The original documents are located in Box 9, folder "FY 1977 - 11/22/75, Security Assistance, Development Assistance, State Department, Ex-Im Bank (4)" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

TAB C

Issue Paper
International Development Assistance
1977 Budget
Issue #1: AID Country Programs

Statement of Issue

Should AID development assistance to individual countries be cut back significantly?

Background

AID country programs provide concessional development loans and technical assistance grants to more than 50 developing countries. In recent years, congressional appropriations reductions have cut country programs back considerably from budget request levels--for example, 23 percent in 1975. This has led to the inclusion of a "cut insurance" margin in executive branch budget requests.

In contrast to the hostile appropriations committee action, the congressional authorizing committees have generally supported Administration requests for country program funding. These committees, however, have set in law a "mandate" on the direction which the program should take. This calls upon AID to provide assistance to the poorest countries and the poorest people within those countries, particularly small farmers. In addition to agriculture, emphasis is to be given to population, health and education, and large-scale capital transfers are to be de-emphasized.

This mandate tends to conflict with U.S. foreign policy requirements which greatly influence the allocation of funds among countries and call for programs in some of the wealthier developing countries. Where foreign policy considerations are the primary factor in providing aid, the developmental impact of the program is often eroded. Foreign policy considerations have also dictated that the now rather limited country program funds be spread among a relatively large number of countries.

Alternatives

#1. Increase country programs by 15 percent in program terms (see attached table) over the 1976 request and 41 percent over the 1975 actual, in line with proposed authorizing legislation--a total of $886 million (Agency req.).

#2. Hold country programs to the 1976 budget request level, $767 million.

#3. Reduce country programs, holding loans at the 1975 actual level and allowing grants to increase moderately above 1976--a total program of $700 million (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1975 BA	1975 O	1976 BA	1976 O	TQ BA	TQ O	1977 BA	1977 O	1978 BA	1978 O	1979 BA	1979 O	1980 BA	1980 O	1981 BA	1981 O
Country Programs:																
Alt. #1 (Agency req.)	319	685	672	711	176	161	832	653	832	680	832	733	832	767	832	755
Alt. #2	319	685	672	711	176	161	713	648	713	640	713	671	713	687	713	680
Alt. #3 (OMB rec.)	319	685	672	711	176	161	646	645	646	616	646	631	646	638	646	610

(A country breakdown is provided in a table attached.)

AID has justified its 1977 request on the basis of country and project requirements, and the higher level of funding could be applied against demonstrable project and country needs. Nevertheless, in defending its request against possible reductions in lower-priority and more tentative activities, AID again emphasizes the need for cut insurance.

Without a major change in appropriations committee leadership, it is likely that Congress will continue to reduce AID appropriations. It is not clear, however, how deep the cuts would be if the Administration were to eliminate the cut insurance and seek appropriations near the 1975 actual levels as proposed by OMB. Clearly, major efforts would be required, emphasizing the bare-bones nature of the request, in order to hold actual appropriations at or near the 1975 level. Nevertheless, OMB believes this approach is worth the risks, because in a tight budget year such as 1977, AID cut insurance will displace funding for other programs.

Because the congressional reaction is difficult to predict, it is also difficult to be precise about the program impact of the OMB proposal. OMB would reduce loans to 1975 actual levels and allow technical assistance grants to increase somewhat above the 1976 budget request based on a judgment that technical assistance is generally more effective developmentally. Loans, however, are generally regarded as more useful for foreign policy purposes.

In country terms (see attached table), AID has concentrated its proposed 1977 program increases on the poorer countries of South Asia and Africa in line with the congressional mandate. However, when faced with appropriations cuts, the poorest countries are reduced and the underlying foreign policy priorities emerge as in 1975 when Latin America and East Asia received over half of the total funds.

OMB has not set any specific country allocation for its proposed program level. It has allocated funds illustratively in a way that it believes would permit the major foreign policy and developmental objectives to be met, including funding for Indonesia, the Philippines, Chile, and Panama. The lower level would, however, force some choices as follows:

- in Africa, the choice would be between large-scale loans and grants to the six very poor Sahelian countries (which may be beyond their absorptive capacity) and increases for other countries in which the State Department believes it is important to demonstrate increased U.S. interest;
- in the Near East and South Asia (excluding the Middle Eastern countries), the main choice would be between continuing programs in Pakistan, Bangladesh, and smaller countries at traditional levels and resuming large-scale aid to India in an effort to improve U.S. relations there; and,
- in Latin America, some program reductions would be necessary in several countries whose need for U.S. assistance is not great but whose political importance is high.

Given the fact that most major foreign policy needs were met at the 1975 level, OMB believes that a program of the 1975 magnitude (even allowing for some congressional reductions in the proposed OMB request) should be sufficient to meet all the high-priority foreign policy requirements. If reductions were made in some of the programs which are primarily motivated by foreign policy concerns (e.g., $52 million for Indonesia), the funds could be used to further meet more urgent development needs in the poorer countries, especially in South Asia.

The proposed middle option has not been broken down geographically but would ease the choices outlined above and would send a less negative signal about Administration intent to meet its foreign aid obligations to developing countries.

Agency Request: Alternative #1. A program of $886 million, incorporating cut insurance and meeting a range of developmental and foreign policy needs.

OMB Recommendation: Alternative #3. A $700-million program, reducing cut insurance and probably meeting the highest-priority requirements.

AID Country Programs
($ Millions)

Attachment

	1975		1976	1977	
	Budget	Actual	Budget	Request	Recommendation
Africa	132	105	162	226	175
Sahelian countries	26	24 a/	54	81	
Other	106	81	108	145	
East Asia	123	127	111	116	110
Philippines	42	55	36	44	44
Indonesia	46	43	51	52	52
Other	35	29	24	20	
Near East/South Asia	289	182	253	316	215
Pakistan	77	69	61	88	
Bangladesh	62	62	67	81	
India	76	--	77	77	
Other	74	51	48	70	
Latin America	281	212	241	228	200
Chile	26	21	23	21	21
Panama	22	8	22	17	17
Bolivia	23	20	23	35	
Haiti	9	4	9	23	
Other	201	159	165	132	
TOTAL	825	626	767	886	700
Loans	640	453	551	610	450
Grants	185	173	216	276	250

a/ In addition, $38 million in disaster relief was provided to the Sahelian countries for a total of $62 million.

Issue Paper
International Development Assistance
1977 Budget
Issue #2: AID Centrally Administered Programs

Statement of Issue

Should the centrally-administered programs increase rapidly?

Background

Centrally-administered grant programs provide: 1) technical backstopping and research, including contributions to international agricultural research centers and U.S. land-grant colleges; 2) support for U.S. private and voluntary organizations (PVOs) operating overseas including direct program financing, freight cost financing, and assistance in developing operational capability; and 3) funds for population control activities, including contributions to the U.N. Fund for Population Activities (UNFPA) and to several PVOs conducting family planning programs abroad. In 1975 central programs amounted to $141 million, or 16 percent of total regular AID funding, up from 8 percent in 1970.

Alternatives

#1. Increase centrally-administered programs 73% over the 1975 level to $244 million (Agency req.).

#2. Hold these programs to $190 million, about the 1976 level and 35% over the 1975 level by making cuts in poorly planned or less developmentally-oriented activities (OMB rec.).

Analysis

	1975		1976		TQ		1977		1978		1979		1980		1981	
Budget Authority/Outlays ($ Millions)	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Central Programs:																
Alt. #1 (Agency req.)	141	143	193	140	42	34	244	176	244	204	244	222	244	232	244	237
Alt. #2 (OMB rec.)	141	143	193	140	42	34	190	163	190	170	190	179	190	184	190	187

Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays)
(Alt. #2 (OMB recommendation)	-13	-34)

(A table detailing the centrally-administered programs is attached.)

The Agency seeks across the board increases in these programs. Although many of the activities are sound, OMB believes important weaknesses remain in each of the three main areas.

- In backstopping and research, the international centers and some U.S. activities are well conceived. Nevertheless, there are no clear cut criteria for allocating funds among activities or for eliminating outmoded projects. Funding for the U.S. land-grant colleges is more likely to strengthen their domestic institutional capabilities than to lead to overseas developmental benefits.

- The PVOs make a useful contribution to the AID program as contractors managing country program activities. Central funds for the PVOs, however, mainly finance activities with little or no relationship to AID's development objectives. These funds have been increased by Congress without regard for specific requirements, and AID has exercised little substantive supervision over their use.

- Population control activities should receive high priority. However, neither UNFPA nor some of the generally efficient PVO contractors can effectively absorb the requested increases. Contraceptive commodity support for country program-funded activities is also in excess of probable needs.

Each of the program components which OMB criticizes, and proposes to reduce, enjoys significant congressional support. Congressional initiatives in AID's 1976/1977 authorizing legislation include: 1) a new Title XII mandating increased support for land-grant institutions; 2) a suggested target figure of $25 million in 1977 for certain country and central funds for PVOs (OMB recommends $17 million); and 3) an increase in population and health program funding above the 1976 and 1977 Administration requests. The Agency will thus argue that reductions in centrally-administered programs will both limit programs they regard as important and unnecessarily anger the Congress, which may restore the funds and earmark their expenditure.

Agency Request: Alternative #1. In proposing a $244 million program, AID seeks increases in virtually all centrally-administered programs.

OMB Recommendation: Alternative #2: OMB would reduce the request by $54 million by: 1) holding research activities to the 1975 level; 2) reducing PVO funding by $8.1 million; 3) cutting back the proposed UNFPA contribution by $9 million to the planned 1976 level and reducing grants to other population intermediaries by $4.5 million; and 4) taking several smaller cuts totalling $7.8 million.

Attachment

Centrally Administered Programs
($ Millions)

	1975 Actual	1976 Budget	1977 Agency Req.	1977 OMB Rec.
Technical Assistance Bureau	46.4	65.6	89.6	65.6
Of which: International Agriculture Research Centers	10.7	15.7	20.6	20.6
Other Title XII	12.5	14.1	23.2	14.1
Inter-regional Population Programs	64.0	87.7	109.1	90.6
Of which: UN Fund for Population Activities	20.0	21.0	30.0	21.0
Intermediaries (including commodities)	22.4	32.2	36.7	32.2
Private and Voluntary Organizations	24.2	33.0	35.7	27.2
Of which: Ocean Freight	7.5	15.0	14.0	8.0
General Program Support Grants	10.2	11.5	11.2	11.2
Development Program Grants	5.0	5.6	8.6	6.5
Other Programs	6.6	6.4	9.2	6.8
TOTAL	141.2	192.7	243.6	190.2

Issue Paper
International Development Assistance
1977 Budget
Issue #3: American Schools and Hospitals Abroad

Statement of Issue

Should grants to American schools and hospitals abroad (ASHA) be terminated in 1977?

