

Deficit Reductions and FY 1986 Security Assistance

[The following is an extract of joint Department of State/USAID message 270729Z Dec 85, Subject: "FY 1986 Continuing Resolution." The extract discusses the implications of the Gramm-Rudman-Hollings deficit reduction plan for the FY 1986 Security Assistance Program.]

On December 11, the President signed the debt ceiling extension bill, which included the Gramm-Rudman-Hollings deficit reduction proposal. Under the new law, the President must submit annual budgets which, by FY 1991, would show a zero deficit. If the projected deficit in a fiscal year exceeds the target established under Gramm-Rudman for that year, automatic across-the-board spending reductions would be triggered. For FY 1986, the measure will have the effect of reducing by an as-yet-unspecified percentage virtually every "program, project, and activity" in the foreign aid area. The term "program, project, and activity" (PPA) is defined in the CR conference report to mean A.I.D.'s functional OA accounts as well as its centrally-funded program. For ESF, MAP, and FMS, PPA is defined as the country, regional, and central program level based on the *Congressional Presentation Document* (CPD) or the allocations submitted to Congress pursuant to Section 653(a) of the Foreign Assistance Act, whichever is the more recent. Earmarks and ceilings are not exempt. The exact cut (or "sequester") is still being calculated, based on the total amount of non-exempt programs appropriated for FY 1986, and could range from 1.5 to 4.0 percent. The first official estimate will be made in January, the order to sequester funds is due on February 1, and the actual reductions are to take place on March 1.

Thus, with few exceptions (housing guaranties, foreign service retirement), Gramm-Rudman will reduce further the amounts made available under the CR [P.L. 99-190] for FY 1986. The allocation process, already underway, will thus include a new element in FY 1986, in that each country and program allocation will include a set-aside portion to allow for the Gramm-Rudman reduction on March 1. We will transmit these allocations once they are finalized.

For FY 1987, the size of the Gramm-Rudman cut will depend on the projected FY 1987 deficit as estimated in mid-1986. The extent to which reductions are required will depend on the degree to which the deficit projected at that time exceeds the Gramm-Rudman target (\$144 billion for FY 1987).