include funds for six new transmitters in Germany?

Discussion

Transmitter Construction - RFE and RL request $3 million to replace several old transmitters in Germany with six high powered ones to (a) broadcast with a stronger signal the Baltic languages, which soon will be initiated, (b) remove electrical interference caused by old transmitters about which the Germans are complaining, and (c) serve as a hedge against the possibility of losing transmitter facilities in Portugal.

OMB recommends no capital improvements until the Board completes its planned overall evaluation of the need for new facilities. In the interim, Baltic languages can be handled by reducing broadcasting in other marginal Soviet languages.

Decision

Approve agency recommendation ______________

Approve OMB recommendation ______________

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

Comments
No change from agency request.

	Budget authority (in thousands of dollars)	Outlays	Full-time permanent employment
1974 actual................	1,376	1,480	27
1975 current estimate......	1,600	1,575	31
1976 agency request........	1,710	1,675	32
1976 OMB recommendation....	1,710	1,675	32
Effect of OMB recommendation on agency request...................	--	--	--
Transition period..........	425	550	32
1977 estimate..............	1,720	1,720	32

FOREIGN CLAIMS SETTLEMENT COMMISSION

Comments

No change from agency request.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual................	947	5,630	43
1975 current estimate......	1,244	2,214	67
1976 agency request........	1,441	5,252	68
1976 OMB recommendation....	1,441	5,252	68
Effect of OMB recommendation on agency request..................	--	--	--
Transition period..........	388	1,135	68
1977 estimate..............	882	1,692	20

INTER-AMERICAN FOUNDATION

Comments

No change from agency request.

	Program limitation	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual...............	10,000	6,282	62
1975 current estimate.....	10,000	9,033	74
1976 agency request.......	10,000	10,000	75
1976 OMB recommendation...	10,000	10,000	74
Effect of OMB recommendation on agency request..................	--	--	-1
Transition period.........	2,500	2,500	74
1977 estimate.............	10,000	10,000	74

SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Comments

No change from agency request.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual...............	1,519	1,360	39
1975 current estimate.....	1,850	1,830	45
1976 agency request.......	1,978	1,938	45
1976 OMB recommendation...	1,978	1,938	45
Effect of OMB recommendation on agency request..................	--	--	--
Transition period.........	510	560	45
1977 estimate.............	2,000	2,000	45

TARIFF COMMISSION

Comments
Agency agrees.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual.................	7,400	7,079	347
1975 current estimate.......	8,900	8,873	400
1976 agency request.........	10,054	9,999	400
1976 OMB recommendation.....	9,700	9,630	400
Effect of OMB recommendation on agency request....................	-354	-369	--
Transition period...........	2,500	2,500	400
1977 estimate...............	10,000	10,000	400

UNITED STATES INFORMATION AGENCY

Comments
Agency has not yet been advised of OMB recommendation.

	Budget authority	Outlays	Full-time permenant employment
	(in thousands of dollars)		
1974 actual.................	221,400	214,400	8,884
1975 current estimate......	241,400	239,600	9,030
1976 agency request........	289,400	278,800	9,068
1976 OMB recommendation....	282,200	269,800	9,030
Effect of OMB recommendation on agency request..................	-7,200	-9,000	-38
Transition period..........	73,000	75,200	9,030
1977 estimate..............	295,800	290,200	9,030

OVERSEAS PRIVATE INVESTMENT CORPORATION

Comments
Agency has not yet been advised of OMB recommendation.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual................	25,000	-20,600	108
1975 current estimate.......	25,000	-11,489	130
1976 agency request.........	--	-5,494	152
1976 OMB recommendation.....	--	-10,744	130
Effect of OMB recommendation on agency request.....	--	-5,250	-22
Transition period...........	--	-2,686	130
1977 estimate...............	--	-10,744	130