Background

The ASHA program was established to provide assistance to schools, libraries and hospitals overseas which are sponsored by U.S. citizens and can serve as demonstration centers for American ideas and practices. In fact, the program subsidizes institutions whose programs have little or no relation to development objectives and often serve only Americans and wealthy foreigners. Many recipients are located in countries where there are no bilateral development programs; e.g., Italy, Greece, and Poland. A significant portion of the funds have been provided to institutions in Israel, diminishing fund raising pressures on American Jewish donors. In recent years, Administration budget requests of $10 million have been regularly raised to $15-25 million by the Congress, as various Congressmen add their constituents' favorite institutions to the list of recipients.

Alternatives

#1. Stay with the traditional Administration request level of $10 million (Agency req.).

#2. Eliminate the program (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1975 BA	1975 O	1976 BA	1976 O	TQ BA	TQ O	1977 BA	1977 O	1978 BA	1978 O	1979 BA	1979 O	1980 BA	1980 O	1981 BA	1981 O
ASHA:																
Alt. #1 (Agency req.)	18	21	10	15	6	6	10	13	10	11	10	11	10	10	10	10
Alt. #2 (OMB rec.)	18	21	10	15	6	6	0	8	0	4	0	4	0	0	0	0

Agency Request

(Difference from Alt. #1	(Agency request)	1977 Outlays	1978 Outlays)
(Alt. #2	(OMB recommendation)	5	7)

AID does not favor the program, but prefers to seek the traditional level in order to avoid antagonizing key Congressmen and help protect its other programs. OMB sees the program as serving no useful public objective. If a few of the institutions do, in fact, promote development, they will be eligible for grants from the regular AID program.

Agency Request: Alternative #1. A $10 million request.

OMB Recommendation: Alternative #2. ASHA was nominated for the list of worst Federal programs. Despite the likelihood that Congress will restore funds, the Administration should not seek continuation in a very tight budget year.

American Schools and Hospitals Program
Distribution of 1975 Program

Institution	Amount
American Children's Hospital in Poland	$ 750,000 1/
Admiral Bristol Hospital, Istanbul	200,000
American Farm School, Greece	600,000
American Hospital in Paris	1,525,000
American Hospital in Rome	250,000
American Library in Paris	275,000
American University of Beirut	6,000,000
American University in Cairo	350,000 2/
Athens College, Greece	150,000
Bologna Center, Italy	550,000
Cheng Hsin Rehabilitation Center, Taiwan	160,000
Chemke Hospital, Nigeria	150,000
Ch'san Sofer Chasan Yecheskel Institute, Israel	75,000
Damavand College, Iran	200,000
Educational Center of Galilee, Israel	550,000
Escuela Agricola Panamericana, Honduras	125,000
Feinberg Graduate School of Weizmann Institute, Israel	1,500,000
Hadera Institute, Israel	350,000
Induk Vocational School, Korea	250,000
Presbyterian Medical Center, Korea	100,000
Project HOPE	1,700,000
Robert College, Istanbul	150,000
Sogang University, Korea	425,000
University of the Americas, Mexico	650,000
Working Boys' Center, Ecuador	250,000
Program Support	215,000
	$ 17,500,000

1/ Plus $4,462,811 equivalent in zlotys (FYs 74 and 75 funds).
2/ Plus $5,000,000 equivalent in Egyptian pounds.

Issue Paper
P.L. 480 Food Aid
1976 Budget

Statement of Issue

Should P.L. 480 be increased above the current 1976 budget ceiling?

Background

The initial budget ceilings for P.L. 480 have always been subject to later adjustment because of the substantial uncertainties about U.S. commodity availabilities, prices and recipient country needs. For 1976 most of the major factors bearing on the program are now sufficiently certain to permit a final decision on the budget level.

State and AID have requested an increase of $258 million, 23 percent, in the Title I portion of the P.L. 480 program which provides food on very soft credit terms. USDA has affirmed that the requested commodity levels are available. The agencies responsible for P.L. 480 and food aid policy, which also include the Department of Agriculture, Treasury, Commerce, OMB, NSC, CIEP and CEA, have agreed on three 1976 P.L. 480 budget alternatives for your consideration.

Alternatives

#1. Increase the program to take full account of domestic farm price maintenance objectives for rice and to meet all of the foreign policy needs identified by State/AID, at $1381 million total outlays.

#2. Increase the program by a smaller amount to respond to domestic agriculture objectives and to provide a portion of the higher foreign policy requirements which State and AID believe are necessary at a $1235 million total outlay level.

#3. Hold to the original 1976 budget level of $1123 million in total P.L. 480 outlays.

Analysis

P.L. 480
Alternative Outlay Levels
1976

	Alternative 1 (State/AID Req.)	Alternative 2 (Mid-level)	Alternative 3 (OMB Rec.)
Title I	1121	983	876
Title II	337	337	337
Subtotal	1458	1320	1213
Freight	184	176	171
-Receipts	-261	-261	-261
Total Outlays	1381	1235	1123
Volume (million metric tons)	7.3	6.6	6.1

(Attached is a table of illustrative country program levels.)

Factors affecting a decision

Four major factors bear on the 1976 P.L. 480 decision.

(1) Legislative requirements. A congressional conference committee has just completed action on amendments to P.L. 480. In line with similar action last year, Congress will require that 75 percent of the total tonnage of food commodities allocated under Title I be provided to the poorest developing countries--those with annual per capita incomes of $300 or less. The intent is to restrict Executive Branch flexibility in meeting foreign policy requirements for food aid. Because foreign policy requirements generally require substantial programs for high income recipients within the total, meeting those requirements fully under the congressional stricture would tend to push up the level of aid to lower income countries and thereby increase the total. The alternatives have been constructed to conform to the conference action.

(2) Rice. This year the United States has a record rice harvest and total world rice production is also at a

record high. Domestic rice consumption will only use up one third of our total crop. Rice growers are counting on P.L. 480 to dispose of a substantial portion of their crop to help maintain prices. USDA believes that about 850,000 tons of P.L. 480 rice must be shipped this year as in alternatives 1 and 2 in order to maintain rice prices at the price support loan level (equivalent to about $315 per metric ton export price). At the alternative 3 level the 589,000 tons of rice proposed by State could lead to a drop in rice prices of $15-25 per ton according to CEA and USDA. Under the lower P.L. 480 rice level, current commodity program legislation could also force the government to take ownership of some quantities of rice.

Because of their good rice crops, many potential large P.L. 480 rice recipients (India, Bangladesh and Korea) have no particularly pressing need for rice this year. AID and USDA believe that those countries are more likely to take larger amounts of rice if also provided with wheat, for which they have a more urgent need and which they would have to buy on world markets in the absence of P.L. 480.

(3) Country Requirements. The major differences between the alternatives are in program levels for Korea, a high income country, and India and Pakistan, lower income countries.

-- Korea. State/AID believe it is essential to maintain the Korea program at $150 million, particularly with the phasing out of other forms of economic assistance. This is possible at the high level but not at the low or mid level. The Korea program is part of a long term commitment in return for restraints on textile exports to the United States, and is a symbol of U.S. support in the aftermath of Vietnam withdrawal. Primarily because of high petroleum prices Korea will also have a large balance of payments deficit. Nevertheless, because of its otherwise strong economy (which led to phase out of regular AID programs) Korea has been able to tap many public and private sources of foreign exchange to meets its payments deficit. Finally the increase proposed from the budget level will not ease rice pressures; all of the increase will be feedgrains and cotton. However, it may make Korean acceptance of planned rice amounts more likely.

-- India. The India program would rise from $59 million under the low alternative to $155 million at the proposed high level. State/AID believe that the increase would contribute to an improvement of U.S. Indian relations and would offer a possible outlet for 200,000 tons of rice. Although India will probably need to import as much as 6 million tons of foodgrains this year, its crops are much improved over last year. Thus its needs for food aid are less pressing than last year.

--Pakistan. The Pakistan program would rise from $64 million to $105 million. The increase would ease Pakistan's balance of payments problem and help demonstrate U.S. support for the Bhutto government. Pakistan will receive large scale dollar aid from the United States this year ($60 million). Although its crops have been good this year, it still will need to import about 2 million tons of grain. None of the proposed increase is in rice because Pakistan is a rice exporter.

-- Other countries. The differences between the options in other countries are considerably smaller than for the three countries above. The proposed increases are requested to meet balance of payments requirements and for foreign policy purposes.

-- Bangladesh. This country remains very needy and its economy has been further disoriented by political turmoil. The proposed high level would provide 50,000 additional tons of rice, plus some wheat. The Bengali rice crop has been relatively good this year. The $156 million in food aid provided by the low alternative, plus $67 million in dollar aid represents generous support.

-- Morocco and Tunisia. Food aid to these countries is to demonstrate political support for moderate Arab countries. Neither has any serious foreign exchange requirements this year.

-- Chile. The Chile program both demonstrates support for the pro-U.S. government and helps ease Chile's pressing short term balance of payments requirements. The $5 million increase at the high level would be helpful but probably not have a significant economic impact.

(4) Transition Quarter Financing. The budget currently provides for $118 million during the transition quarter for P.L. 480 Title I. This amount is substantially less than one-fourth of the 1976 Title I program because it reflects the recent seasonal pattern of P.L. 480 shipment. State/AID have not yet prepared a country plan for use of these funds.

State/AID believe it important to increase transitional quarter funding at least to the normal prorata level of most other federal programs during the period (one-fourth of the current 1976 budget level), but this will probably not be essential if you approve the high option. If you approve either the high or middle option, Treasury and OMB would prefer to fund all or part of the increase in the transition quarter. At the middle option, this approach would permit you to avoid an increase in the 1976 P.L. 480 budget level at a time you are having to seek rescissions and deferrals on domestic programs, while merely bringing the transition quarter level up to a more normal level. At the high option an increase in transition quarter funding would reduce the necessary increase in the 1976 program level.

SUMMARY

Alternatives

#1. This alternative would fully meet the country and rice shipment requirements. However, given State/AID/USDA doubts that food aid recipients would accept large rice programs even when combined with other commodities, this alternative may result in an increase in outlays without achieving the desired volume of rice shipments. Moreover, if this quantity of rice were shipped under P.L. 480, it would lead to larger acreage allotments next year, larger production and possibly result in a buildup in CCC rice stocks. State/AID and NSC support this alternative. USDA also supports it, provided the increase is not offset by reductions within the USDA budget.

#2. This middle option, would meet domestic rice requirements and would come close to meeting the needs identified by State/AID in India, Pakistan and Bangladesh. It would leave Korea $36 million below the requested level. CIEP supports this alternative.

#3. This alternative at the original budget level would be consistent with the tight 1976 budget policy but would not meet the country requirements or ship rice at levels State/AID and USDA believe to be essential. With regard to rice, OMB and Treasury believe that reducing wheat and other commodity shipments to the smaller, less important countries in this alternative and by eliminating the program to Indonesia, which does not need food aid, rice shipments might be raised to nearly 750,000 tons at the budget level. This would improve price prospects and reduce the quantity of rice the government might take over. State/AID and USDA believe that it would not be possible to move this quantity of rice unless combined with substantially larger quantities of other commodities. OMB, Treasury and Commerce support this alternative.

P.L. 480 Title I
Alternative Program Levels
1976

Country	Alternative 1 (State/AID Req.)	Alternative 2 (Mid-level)	Alternative 3 (OMB Rec.)
$300 per capita or less			
Afghanistan	2	2	2
Bangladesh	184	159	156
Egypt	170	170	170
Ethiopia	4	3	3
Guinea	5	5	5
Haiti	5	4	4
India	155	123	59
Indonesia	30	30	30
Jordan	9	9	9
Morocco	15	7	7
Pakistan	105	88	64
Sri Lanka	12	12	12
Tanzania	5	5	5
Zaire	8	8	8
Sub total	708	625	533
$300 per capita			
Chile	54	48	46
Honduras	13	6	6
Israel	15	15	15
Korea	150	114	102
Mozambique	4	1	1
Portugal	15	15	15
Syria	19	19	19
Tunisia	6	2	2
Sub total	275	220	205
Carry-in	138	138	138
Total	1121	983	876
Tonnage levels (000 metric tons)			
Wheat	3967	4157	4482
Rice	589	814	839
Feed	174	174	399
Other	80	52	173
Total Title I	4810	5197	5893
food volume to countries under $300	.75%	75%	75%

Issue Paper
International Development Assistance
1977 Budget
Issue #4: P.L. 480

Statement of Issue

What should the level of P.L. 480 be for 1977?

Background

The P.L. 480 program of food aid was established in 1954 to dispose of surplus farm products while serving development and foreign policy goals. The Title I program, about two-thirds of the total, provides food on a loan basis for development and foreign policy purposes; the Title II program provides food on a grant basis for humanitarian purposes.

During the period 1954-72, the P.L. 480 program averaged 10-million tons of food aid commodities per year. With world grain shortages, rising prices, and the disappearance of U.S. surplus food stocks, the food aid program was reduced to 3.3-million tons in 1974. This sharp reduction restricted food aid to the highest-priority political and humanitarian programs, with more than half the entire program in 1974 going to Indochina.

In 1975, when some easing of food availabilities and prices permitted a program of 4.9-million tons, substantial humanitarian-oriented food aid was provided. In great part, this emphasis was dictated by a congressional legislative initiative requiring that 70 percent of Title I shipments be provided to countries most seriously affected by food shortages. For 1976, the budget provides for 6-million tons and State and AID are requesting that this level be increased to over 7-million tons.

Congress has recently raised to 75 percent the portion of Title I food aid that must go to the poorer countries. Thus, the flexibility of the Title I program as a foreign policy instrument will continue to be constrained.

Alternatives

#1. Expand the 1977 program to 7.3-million tons of commodities, including 5.8-million tons for Title I and 1.5-million tons for Title II, to provide increased shipments to major traditional recipients and add a number of new country recipients at a cost of $1,272 million in outlays (AID req.).

#2. Undertake a P.L. 480 program at 6-million tons of commodities, the level planned for 1976, including 4.7-million tons for Title I and 1.3-million tons for Title II, providing for large political programs, large humanitarian programs, and a substantial reserve for contingencies or some small country programs at a cost of $918 million.

#3. Hold the 1977 program to 5.0-million tons, including 3.7-million tons for Title I and 1.3-million tons for Title II, limiting shipments to countries of high political priority and major humanitarian need, at a cost of $740 million (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1975 BA	1975 O	1976 BA	1976 O	TQ BA	TQ O	1977 BA	1977 O	1978 BA	1978 O	1979 BA	1979 O	1980 BA	1980 O	1981 BA	1981 O
Titles I and II:																
Alt. #1 (Agency req.)	778	934	1,089	1,104	146	206	1,413	1,272	1,254	1,254	1,217	1,217	1,217	1,217	1,217	1,217
Alt. #2	778	934	1,089	1,104	146	206	1,025	918	900	900	863	863	863	863	863	863
Alt. #3 (OMB rec.)	778	934	1,089	1,104	146	206	865	758	740	740	703	703	703	703	703	703

(Illustrative country distribution shown on table on last page.)

Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays)
(Alt. #3 (OMB recommendation)	-514	-514
(Alt. #2	-354	-354

While definitive P.L. 480 decisions may not be made until 1977 begins, judgments must be made on the broad outlines of the program now.

The 1977 AID request for Title I breaks down into four major categories.

- Countries of Political Priority. This group includes the Middle Eastern nations, Chile, Indonesia, and Portugal. Despite the high priority of many of these countries, a case can be made for eliminating shipments to them. Indonesia has no pressing need for concessionary commodity import financing and food aid to Chile could be phased down as that country begins to return to economic normalcy. OMB's analysis of needs in the Middle East and Portugal (see international security assistance materials) indicates that P.L. 480 is probably only necessary in Egypt.

- Korea. State proposes large programs to show support for the government and to pay for voluntary textile export restraints. There are strong U.S. domestic pressures to dispose of excess U.S. rice in Korea. Nevertheless, Korea is an economically advanced developing country with access to substantial amounts of private foreign capital.

- South Asia. These countries have received large-scale shipments on humanitarian grounds, particularly because of crop shortfalls in recent years. With more normal weather, continuation of large shipments could constitute a disincentive to necessary agricultural reforms.

- Small Country Programs. Programs in these countries are not undertaken when the Title I program is relatively constrained--an indication of their low priority. Food aid shipments primarily serve as a signal of U.S. interest in these countries.

Agency Request: Alternative #1. AID seeks to enlarge Title I to 5.8-million tons, well above 1975 and the 1976 budget levels. Title II would be increased to 1.5-million tons. This program will meet a variety of political and humanitarian objectives. AID argues that these programs will be more developmentally oriented than in recent years, particularly in the smaller countries.

Mid-Level Program: Alternative #2. The 6-million-ton program in 1977 indicates, for the moment, that domestic commodity pressures do not appear to require heavy use of P.L. 480 as a farm-income maintenance instrument. This level will provide for major political and humanitarian programs with a generous reserve for contingencies or for some small countries.

OMB Recommendation: Alternative #3. OMB sees no convincing argument for raising Title I shipments back toward the high levels of the 1960s. Despite AID's claim of making Title I more development-oriented, there is no evidence that this is taking place. OMB proposes a 3.7-million-ton Title I program, balancing the need for outlay savings against the highest political and humanitarian priorities. This level could be achieved by:

- eliminating the Indonesia, Israel, Syria, Jordan, and Portugal programs;

- restricting the Korea program to rice shipments only;

- cutting back on shipments to South Asia by eliminating non-grain commodities (vegetable oil and cotton); and,

- denying requests for small-country programs.

A large Title I commodity reserve would be available to meet unforeseen political and humanitarian requirements. The Title II program would be held to 1.3-million tons, the minimum set by Congress in this year's foreign aid bill. The OMB reduction in Title II should not seriously disrupt the program.

Title I Country Programs
(Commodity costs in [illegible]llions)

Country	1975	1976			1977		
		State/AID Req.	Mid-option	OMB Rec.	Alt. #1 (AID)	Alt. #2	Alt. #3 (OMB)
Major Political Importance	261	312	306	304	267	182	182
Middle East	98	213	213	213	170	150	150
Chile	48	54	48	46	32	32	32
Indonesia	4	30	30	30	35	-	-
Portugal	-	15	15	15	30	-	-
Indochina	111	-	-	-	-	-	-
Korea	74	150	103	103	174	84	84
South Asia	405	456	408	291	454	247	247
Bangladesh	204	184	169	156	239	-	
India	103	155	139	59	96	-	
Pakistan	79	105	88	64	100	-	
Sri Lanka	19	12	12	12	19	-	
Small Country Programs	23	67	28	43	82	-	-
Guinea	10	5	5	5	6	-	
Haiti	2	5	4	4	7	-	
Honduras	5	13	6	6	12	-	-
Tanzania	6	5	5	5	8	-	-
Malagasy	-	-	-	-	-	-	-
Morocco	-	15	-	7	6	-	-
Mozambique	-	4	-	1	4	-	-
Afghanistan	-	2	-	2	3	-	-
Ethiopia	-	4	-	3	6	-	-
Liberia	-	-	-	-	1	-	-
Mali	-	-	-	-	6	-	-
Philippines	-	-	-	-	2	-	-
Senegal	-	-	-	-	8	-	-
Tunisia	-	6	-	2	4	-	-
Zaire	-	8	8	8	9	-	-
Carry-in	-	138	138	138			
Reserve	-				100	252	123
Total Title I	763	1123	983	879	1077	765	636

Issue Paper
International Development Assistance
1977 Budget
Issue #5: Multilateral Assistance--International Organizations and Programs

Statement of Issue

Should budget requests for 1977 voluntary U.S. contributions to three international organizations be cut back sharply?

Background

The United States provides voluntary contributions to 10 international programs, primarily oriented toward economic development, including (a) the UN Development Program (UNDP), the largest multilateral entity financing pre-investment studies and technical assistance; (b) the UN Environment Program (UNEP), a fund proposed by President Nixon in 1972; and (c) Organization of American States (OAS) development assistance activities.

Alternatives

#1. Seek an appropriation of $193 million in 1977, including $105 million for UNDP, $21 million for OAS, and $10 million for UN Environment Fund (Agency req.).

#2. Seek an appropriation of $179 million in 1977, including $100 million for UNDP, $15 million for OAS, and $7.5 million for UN Environment Fund, which adequately provides for "cut insurance."

#3. Seek $159 million in 1977, reducing the three contributions to 1975 actual levels (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	1976		TQ		1977		1978		1979		1980		1981	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
International Organizations and Programs:														
Alt. #1 (Agency req.)	230 a/	217	24	30	193	187	193	193	193	193	193	193	193	193
Alt. #2	230 a/	217	24	30	179	176	179	179	179	179	179	179	179	179
Alt. #3 (OMB rec.)	230 a/	217	24	30	159	164	159	159	159	159	159	159	159	159

a/ Includes $32 million final payment for Indus River Basin project.

Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays)
(Alt. #3 (OMB recommendation)	-23	-34)
(Alt. #2	-11	-14)

International Organizations and Programs
(Program in $ Millions)

	1975	1976	TQ	1977 Request Alternative #1	1977 Alternative #2	1977 Recom. Alternative #3
UN Development Program	78	120	--	105	100	78
Organization of American States	(15)b/	21	6	21	15	15
UN Environment Fund	5	7	--	10	7	5
Other IOP	56	82	18	57	57	61
Total	139	230	24	193	179	159

b/ Financed in 1975 from regular AID funds.

Agency request: Alternative #1. The State Department has revised its 1977 request downward from $221 million to $193 million. The revised request is lower than the 1976 budget request which will undoubtedly be reduced by the Congress to about the 1975 level. While there is no evidence that Congress will be more generous in 1977, State believes:

-- A $105 million contribution to UNDP is the minimum required to maintain U.S. influence in the program and to illustrate the U.S. commitment to aiding developing countries as expressed at the recent Seventh Special Session of the United Nations;

-- A $21 million contribution to the OAS program is consistent with the Secretary's commitment to the maintenance of U.S. aid levels in Latin America. Any sizable unilateral U.S. reduction risks political repercussions.

-- A $10 million contribution to the UN Environment Program Fund is needed because the Fund has surmounted its early organization and management problems and is ready to undertake several projects. A lower contribution would be interpreted as a failure of the U.S. to live up to its pledge to contribute a fair share to this program which the U.S. originally sponsored.

OMB recommendation: Alternative #3. Budget austerity in 1977, together with realistic expectations of significant congressional reductions in these programs in 1976 and 1977, make a reduction to 1975 request levels appropriate. Furthermore, these programs do not appear particularly effective:

-- The UNDP is not sufficiently concentrated on the most underdeveloped countries. Despite UNDP efforts to channel more funds to the poorer LDC's, current plans call for too many projects in countries such as Iran, Korea, Venezuela, Argentina, Mexico, Greece and the United Arab Emirates, which can afford and do have access to alternative sources of technical assistance.

-- Contributions to OAS programs are justified almost entirely on political grounds. Neither State, AID, nor the OAS appear to have evaluated the substantive value of the programs. Additionally, much of the increase is for a new activity which is progressing more slowly than planned.

-- Contributions to the UNEP Fund should not increase until its EARTHWATCH program is better defined and U.S. agencies determine their appropriate participation.

Issue Paper
International Development Assistance
1977 Budget
Issue #6: Housing Guaranty Program

Statement of Issue

Should the Housing Guaranty (HG) program be terminated?

Background

The HG program guaranties loans of private U.S. investors--principally the Federal Home Loan Bank and savings and loan associations--in housing projects in developing countries. The projects are intended to further the development of financial institutions and the construction of housing projects and related community facilities for the benefit of low-income families. The guaranties are a contingent liability of the U.S. government and would require appropriations and outlays only if defaults exceeded the program's $50-million reserve.

In the 1976 foreign assistance authorizing bill, the Administration sought an increase of $250 million in the program's guaranty authority to enable the program to maintain previous levels of activity in 1976 and 1977. (The program has been guarantying about $100 million per year.) The Senate version of the bill increases the authority $250 million while the House does not provide for any increase. In addition, the House bill includes a number of restrictive provisions designed to force the program to more directly benefit low-income families and develop new solutions to housing problems.

Alternatives

#1. Permit the program to continue at current levels with the expectation that increased authority will be requested for 1978 (Agency req.).

#2. Continue the program until increased authority from the 1976 authorizing bill is utilized, then terminate the program.

#3. Eliminate the program by terminating new loan authorizations after September 1976, and by allowing use of only current unused authorizing authority, $186 million (OMB rec.).

Analysis

New Loan Authorizations/Increased Authority ($ Millions)	1975 NLA	1975 IA	1976+TQ NLA	1976+TQ IA	1977 NLA	1977 IA	1978 NLA	1978 IA
Housing Guaranty Program:								
Alt. #1 (Agency req.)	95	50	147	50	160	200	160	150
Alt. #2	95	50	80	50 1/	100	100 1/	150	--
Alt. #3 (OMB rec.)	95	50	186	--	--	--	--	--

1/ Assumes that increased authority of $150 million of the $250 million requested will be obtained.

AID and its Office of Housing have been sharply criticized in the past few years by the GAO, Treasury, OMB, and AID's own Auditor General for failing to meet the program's objectives. In particular, the loans guarantied by the HG program have generally financed subsidized housing for the middle- and high-income families in the developing countries. AID management has recently adopted new guidelines to reorient the program. However, the program continues to be characterized by poorly developed projects or projects that do no more than finance portions of national housing programs that were previously approved. The poor performance results from attempts to maintain high annual program levels and an inability by AID's management to enforce normal loan standards on HG projects. Although the program does not result in budget outlays, it does divert credit from the U.S. housing market by making foreign loans more attractive.

Agency Request: Alternative #1. The Agency considers the HG program to be a significant, discretionary resource in its development program and would argue that the recent reorientation of the program justifies its continuation at current levels. AID emphasizes that the program does not result in budget outlays and program termination would not generate any budget savings.

OMB Recommendation: Alternative #3. The program has been badly administered and ineffective in promoting new housing policies and solutions in the developing countries. AID's attempt to reorient the program in 1973 and 1974 has changed program rhetoric and emphasis but has not yet produced significantly better projects. The main argument against the OMB recommendation is that it will terminate the program prior to giving AID the opportunity to complete the reorientation of this program.

Background Paper
International Development Assistance
1977 Budget
Multilateral Assistance: International Financial Institutions

Budget Authority/Outlays ($ Millions)	1975		1976		TQ		1977		1978	
	BA	O	BA	O	BA	O	BA	O	BA	O
International Financial Institutions:										
Agency req./OMB rec.	619	569	1,076	966	--	277	1,027	902	1,027	830

The International Financial Institutions (IFIs) comprising the World Bank Group of institutions and the Inter-American, Asian, and African Development Banks make loans to developing-member countries from funds paid by developed-country members and from commercial borrowings backed by members' guarantees. Ordinary capital loans are made at near-market terms and special fund loans are highly concessional.

For 1977, OMB recommends the amounts proposed by the Treasury Department, which manages this program. The proposed amounts represent payments to carry out firm international commitments and new initiatives which you have approved previously or in connection with Secretary Kissinger's speech at the Seventh UN Special Session last September.

Funds would be provided to the following institutions:

- International Development Association - The $375 million proposed for this special fund of the World Bank represents the second installment of a $1.5-billion U.S. contribution to a multinational replenishment of IDA funds.

- Inter-American Development Bank - Paid-in funds and loan guarantees of $440 million will provide replenishment installments for the Bank's ordinary and special funds. The current replenishment was included in the 1976 budget and authorizing legislation is before the Congress.

- Asian Development Bank - The proposed $171 million in payments and guarantees will replenish ordinary and special funds for loans to countries in East and South Asia.

- International Finance Corporation - Treasury proposes up to $42 million to be paid-in in 1977 as the first installment of a three-year, $100-125 million U.S. contribution to the multiyear replenishment proposed by the United States.

OMB is not recommending reductions in the Agency request for 1977 because of the international commitments already made and the fact that the funds will spend very slowly and have a negligible impact on 1977 budget outlays.

Potential 1978 Budget Issues

The budget control act requires that authorizing legislation for the 1978 budget be sent to Congress by May 15, 1976. Two major foreign aid decisions that will have to be made at that time concern the World Bank Group: (1) the fifth replenishment of IDA; and, (2) an increase in the ordinary capital of the Bank. OMB will prepare a decision memorandum on authorizing legislation and the 1978 budget-planning targets for you in February or March 1976, which will lay out the options available to you.

International Development Association - International negotiations on the fifth replenishment of IDA will begin in Paris this month, with a target agreement date of September 1976. The new replenishment is intended to finance IDA for the period 1978-1980. The current replenishment, IDA IV, calls for contributions over the period 1975-1977. However, because of congressional delays and opposition to previously proposed higher levels, the United States' contributions to IDA IV have been delayed until the period 1976-1979. This schedule, if adhered to, means that the U.S. will be two years behind other donors and would not make its first payment to IDA V until 1980. This Congress might not be willing to commit the U.S. to payments which would not begin until the 95th Congress and other countries might not be willing to sign-up if the U.S. was not in a position to seek appropriations until 1980. Because IDA is the most important multilateral agency providing concessionary assistance to developing countries, State is considering the feasibility of requesting additional funding for IDA in 1978 and 1979 to enable the United States to catch-up and participate in IDA V on schedule--in effect, doubling-up contributions for both IDA IV and V in the same year. Additional funding for IDA in 1978 under these circumstances would be in the range of $375-500 million, with outlays of $50-100 million.

OMB and Treasury believe that it is premature to judge the feasibility of seeking additional IDA funding in 1978 because the first installment on IDA IV, sought in the 1976 budget, has not yet been acted on.

<u>World Bank: Selective Capital Increase</u> - The World Bank is proposing a capital increase to parallel an upcoming increase in member-country quotas in the International Monetary Fund. The United States share in this capital increase could call for an estimated $150-200 million in paid-in funds. The State Department originally sought inclusion of these funds in the 1977 budget. Treasury did not request funds for this contribution, however, because the proposal is still tentative and the United States is not committed to it. In addition, the Bank's schedule calls for authorizing legislation to be completed in 1977, but payments will not be required until 1978 at the earliest. Therefore, this is not a 1977 budget issue, but may be a budget issue in 1978, when it could raise outlays $50-100 million.

Background Paper
International Development Assistance
1977 Budget
Multilateral Assistance: International Fund for Agricultural Development

Budget Authority/Outlays ($ Millions)	1975		1976		TQ		1977	
	BA	O	BA	O	BA	O	BA	O
IFAD	--	--	200	0	0	0	0	30

With your approval, Secretary Kissinger committed the United States to support the establishment of an International Fund for Agricultural Development (IFAD) and to contribute $200 million (20 percent) to a $1-billion fund, provided that international negotiations are satisfactorily completed. IFAD was an OPEC initiative at the November 1974 World Food Conference, and OPEC countries have been expected to contribute half the total fund. Other developed countries would provide the remaining $300 million.

International negotiations to obtain final agreement on a charter are currently underway. Several issues concerning IFAD operations are still unresolved. Moreover, the OPEC countries may be unable to provide $500 million leading to pressures to reduce all other donors' contributions.

Given the prominence of the U.S. commitment to IFAD, State and AID will probably seek to include funds in the budget--as a contingent item for 1976 indicating that a budget request will be transmitted later, upon completion of negotiations. OMB supports this approach.

State

Celia:

1977 Presidential Review
Department of State
Table of Contents

TAB A Summary tabulation of the 1977 Budget amounts requested and recommended

TAB B Issue papers

Issue	Effect of issue on outlays (dollars in millions 1977	Effect of issue on outlays (dollars in millions 1978
1. International organization assessments	-21	-34
2. UNESCO arrearages and assessments	-66	-8
3. Salaries and expenses	-7	-16
4. Exchange of persons	-8	-23
5. Foreign buildings deferral	-6	-3
6. Construction of Moscow embassy complex	-4	-11

TAB A

Department of State
(excludes Int'l Boundary and Water Commission)
1977 Budget

Summary Data

	(In millions) Budget Authority	Outlays	Employment, end-of-year Full-time Permanent	Total
1975 actual	1,175	812	22,011	23,305
1976 February budget	911	881		
enacted	897	1,190a/	xxx	xxx
supplementals recommended	37	37	xxx	xxx
agency request	939	1,232	22,578	24,182
OMB recommendation	934	1,227	22,578	24,182
OMB employment ceiling	xxx	xxx	22,578	24,182
TQ February budget	400	355	xxx	xxx
enacted	363	372	xxx	xxx
supplementals recommended	35	34	xxx	xxx
OMB recommendation	398	406	xxx	xxx
1977 planning target	1,112	1,079	xxx	xxx
reduction target	xxx	1,015	xxx	xxx
agency recommendation	1,210	1,110	22,584	24,188
OMB recommendation	1,068	996	22,584	24,188
1978 OMB estimate	1,300	1,200	22,584	24,188

a/ Includes $271 outlays for Indochina refugees not in February budget.

1977 Budget
Department of State
Summary of Recommended Program Reductions
($ in millions)

	1976		TQ	1977			1978	
	O	FTP Employ.	O	BA	O	FTP Employ.	O	FTP Employ.
Current base	1,231	22,578	409	1,100	1,031	22,584	1,234	22,584
Recommended level	1,227	22,578	406	1,068	996	22,584	1,200	22,584
Reduction	-4	--	-3	-32	-35	--	-34	--
Program reductions:								
Salaries and expenses (Issue Paper #3)				-8	-7		-8	
Exchange of persons (Issue Paper #4)	-2		-2	-10	-8		-9	
Foreign buildings:								
1976 deferral (Issue Paper #5) ..	-2		-1		-6		-3	
1977 program				-14	-14		-14	
Total reductions	-4		-3	-32	-35		-34	

TAB B

Issue Paper
Department of State
1977 Budget
Issue #1: International Organization Assessments

Statement of Issue

Should the President's budget reflect the Department's best estimate of the amounts expected to be assessed against the U.S. in 1977 for international organizations or should the budget reflect assessments based on a U.S. evaluation of what appropriate program levels should be?

Background

The U.S. is legally bound to pay assessments to 41 international organizations. Although the U.S. is usually out-voted, the Department generally tries to hold organization budgets down. The introduction of the new fiscal year requires that the President's 1977 budget include estimates of U.S. assessments against several international organization budgets not yet firmly determined. The President's budget can be based on the Department's best estimate of what final organization budgets will be, as the Department proposes, or it can be based on a more conservative U.S. negotiating position reflecting Department analysis of program requirements from the U.S. point of view.

Alternatives

#1. Request estimated assessments that reflect the Department's best estimate of finally approved international organization budgets. (Agency req.)

#2. Request estimated assessments best reflecting a U.S. position on each organization's budget. (OMB rec.)

Analysis

Budget Authority/Outlays ($ Millions)	1976 BA	1976 OL	July 1 - Sept. 30, 1976 BA	July 1 - Sept. 30, 1976 OL	1977 BA	1977 OL	1978 BA	1978 OL
Alt. #1 (Agency req.)	218	218	228	209	288	280	367	364
Alt. #2 (OMB rec.)	218	218	228	209	269	259	341	330
Difference	--	--	--	--	-19	-21	-26	-34

Agency Request: Alternative 1. The Department prefers 1977 appropriations large enough to cover its best estimate of U.S. contributions that will eventually be assessed so that shortfalls are less likely to have to be made up in supplementals or following year budget requests. The Department points out that U.S. positions on organization budgets are seldom adopted and that a 1977 budget request based on a conservative U.S. position will inevitably have to be augmented later.

OMB recommendation: Alternative 2. OMB believes that the U.S. negotiating posture will be unduly weakened if the President's budget assumes finally approved organization budgets which will be generally higher than the U.S. believes is necessary. Furthermore, the OMB approach should force the Department to analyze each organization's programs, budgets, and processes at an earlier date to determine the U.S. position. The Department has generally done a poor job of this. OMB recognizes that its approach will lead to shortfalls which will have to be made up in 1978. No hardship will result for any organization since 1978 appropriations will be available well before the end of the calendar year budget (1977) for which the U.S. will have been assessed.

If the OMB recommendation is approved, the Budget Director will advise the Secretary and request follow-up action by the Department to assure that future budgets of international organizations are analyzed at an early enough time to ascertain low-priority activities which the U.S. should seek be reduced and high priority activities the U.S. should support.

Issue Paper
Department of State
1977 Budget
Issue #2: UNESCO Arrearages and Assessments

Statement of Issue

Should appropriations be sought in 1977 to pay overdue and 1977 assessments of UNESCO or not?

Background

The Department's 1977 request includes $43M for 1974, 1975, and 1976 arrearages legally owed to UNESCO and $31M for estimated 1977 assessments. Congress has prohibited payments to UNESCO until the President certifies that the organization has taken "concrete steps" (1) to allow Israel to join the European Regional Group of UNESCO and (2) to restore $26K of technical assistance revoked because of Israeli archeological diggings in Jerusalem.

Alternatives

#1. Request $74M of UNESCO arrearages and estimated 1977 assessments in 1977. (Agency req.)

#2. Request no appropriations for UNESCO in the 1977 Budget. (OMB rec.)

Analysis

	1976		July 1 - Sept. 30, 1976		1977		1978	
Budget Authority/Outlays ($ Millions)	BA	OL	BA	OL	BA	OL	BA	OL
Alt. #1 (Agency req.)	--	--	--	--	74	66	--	8
Alt. #2 (OMB rec.)	--	--	--	--	0	0	--	0
Difference	--	--	--	--	-74	-66	--	-8

Agency request: Alternative #1. The Department believes that the President's budget should include UNESCO arrearages and 1977 assessments because they are legal obligations, because the U.S. has always opposed other nations' non-payment of assessments, and because of the serious financial situation of UNESCO. If the UNESCO General Conference in October 1976 takes sufficient action for the President to certify that "concrete steps" have been taken, the Department believes appropriations should be in hand for early payment of U.S. assessments.

OMB recommendation: Alternative #2. OMB believes no funds for UNESCO should be sought until the 1976 General Conference takes sufficient action for the President to certify to the Congress the "concreteness" of those actions. Until the President certifies, the Congress will likely delete all 1977 appropriations for UNESCO as it has deleted appropriations for CY 1975 and 1976 assessments. By not requesting a 1977 appropriation, pressures will increase on UNESCO to take corrective actions. If so taken, the President can seek a 1977 supplemental next October.

Issue Paper
Department of State
1977 Budget
Issue #3: Salaries and Expenses

Statement of Issue

Should the Department's operating level be reduced in 1977?

Background

This appropriation finances almost all of State's personnel and supporting expenses such as travel, equipment, and rentals. The Department has reduced its employment by 15% since 1967 and has requested no additional personnel for 1977, planning to reprogram several hundred positions to meet increasing visa workloads and important new requirements throughout the world. Although the Department originally requested a $16M increase for improved communications and other non-personnel logistical support, it has withdrawn the request in response to the President's desire to reduce programs to minimum levels. It proposes that its 1977 activities be carried on at the 1976 level. The question is whether non-personnel operations should be reduced in 1977.

Alternatives

#1. Continue operations in 1977 at the 1976 level, absorbing necessary increases by offsetting curtailments in low-priority activities (Agency req.).

#2. Reduce travel, supplies, and equipment purchases by 15% in 1977 (OMB rec.).

Analysis

Budget Authority/Outlays ($ Millions)	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 (Agency req.)	425	419	119	118	531	497	598	579
Alt. #2 (OMB rec.)	425	419	119	118	523	490	575	563
Difference	-	-	-	-	-8	-7	-23	-16

Agency Request: Alternative #1: To continue the 1976 program in 1977 requires an increase of $40M because of higher foreign national salaries and inflationary price increases overseas. In addition, the transfer to State of administrative support operations previously financed by other agencies adds $66M to the Department's budget (with corresponding reductions in budgets of other agencies and no increase in overall budget totals). In terms of level of activity, therefore, the $531M requested for 1977 will provide the same total program as the 1976 appropriation of $425M. The Department argues strongly that this level of resources must be maintained so that urgent foreseen and unforeseen requirements can be met and absorbed by reprogramming.

OMB Recommendation: Alternative #2: The Division believes that a 15% reduction in travel, supplies and equipment ($8M) is not excessive in view of the austerity required of all agencies by the President's budget policy. The 1976 program is a comfortable one and can accommodate a 15% cutback if management sets about the task now.

Issue Paper
Department of State
1977 Budget
Issue #4: Exchange of Persons

Statement of Issue

Should 1977 outlays be significantly reduced by proposing 1976 and TQ rescissions and a 1977 allowance below the current appropriation level?

Background

The main objective of the program is to increase international communication and cooperation between key elements of American and foreign societies to improve the environment, both here and abroad, for American and foreign political, economic, scientific and cultural interrelationships. Since 1969, the Department has directed the program more toward long-range foreign policy objectives. The Department is increasingly trying to utilize the program to emphasize interdependence of nations and societies and to build relationships with countries that do not receive much attention from private commercial, academic, scientific, cultural, and media interchange.

Alternatives

#1. Maintain the 1976 program level appropriated by the Congress to provide sufficient reprogramming flexibility for diplomatic initiatives in key areas. (Agency req.)

#2. Reduce 1977 outlays by proposing rescissions in 1976 and the TQ and continue program at a reduced level in 1977. (OMB rec.)

Analysis

	1976		TQ		1977		1978	
Budget Authority/Outlays ($ Millions)	BA	OL	BA	OL	BA	OL	BA	OL
Alt. #1 (Agency req.)	60	56	13	19	64	56	85	79
Alt. #2 (OMB rec.)	55	54	10	17	54	48	59	56
Difference	-5	-2	-3	-2	-10	-8	-26	-23

Agency Request: Alternative #1: In response to the President's budget policy, the Department reduced its initial request of $79M to $64M allowing only cost increases associated with higher travel, tuition and living costs of grantees. The Department is convinced that over time the program improves foreign understanding of American society, government, and institutions which in turn facilitates the achievement of our foreign policy objectives. Department leadership believes that this program becomes increasingly important as the U.S. reduces its presence in many countries in other ways. It has been the goal of the Department to build the program to a $100M level over a period of a few years and increasingly to utilize private, non-profit contractors and grantees to carry out the program.

OMB Recommendation: Alternative #2: Budget policy requires substantially reduced Department outlays. This is one of the few Department grant programs where reductions can be made reasonably quickly. OMB believes a 1976 rescission of $5M, a TQ rescission of $3M, and a 1977 allowance of $54M is necessary to obtain significant 1977 outlay reductions. Although these reductions would result in a program 15% lower than the 1975 level it would still provide a viable exchange program sufficient to support our foreign policies.

Issue Paper
Department of State
1977 Budget
Issue #5: Foreign Buildings Deferral

Statement of Issue

Should two large embassy construction projects be deferred in 1976-7?

Background

Each year the Department normally constructs or purchases two or three major embassy office buildings, as well as smaller buildings and staff housing. Although the Department originally requested continuation of the program in 1977, it agreed to a moratorium in 1977 to accomplish outlay and program reductions. This means a one-year deferral to 1978 of new embassy office buildings at Helsinki, Lisbon and Dacca, and of 40 smaller office and housing projects, saving $14M in 1977 outlays. The issue is whether, in addition, office buildings at Geneva and Nairobi, estimated to cost $8M and $5M respectively, scheduled for contract in the last half of 1976 should be deferred to 1978 in order to produce further savings of $6M in 1977 outlays.

Alternatives

#1. Allow the Geneva and Nairobi projects to proceed as planned (Agency req.).

#2. Defer the two projects until FY 1978 (OMB rec.).

Analysis

Budget authority/outlays ($ Millions)	1976 Oblig.	1976 O	July 1 - Sept. 30, 1976 Oblig.	July 1 - Sept. 30, 1976 O	1977 Oblig.	1977 O	1978 Oblig.	1978 O
Alt. #1 (Agency req.)	39	27	-	6	-	21	37	24
Alt. #2 (OMB rec.)	26	25	-	5	-	15	33	21
Difference	-13	-2	-	-1	-	-6	-4	-3

Agency Request: Alternative #1: The Department argues that specific circumstances make the proposed deferrals highly undesirable: At Geneva, delay in the availability of a new U.S.-owned building will require our mission to international organizations to undertake an expensive and disruptive move to a temporary location when the lease on present rented space expires. At Nairobi, failure to construct promptly on a site made available by the Kenyan government will result in loss of the site, waste of the architectural and engineering work already accomplished on the project for that site, and large construction cost increases by the time a new site is found and a new building designed.

OMB Recommendation: Alternative #2: Under normal circumstances, OMB would not recommend these two deferrals, which will cause substantial disruption and eventual higher costs to the Government. OMB believes, however, that the other alternatives for achieving equivalent outlay reductions -- i.e., personnel reductions in addition to the 15% State has accomplished in recent years, or further cutbacks in exchange of persons beyond the 15% reduction recommended by OMB -- would be even more disruptive.

Issue Paper
Department of State
1977 Budget
Issue #6: Construction of Moscow Embassy Complex

Statement of Issue

Should funds be sought in the 1977 budget for the construction of new office and housing facilities in Moscow?

Background

The United States has agreed with the USSR on the construction of new embassy facilities in Moscow and Washington. The office buildings, when completed, are to be occupied simultaneously. It has been U.S. policy not to allow the USSR to begin construction in Washington until we are ready to begin in Moscow in order to constrain the USSR from applying undue conditions on our project in Moscow. The Soviet design has proceeded more rapidly than ours. The State Department is under Soviet pressure to move faster or to let the Russian building proceed now. State feels it is necessary to budget in FY 1977 in order to show the USSR that we are proceeding as fast as possible. However, final design, already funded, will not be completed until mid-1977 and price negotiations with the Soviets would then follow. Signing of the major construction contract is estimated in September 1977, the last month of the fiscal year.

OMB staff have reviewed the project and find it within normal design criteria, except for special security features and recreational facilities required by the isolation of the diplomatic community in Moscow. OMB staff understand that the key congressional figures who would deal with the authorization and the appropriation request support the project. The only issues are the amount and the timing of the request to the Congress. About three-fourths of the construction will be done by the Soviets, who expect to base their charges on American wage rates. U.S. negotiators will argue that Soviet rates should be used. Unable to ascertain what Russian rates actually are, State estimates an overall $100M cost based on U.S. rates and recent other U.S. embassy construction abroad. This compromises the U.S. negotiating position.

Alternatives

#1. Seek a $30M initial appropriation to assure the USSR we intend to proceed as fast as possible on the mutually agreed project. (Agency req.)

#2. Seek no 1977 appropriation on the assumption that construction funds will not be needed in 1977 and should not be sought until negotiations with the Soviets are completed. (OMB rec.)

Analysis

Budget Authority/Outlays ($ Millions)	1977 BA	1977 O	1978 BA	1978 O
Alt. #1 (Agency req.)	30	4	70	26
Alt. #2 (OMB rec.)	--	--	75	15
Difference	-30	-4	+5	-11

Agency Request: Alternative #1. Deputy Secretary Ingersoll argues "the deletion of this project would do serious damage to our political relations with the Soviet Union and undermine the spirit of detente existing between the two nations". He believes a 1977 request is required to show U.S. commitment to the project and to forestall Soviet efforts to begin their construction in Washington, as Ambassador Dobrynin has been proposing to Secretary Kissinger. State estimates first-year costs at $30M. The Department would try to protect the U.S. negotiating position by avoiding a definitive overall cost estimate and presenting a range of $75-100M to the Congress.

OMB Recommendation: Alternative #2. OMB recommends against seeking construction funds in the 1977 budget because --

- the project is almost certain not to be ready for contract in 1977;
- including construction funds would not accelerate the project; there is still much design and negotiating to be done;
- an overall estimate could not be avoided if the Congress is to appropriate any funds;
- making public a cost estimate before negotiations are completed would compromise the U.S. negotiating position which might result in charges of "soft bargaining";
- a 1977 request for such a costly project abroad would undermine the "no-new-starts" policy.

This recommendation assumes that price negotiations with the Soviets would take place during the final design stage, rather than afterwards as planned by the Department, so that a firm estimate could be included in the 1978 budget a year from now.

Ex-Im
Bank

1977 Presidential Review
Export-Import Bank of the United States
Table of Contents

Issue	Effect of issue on outlays (dollars in millions) 1977	1978
1. Lower direct loan authorizations	-139	-924
2. Terminate discount loan program	-43	-44
3. Lower guarantees and insurance levels	0	0
4. No manpower increase	-1	-1

TAB A

Export-Import Bank of the United States
1977 Budget

Summary Data

	(in millions) Total Authorizations	Outlays	Employment, end-of-year Full-time Permanent	Total
1975 Actual	8,315	1,504	420	425
1976 February Budget	14,225	1,757	440	445
Initial Agency Request	14,189	1,718	440	445
Revised Agency Request	13,000	1,460	440	445
OMB Recommendation	9,752	1,418	440	445
OMB Employment Ceiling	xxx	xxx	440	445
TQ February Budget	3,556	535	440	445
Agency Request	3,275	350		
OMB Recommendation	2,438	363	440	445
1977 Planning Target	xxx	1,700	xxx	xxx
Reduction Target	xxx	1,300	xxx	xxx
Initial Agency Request	18,056	2,036	475	480
Revised Agency Request	16,015	1,500	475	480
OMB Recommendation	8,434	1,263	440	445
1978 OMB Estimate	8,500	1,109	440	445

Export-Import Bank of the United States
Background

There are major differences of view within the U.S. Government on the need for official stimulus to exports through low-cost credits.

The Need for Export Stimulus. The draft report of the OMB-led interagency review of export promotion programs identified the various national objectives served by these programs. Although several agencies dissented strongly, the majority agreed that export promotion programs are potentially important for:

-- Overcoming imperfections in credit markets (such as the unwillingness of private banks to extend long-term loans), thereby increasing national income.

-- Meeting foreign official credit competition, in order to let U.S. exporters compete on an equal footing.

These programs are not effective for:

-- Maintaining full employment. Increasing employment and output is a question of overall monetary and fiscal policies, not the level of any particular program.

-- Facilitating balance-of-payments objectives. Export promotion has no necessary net impact on the trade position because higher exports generally result in higher imports. In addition, higher exports financed on credit do not strengthen the dollar until the credits are repaid, which can be up to 10-12 years on Eximbank direct loans.

Thus, the interagency study concluded that Eximbank financing should be limited 1) to instances of credit market gaps (i.e., where the private market fails to provide credit on reasonable terms), or 2) to instances of demonstrable foreign government competition.

Gaps in the Private Market. Eximbank emphasizes gaps in the private export credit market, pointing to the reluctance of commercial banks to make long-term loans and to provide higher risk foreign financing. OMB recognizes the benefits from overcoming these credit market gaps, but believes that Eximbank underestimates the willingness of private lenders to provide financing. OMB is concerned that the provision of below-market Eximbank financing has discouraged private lenders and has actually had the effect of displacing private sector activities.

Foreign Government Competition. Most governments provide export credits, largely on the grounds that they have to meet the foreign government's competition. The French, Japanese and British provide substantially more aid to their exporters than the United States and the Germans. The primary argument for meeting foreign subsidized credit terms is on equity grounds since economically the U.S. would be better off not subsidizing export credits. The U.S. and other governments have been seeking a Gentlemen's Agreement to limit export credits. OMB believes that such an agreement is of high priority.

Eximbank Program Levels
($ billions)

				1976			1977			1978	
	1971	1973	1975	Budget	Revised Req.	Current Est.	Orig. Req.	Revised Req.	OMB Rec.	Revised Req.	OMB Rec.
Direct Loans	1.8	2.3	2.7	4.0	2.7	3.0	6.3	4.9	2.4		
Discount Loans	0.5	1.6	1.1	1.4	1.4	1.0	2.2	1.5	0		
Guarantees & Insurance	3.0	4.5	4.5	8.8	8.8	5.2	9.6	9.6	6.1		
Total Program	5.3	8.4	8.3	14.2	12.9	9.2	18.1	15.9	8.5		
Outlays*	-0.2	0.5	1.5	1.7	1.5	1.3	2.0	1.5	1.3	2.1	1.1

* Beginning in 1977 Eximbank outlays will again be included in the budget totals; they were excluded by statute in August 1971.

Revised Agency Request

In view of the tight budget situation, Eximbank has substantially revised its 1976 and 1977 request levels. The revised request sharply reduces the 1976 program levels to permit maintenance of higher 1977 levels. The revised request is still $237 million over the OMB mark in outlays in 1977.

TAB B

1977 Budget
Export-Import Bank of the United States
Summary of Recommended Program Reductions
($ in millions)

	1976		TQ	1977			1978	
	O	FTP Employ.	O	BA	O	FTP Employ.	O	FTP Employ.
Current base	1,499	440	425	3,099	1,722	475	2,090	475
Recommended level	1,418	440	364	2,273	1,263	440	1,109	440
Reduction	81	0	61	826	459	35	981	35

Program Reductions:								
Direct Loan Authorizations, reduced ceiling ..	81	---	61	781	434	29	950	29
Discount Loan Authorizations, terminate	0	---	0	45	25	6	31	6
Total Reductions	81	---	61	826	459	35	981	35

TAB C

Issue Paper
Export-Import Bank of the United States
1977 Budget
Issue #1: Direct Loans

Statement of Issue

Should the requested direct loan level be reduced in order to encourage the development of private sector alternatives and to encourage an international agreement limiting official export credits?

Background

In recent years, Eximbank has been attempting to cope with the dilemma of providing interest rates sufficiently low to remain competitive with foreign official export credit while sufficiently high to avoid unnecessary preemption of private credit. The balance has most often been struck in favor of concessional interest rates, however, especially during periods of tight money. Eximbank has believed it more important to meet the part of its mandate requiring it to increase exports than the part which requires it not to undercut private lenders.

Low lending rates and rising borrowing costs have caused Exim's net income to fall sharply. As a result the Bank has recently raised its interest rates to a scale from 8 1/4 to 9 1/2 percent, depending on the maturity of the loan. Lower rates will be permitted on a case-by-case basis as necessary to meet foreign official credit competition.

Despite the reduction in the implicit subsidy, Exim is projecting a large increase in program demand. Such an increase might jeopardize ongoing efforts to negotiate the Gentlemen's Agreement to limit credit competition among the major suppliers. Progress in these negotiations has been limited to date, primarily because of reluctance on the part of the French government, although Eximbank has also resisted Treasury proposals for a tighter credit agreement.

Alternatives

#1. Provide for an expanded Exim role in export financing sufficient to meet all possible demands (Agency revised req.).

#2. Reduce Exim funding levels over a two year period (1977-1978) in order to encourage an international credit agreement and limit the Bank to a lender-of-last-resort role.

#3. Reduce Exim funding more rapidly to achieve the results in option #2 by 1977 (OMB rec.).

Direct Loan Authorizations (A) and Outlays (0)
($ in millions)

	1975		1976		TQ		1977		1978	
	A	0	A	0	A	0	A	0	A	0
Alt. #1 (Agency req.)	2,701	1,369	2,700	1,336	700	339	4,925	1,434	4,925	2,127
Alt. #2	2,701	1,369	3,445	1,405	865	391	3,132	1,461	2,419	1,489
Alt. #3 (OMB rec.)	2,701	1,369	3,132	1,374	783	368	2,419	1,295	2,419	1,203

Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays
(Alt. #2	+27	-638
(Alt. #3	-139	-924

The Agency request is based on a review of potential demand for Eximbank financing. The Bank has assumed that the pickup in foreign economic activity and growing commercial bank reluctance to provide export credits will more than offset the impact of its new higher interest rate structure. The Bank is also prepared to relax its interest rate policy if the U.S. appears to be losing business to foreign competition.

Alternative #2 is designed to force Eximbank toward a lender-of-last-resort policy over a two-year period. Funds would be limited to the amount likely to be needed under a strict international export credit agreement (e.g., no credits to countries with per capita incomes over $3,000 and perhaps prohibitions on lending for certain sectors such as jet aircraft). This restrictive level would put pressure on Eximbank to seek a limitation of credit subsidies. However, such a limitation would be resisted by some (e.g., the French) and would risk losing some exports due to reduced subsidies.

The OMB recommendation would accelerate the transition of Eximbank to a more limited role as a lender of last resort and in meeting demonstrable foreign competition. OMB believes that it is not in the U.S. interest to subsidize exports and therefore would not be unduly concerned if some potential exports were lost because of the withdrawal of credit subsidies. Yet, since it is also in the U.S. interest to get other countries to stop their subsidies, you might want to hold open the threat of a budget supplemental to increase Eximbank lending if other countries appear unwilling to follow the U.S. lead in cutting back on export credit subsidies.

Issue Paper
Export-Import Bank of the United States
1977 Budget
Issue #2: Discount Loans

Statement of Issue

Should the discount loan program be terminated in 1977?

Background

The discount loan program creates a secondary market for short and medium term export paper on preferential terms. Under this program, the Eximbank will make an advance commitment to lend up to 100% of the value of eligible paper. The cost to the commercial bank borrower is generally one percentage point less than the interest yield on the underlying obligation.

Eximbank recently instituted several major program changes: 1) It now charges a commitment fee of 1/4% of the value of the underlying obligation, 2) Floating-rate paper can no longer be discounted, and 3) A given loan can now be discounted only once.

Alternatives

#1. Allow a moderate increase in discount loan authorizations (Agency req.).

#2. Terminate the discount loan program in 1977 (OMB rec.).

Analysis

Three purposes have most often been cited for the discount loan program: 1) To offset alleged discrimination against export credits during periods of tight money; 2) To allow export credits to be offered at fixed rather than floating rates; and 3) To simply make export financing more attractive.

There is no evidence that exports are discriminated against during periods of tight money, and even if they were, the program merely provides banks with liquidity and does not require that the discount proceeds be plowed back into additional export financing. Thus the first objective does not appear important nor would the program be effective in meeting it. Moreover, OMB questions the need for a Government program to assure fixed rates for export credits. Borrowers in any sector prefer fixed to floating interest rates during periods of money market uncertainty. Export credits should be subject to the same rules as credit for other sectors. Finally, OMB does not believe that a case has been made for simply making export credits more attractive to U.S. banks than alternative loans for other purposes.

As a practical matter, Exim's discount program also introduces a large uncontrollable element into Federal outlay estimates. Disbursements are relatively unpredictable (generally in the $50-300M range). Outstanding authorizations of nearly $2B could be disbursed in a real credit crunch, although the recently instituted commitment fee may mitigate this problem somewhat.

Discount Loan Authorizations (A) and Outlays (0)
(in millions of dollars)

	1975		1976		TQ		1977		1978	
	A	0	A	0	A	0	A	0	A	0
Alt. #1 (Agency req.)	1,112	134	1,400	123	350	15	1,500	90	1,500	59
Alt. #2 (OMB rec.)	1,112	134	1,400	123	350	15	0	47	0	15

Agency Request

	1977 Outlays	1978 Outlays
(Differences from Alt. #1 (Agency request) (Alt. #2 (OMB rec.)	-43	-44

The Eximbank recommendation would permit a high level of program usage by private banks, on the assumption that the assurance of liquidity and the ability to provide fixed-rate loans provide an incentive for exports.

The OMB recommendation of program termination is based on the questionable program objectives, the lack of effectiveness in achieving them, and the uncontrollable outlay pattern of the program.

Issue Paper
Export-Import Bank of the United States
1977 Budget
Issue #3: Guarantees and Insurance

Statement of Issue

Should ceilings for guarantees and insurance be increased even though Exim has regularly fallen far below budgeted levels in the past?

Background

The purpose of Exim guarantees and insurance is to encourage greater financing by U.S. producers and commercial banks by reducing the risk and uncertainty inherent in export credits. Exim makes a distinction between "guarantees," which usually cover risk taken by commercial banks, and "insurance," which usually covers the risk of exporting firms. Guarantees are extended by Eximbank itself and insurance is provided by the Foreign Credit Insurance Association (FCIA), a group of 50 private insurance companies which share the risk of default and have the ultimate backing of Eximbank for large losses.

Alternatives

#1. Allow an expanded ceiling for guarantees and insurance coverage (Agency req.).

#2. Retain the 1976 ceiling.

#3. Allow the program to grow from the 1975 actual level to keep pace with export growth (OMB rec.).

Analysis

OMB has encouraged Exim to shift from reliance on direct credits toward guarantees and insurance. Exim claims to be making this shift, but performance to date has not been impressive. Treasury has questioned the desirability of such a shift since it would generally result in a higher cost to the borrower than an equivalent U.S. Government obligation financing a direct loan. OMB continues to prefer guarantees to direct credits since guarantees involve a smaller subsidy element under usual conditions. In addition, guarantees and insurance have a negligible outlay impact.

Eximbank Guarantees and Insurance Authorizations
($ in millions)

	1975		1976		TQ	
	Budget	Actual	Budget	Est.	Budget	1977
Alt. #1 (Agency req.)	8,000	4,502	8,850		2,212	9,590
Alt. #2	8,000	4,502		5,220	2,212	8,850
Alt. #3 (OMB rec.)	8,000	4,502		5,220	1,305	6,015

Agency Request

(Differences from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays
(Alt. #2	0	0
(Alt. #3 (OMB rec.)	0	0

Eximbank believes that a high level of guarantees and insurance should be provided in order to avoid any risk of having to curtail the program should a sudden demand emerge. Eximbank emphasizes that there are no outlays associated with the increase. The OMB recommendation is set at the most likely level of program usage based on past activity rates.

Issue Paper
Export-Import Bank of the United States
1977 Budget
Issue #4: Personnel Levels

Statement of Issue

Should the Exim personnel level be increased from 440 to 475?

Background

The Exim employment level has risen from 400 in 1974 to 440 in 1976. The Bank justifies the requested increase of 35 employees on the basis of its increased number of loans outstanding and the added demands for analysis of loan applications.

Alternatives

#1. Provide an additional 35 persons to administer higher program levels under current operating procedures (Agency req.).

#2. Provide no manpower increase in order to maintain incentives to allocate personnel to the highest priority programs (OMB rec.).

Analysis

Eximbank has recently commissioned a private study which recommends an increase in personnel to 480 people. However, the approach of the study was simply to extrapolate existing workload factors rather than to examine ways to increase productivity. While the Eximbank's loan processing workload has unquestionably increased due to the spurt in activity in the early 1970s, a significant portion of this increase can probably be handled by more sophisticated accounting techniques and other productivity increases. For the first time, however, the Bank (under initial OMB prodding and under Bill Casey) has begun to develop an analytical staff capability and this effort may suffer somewhat under a tight personnel ceiling.

TAB D

EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT AND CHAIRMAN

'75

UDGET

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

Dear Jim:

I strongly support the President in his drive to hold down the cost and size of government but I believe the OMB budget proposals cut Eximbank in a disproportionate and counterproductive manner. Reducing Exim's basic lending authority by 40% and its discount program by 100% at a time when authorizations are increased by 100% in France and Japan and by 60% in Britain would thoroughly frustrate the Bank's ability to provide financing competitive with that provided by other countries as directed by the Congress. France, Britain and Japan whose aggregate GNP is only 70% that of the U. S. are making available about $15 billion of official export credits, six times what OMB is proposing for the U. S.

In discussing on the telephone the impact of the proposed cuts, you asked if export financing created as many jobs as housing. I'm attaching a table showing that it beats housing by 50% in jobs per billion dollars of authorization and almost 100% in jobs in relation to imputed cost. In addition, a fall off in housing will not cost consumers billions of dollars in higher prices as a fall off in exports will as the latter cuts the value of the dollar.

In considering how to achieve the President's objectives of reducing the cost and size of government, we can be led astray if we deal in budget figures only without going to the underlying realities. That is more true with respect to Eximbank than for any other agency of government because of its tiny size, its ability to operate without any appropriation, and the high probability that a diminished export effort will increase not only unemployment benefits but all other costs of the Federal government as higher prices inevitably flow from a weaker dollar.

Let me explain by first turning to the only budget item that has any impact on net outlays--our direct lending program. The $2.4 billion loan ceiling you would set for FY 1977 against the request we now make for $4.8 billion (reduced from our original request of $6.1 billion) would result in a difference in Exim's total net budget outlays for FY 1977 of only $240 million. For this cosmetic reduction--because even the $240 million is not really an expenditure as it would be with almost all other Federal agencies, since we are repaid everything we lend--the U. S. pays a prohibitively high price.

For one thing, American companies will not spend the money to even bid on the billions of dollars of contracts that are up for grabs in the world if there is no reasonable assurance of the necessary financing to fulfill the contracts once they're won. And without Exim to share the burden with the commercial banks, that funding just will not be there. The inability to lend $2.4 billion we now ask over and above the OMB proposal can mean the loss of $5 to $6 billion in exports costing $500 million in lost taxes and 250,000 or more jobs while chipping a big enough slice off the value of the dollar to cost both the public and the government additional billions.

We need an alternative that will (1) contribute to the President's budget objective, (2) recognize the facts that the Bank's loans are not expenditures and that the cuts first recommended by OMB emasculate U. S. official export credit financing with no lasting budget savings and (3) which will not boomerang by ultimately subverting the President's objective of reducing the cost of government.

I believe that the activity levels in the following table represent a balance that reflects all these considerations and still reduces Exim's budget impact $100 million below what it would have been if we had been in the budget at the $3.8 billion direct loan figure for the current fiscal year.

	($ millions)		
	FY 1976	Transition Quarter	FY 1977
Net Loan Authorizations			
Equipment and Services	$2,700	$ 700	$4,800
Commodity	-0-	-0-	75
Discount	1,400	350	1,500
Special Foreign Trade Loans	50	12	50
Total Net Loans	4,150	1,062	6,425
Guarantee and Insurance Authorizations	8,850	2,213	9,590
Net Budget Outlay	1,460	350	1,500

1. Eximbank is in a special situation with respect to this budget in these three ways:

(a) Exim's budget impact figure will represent a full addition to the budget as compared to last year when Eximbank was not in the budget;

(b) Eximbank's ability to carry out its mandate will be reduced 1000% of any cut you make to avoid this new impact (to gain a $1 reduction in outlays requires a $10 cut in authorizations); and

(c) your cut will be largely cosmetic because it does not save the taxpayers any money (no appropriations are needed), some of the authorization may not be used at all (we need commitment authority to enable U. S. companies to bid even though they won't win every time--in which case we won't have to actually lend) and, if it is, the money will come back with a profit.

To take this "iffy" budget impact figure and add all of it to the budget distorts what the President has accomplished in holding the cost of government to last year's level. To get proper comparability, as we used to say at the SEC, the $1.6 billion which Eximbank's activity would have impacted FY 1976's budget should be added to that year's budget, or FY 1977's impact should be set in some separate category so that the over-all reduction you have accomplished is fully appreciated. Is there any way to do this?

Failing that, in light of the way a reduction in budget impact generates a 10-fold reduction in the Bank's lending program and ability to discharge its responsibilities, it's far too severe to impose a 20% reduction in budget impact terms and a 40% reduction in loan authorization as you propose for Eximbank while imposing only a 6.6% reduction on a government-wide basis. Indeed, your proposal would cut our budget impact $400 million or almost 25% below the original $1.7 billion budget target we received from OMB. What we now propose would cut Eximbank's FY 1977 budget impact by almost the same 6+ percent average as you're doing for all other agencies.

2. Some of the proposed amputation can be readily avoided without any budgetary impact. The least understandable cut of all is in the Bank's guarantee and insurance programs from $8.9 billion in FY 1976 to $6.0 billion in FY 1977--Eximbank had requested $9.6 billion. These programs involve essentially no Federal outlays--net claims paid in FY 1975 totaled only $1.8 million; in fact, they have generally made money and provided a positive contribution to the budget.

The Bank's guarantee and insurance programs are a vital part of the U. S. export support effort. Their function is to reduce the political and commercial uncertainties inherent in exports; to spread the risk among exporters, the private financing institutions, and Exim in accordance with classic insurance principles; and to let the marketplace operate to the maximum possible extent. The recent OMB direct export promotion study points out:

> "Without Eximbank . . . it is very difficult to insure foreign loans. Whenever possible, it is preferable to have private banks or exporters extend credits with Eximbank guarantees and insurance . . . . "

Every study on Eximbank's policies has similarly endorsed the guarantee and insurance programs.

Eximbank's guarantee and insurance activity is already running close to $6 billion annually, reflecting our continuing efforts to increase the role of guarantees and insurance in our total programs so as to maximize private sector financing. The expected growth in U. S. exports, coupled with this major effort by Exim to have the commercial sector shoulder a greater portion of export financing and the decrease in our loan authority, will require a substantial increase, not a decrease, in guarantee and insurance authority.

If our loan authority is to be reduced in FY 1977, it is imperative that the Bank secure the full $9.6 billion in authority that has been requested. This is not a frivolous point. The Bank has a statutory mandate to facilitate U. S. exports. We cannot continue to cut our facilities without flouting that statutory obligation. If we cannot lend, we must find some way to expand our guarantee activity if export financing is to continue to be available so that American exporters can remain competitive in the world marketplace.

3. I question the propriety of OMB's directive to drop Exim's discount loan program as well as OMB's competence to make that judgment. Eximbank is directed to use its resources to facilitate exports and has the experience as well as the responsibility to determine how best to do that. The Discount Loan Program is one of our major programs designed to encourage small and medium-size export transactions and to encourage small and medium-size commercial banks to finance American exports at fixed interest rates. Cutting off the Discount Loan Program would seriously impede the thousands of U. S. exporters, many of them small businesses, who get their export financing from the 209 participating commercial banks, most of them smaller regional institutions. These smaller banks state categorically that they will have to withdraw from export financing if they do not have the liquidity assurance this program provides.

Eximbank's Discount Loan Program has been finely tuned through several changes since OMB's last study of the program to provide maximum export support with minimum actual drawdown of funds. Thus, in the last fiscal year we assisted over $1 billion in private export financing with only $134 million in disbursements.

As of November 1 of this year, the Bank's Board of Directors modified the Discount Loan Program even further. While it is too early to determine the precise impact these most recent changes will have on discount loan authorizations, we believe that they will reduce authorization levels substantially. Therefore, we now believe that an authorization level of $1.5 billion will be sufficient for this program in FY 1977, as compared with $2.2 billion requested in our September 1975 budget submission. These steps will reduce outlays in FY 1977 by at least $100 million and by even greater amounts in future years. Further cuts will, however, not yield additional benefits. Even if discount loan authorizations were to be cut to zero in FY 1977, it will only yield a minimal further reduction on 1977 outlays because disbursements, if any, which take place only if money market conditions tighten and banks find it necessary to borrow for liquidity purposes, generally lag after authorizations by several years. This fact vividly makes the point that this is a standby program which serves as the lever that brings banks into export financing with minimal Exim disbursements. Our commitment turns into an actual disbursement in only about 20% of the cases. Yet it may multiply private financing by a factor of five.

4. Now let me turn to the most difficult and critical area, our direct loans. During the first four months of FY 1976 we have approved about $1 billion in direct loans. Approvals are running lower than anticipated because recession and financial stringency in many countries have caused the postponement of many large projects and because we have increased our interest rates and generally tightened our terms to the point where we are in grave danger of becoming uncompetitive. We can see the rest of this year clearly enough to agree to hold to a $2.7 billion limit which would be about what we did in FY 1975 and is $1 billion less than our approved FY 1976 authorization level. We cannot take this step, however, if we were held to $2.4 billion in FY 1977. If we were to be bumped down to $2.4 billion for FY 1977, there would be no way to back American bidding for the billion dollars in bid opportunities which we have been told are coming in from Mexico, Venezuela, Brazil and other strong countries after the turn of the year. The downward spiral in our export effort would commence.

In reviewing our $4.8 billion requirement you must also keep in mind the way we fit into international bidding practice.

To provide our companies with the backing to justify their effort to land contracts abroad, we must be prepared to make commitments not only on the contracts they get, but also on contracts that will wind up in other countries. We won't win them all, but, since we can't tell in advance which ones we'll win, we need enough margin in our authorizations to issue commitments on contracts we will wind up losing but must compete for in order to get our proper share of the business.

Since 1969, the Bank has actually loaned about 70% of the authorizations it's been allowed. This kind of flexibility and breathing space is essential if the Bank is not to be so cramped in making commitments that U. S. exporters will ease off or be hurt in trying to market without the kind of backing their competitors get.

As for the justification for the total direct loan request of $4.8 billion, we again reviewed the potential export sales which will require the Bank's direct loan participation, together with commercial banks, and find about 300 export situations and projects totaling $11.8 billion which we believe represent transactions which will definitely go forward. On top of that there will be a lot of business we have not yet heard about. Failure to support these transactions will mean lost sales because numerous inter-agency studies, as well as recent experience, clearly show that the private market is unable to provide the hundreds of millions of dollars required for the nuclear and thermal power plants, steel mills, and large resource development projects without Eximbank support. It would be devastating to American exporters to attempt to handle all this with a $2.4 billion authorization, about 50% less in real terms than the loans made in FY 1974, the last pre-recession year.

5. Finally, on staffing, Cresap, McCormick and Paget recently finished an extensive study of the Bank's personnel requirements which was undertaken because the Directors, from personal experience, felt that the number of yearly transactions and the resulting accumulation of assets and commitments to be managed have increased to a degree exceeding the level which the staff can safely handle. This third party survey concludes that the Bank still needs 40 additional people to properly handle the Bank's business--five more than we are requesting.

We were denied any additional people last year until I got through to Roy Ash by asking him what he'd do if he had increased revenues per transaction by 25% and lifted gross revenues by $75 million, while increasing productivity and diversifying risks, and his budget committee refused to allow him to increase overhead by 2-1/2% to maintain and extend that progress. We got 20 additional people. I know that you, Jim, would walk all over a budget committee which told you you couldn't spend half a million dollars, amounting to one-half of one percent of your profits, out of a $95 million revenue increase, to protect $100 million in profits, $10 billion in assets and $16 billion in commitments.

Remember that this Bank with 440 people handles far more transactions and is responsible for more commitments than the World Bank with over 3,000 people. Remember, also, that it will pay for the additional people without burdening the taxpayer as almost all other Federal agencies do.

In conclusion, I believe you should view our revised budget proposal in the broader context of what we are trying to achieve--which reflects the Administration's philosophy of minimizing government involvement in the economy. We have reached the amazing point where over 50% in value of our activity is in guaranteeing and insuring transactions wholly financed by private capital. The authorization levels suggested by OMB would require the bank to now turn its back on our private sector partners whom we have just succeeded in inducing to work with us, but who would be unable to proceed without us. Such stop-and-go policies are detrimental to any program, and more so in the case of export financing where the bringing together of a transaction usually takes so much longer than an equivalent domestic project and where assurance of financing availability over time is even more critical to a successful sale than in the domestic arena.

We have raised our interest rates substantially over the past two years from a straight 6% to a range of 8-1/4 to 9-1/2%, which is very close to the market rate and considerably above the prevailing prime. The increases in our rates and fees, coupled with the recent fall-off in commercial rates, have left us in a position where the availability of capital is our only remaining tool to help U. S. exporters maintain their overseas sales.

The present favorable U. S. trade balance reflects, in part, the growth in Eximbank support for U. S. exports four and five years ago. The drastic authorization cuts now suggested by OMB would seriously depress our exports, the consequences of which will be felt throughout the economy in the late 1970's.

I believe that our proposal, while it would impact the budget by about $200 million more than the OMB proposal, will achieve the

President's objective by coming in at $100 million less than the budgetary impact of the FY 1976 program approved for Eximbank last year. It will also permit the Bank to carry out its mandate to provide financing competitive with that provided by other countries, thereby continuing to provide the President with a valuable instrument for achieving both his economic and foreign policy goals.

Yours,

William J. Casey

William J. Casey

The Honorable
James T. Lynn
Director
Office of Management and Budget
Washington, D. C. 20503

EXPORT-IMPORT BANK OF THE UNITED STATES

POLICY ANALYSIS STAFF

NOTE

November 14, 1975

GOVERNMENT SUPPORT AND RESULTING BENEFITS
HOUSING AND EXIMBANK EXPORTS
FY 1975

	Housing	Eximbank
Government Support for Credit (billion U.S. $)		
Preferential Credit Authorizations	24.0 [1]	2.7 [2]
OMB Estimate of Inputed Cost of Preference	3.3 [1]	.3 [2]
Resulting Benefits		
Output (billion U.S. $)	29.2	5.9
Direct and Indirect Employment (thousands)	1,472	260
Output Per Dollar of Authorization	$1.22	$2.19
Output Per Dollar of Inputed Cost	8.85	19.67
Employment Per Billion Dollar of Authorization	61,300	96,300
Employment Per Billion Dollar of Inputed Cost	446,100	867,000

1/ Budgeted

2/ Authorized