Coping with the Foreign-Aid Pinch

By

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Foreign aid and other foreign-affairs programs are so threatened by budget cuts this year that Secretary of State George Shultz has warned of "a tragedy for U.S. foreign policy." But the consequences of cutting some $5 billion from the Reagan administration's $21 billion foreign affairs budget request need not be so disastrous if the administration and Congress act responsibly.

The administration asked for the coming crunch by sending up a fiscal 1987 budget request - ing a 19% increase from this year's foreign-affairs funding in the face of Gramm-Rudman and congressional warnings of further cuts. Last month [June, 1986] Congress responded by passing a joint budget resolution that effectively included only $16 billion for foreign aid and other foreign-affairs programs. The situation calls for leadership so that the best use will be made of the money likely to be available to cover foreign aid; the State Department's own budget, including new embassy-security measures; the U.S. Information Agency; and several smaller foreign-affairs agencies and programs.

While the appropriations committees and ultimately both houses of Congress will have the last word on foreign-affairs funding levels, the joint budget resolution roughly defines the upper limits of likely funding.

ADMINISTRATION WARNING

Earlier predictions of budgetary disaster were based on State Department estimates that assured that the U.S. would have to fully fund the $10 billion requested for Israel and Egypt, base-rights countries, Pakistan, Central America, and certain earmarked programs (such as humanitarian aid for Afghanistan), plus $1.1 billion that the Senate added for the Export Import Bank.

Within the $17.5 billion total allowed by the joint budget resolution, only $6.5 billion would then be left to cover remaining security and development assistance programs, the budgets of the State Department and U.S. Information Agency, the proposed embassy-security program, and other small foreign-affairs programs (such as the Peace Corps) for which the administration requested over $11 billion. Administration officials warned that many important foreign-aid programs would have to be cut by 40% to 60% and others eliminated at the reduced budget-resolution funding level.

But this is a worst-case scenario that need not become a reality. If certain bookkeeping anomalies related to Foreign Military Sales (FMS) are taken into account, actual total foreign-affairs budget authority for 1986 is $17.5 billion. The corresponding budget-resolution total for 1987 is $16 billion--a reduction of 24% from the administration's request but only 8.6% from the actual current-year level. Clearly, an 8.6% cut in foreign-affairs funding on top of the earlier

[FY 86] 4.3% Gramm-Rudman cut would give the administration some headaches and dash the expectations of some recipient countries, but it need not be "a tragedy."

The administration's original budget request of $21 billion included $11 billion in security-assistance programs. These should be the prime candidates for reduction not only because they are the largest component of the foreign-affairs budget but also because of their lack of selectivity. Since 1981 the number of countries receiving Economic Support Fund (ESF) assistance has surged to 46 from 21 and Military Assistance Program grant countries have expanded to 38 from six. And to justify its request for a $1.5 billion increase in security assistance for 1987, the administration must convince Congress that U.S. interests demand the following hefty increases in security assistance: Greece (16%), Turkey (32%), Liberia (43%), Bolivia (50%), Zaire (68%), Indonesia (80%), Yemen (200%), and Peru (500%). The administration's budget even requests a total of $42.5 million in grant military aid for Burma, Colombia, Ecuador, Peru, Uruguay and the Central African Republic, countries that have not received such aid for a decade or more.

The security assistance program is also encrusted with programs no long justified by economic needs, such as $230 million in FMS credits proposed for South Korea, whose economic performance Mr. Shultz recently called "sensational" and which has a growing trade advantage with the U.S.

Spain, a developed country and NATO ally, receives $12 million annually in grant economic aid to finance educational exchanges, and is scheduled to receive $400 million in FMS credit financing as agreed upon in the last round of base negotiations. And Greece, despite a backlog of more than $1 billion in unused FMS credits from past years, is slated to receive an additional $500 million in 1987, not justified save to satisfy pressures by the Greek lobby to keep military aid to Greece at a 7-to-10 ratio to U.S. military aid to Turkey.

These costly programs survive because the recipients, the executive branch, and Congress have come to regard current assistance levels as virtual entitlements. Originally, foreign aid was offered as a temporary means to help friendly countries over a rough patch and enable them to get back on their feet and meet their defense and economic needs. Now security assistance levels, especially, are driven by domestic political considerations serving the interests of influential lobbies and their supporters in Congress. Moreover, there is no short-run or long-run planning to phase out any of the existing security assistance programs. The result is a growing list of client states permanently on the dole, and there is no room to meet new needs--the Philippines, for example--without increasing aid totals.

The joint budget resolution makes it obvious that the foreign-affairs budget faces substantial cuts. The only question is in which programs. Unfortunately, neither branch of the government seems able to rise above partisan politics and craven deference to special-interest pressures. Having failed to heed warnings that its budget request is unrealistic, the administration has lost five months in which it might have built a case for loosening legislative restrictions on the apportionment of funds. Now it may be unable to meet some of the most urgent needs of U.S. foreign policy.

U.S. bilateral and multilateral development assistance is especially vulnerable. While bilateral development aid retains congressional support for its humanitarian goals and as conscience money from a rich U.S. to the underdeveloped Third World, the administration's proposed $3.3 billion of bilateral development assistance and PL 480 food aid is now overshadowed by the $4 billion security-related ESF program. With one half of the ESF program going to Israel and Egypt, if these programs cannot be cut, impending budget cuts could result in economic aid to these two countries equaling a reduced world-wide bilateral development aid program for some 70 countries.

At the very time when the Reagan administration has rediscovered the virtues of the World Bank and other multilateral development banks in helping a Third World awash in debt, its $1.4 billion request for these programs may also be in jeopardy. Aid to these banks could become a trade-off target for presumably higher-priority political programs.

The most critical legislative restrictions are those requiring a total of $5.1 billion in military and economic aid to be allocated to Israel and Egypt. To increase security assistance to Israel and Egypt from the $4.9 billion current level is hardly justified when all other programs must be reduced. An 8.6% cut from actual 1986 security assistance to Israel and Egypt would reduce their share to $4.5 billion, $600 million below the level sought by the administration and required by legislative earmarking.

A proportional cut in funding for Israel and Egypt, when matched with deeper cuts in lower-priority programs, would permit the U.S. to meet its critical foreign aid obligations while providing funds to meet new demands, including additional bilateral aid for Africa and the Philippines, increased commitments to the multilateral development banks to ease the Third World debt situation, and a scaled-down version of the embassy-security proposals.

After Israel and Egypt, money for U.S. military base rights or access to military facilities is the largest component of foreign aid. Greece, Turkey, Spain, Portugal, the Philippines, Morocco, Oman, Somalia and Kenya will receive a total of $2.1 billion in 1986 and $2.6 billion under the administration's 1987 budget. Save for the Philippines, aid to these countries could be reduced to their current-year levels at a substantial savings.

Even deeper reductions in the base-rights programs could be made without jeopardizing the host countries' security or violating legal commitments. These base-rights commitments are not legal obligations binding on Congress; they are only "best efforts" by the executive branch to obtain an agreed-upon level of funding from Congress, and the host countries know that the executive cannot promise congressional approval. Accordingly, where circumstances permit--Spain, Greece and Turkey--these programs could be shaved further for total savings of at least $800 million.

ACCOMMODATION WITHOUT DISASTER

Other savings in the 1987 foreign-affairs budget can be made: elimination of small security-assistance programs in Latin America and Africa, reductions through tougher scrutiny of aid to Central America, Sudan, and Pakistan, and a substantial cut for the U.S. Information Agency, whose proposed 1987 budget is nearly double what it received in 1981.

These suggestions illustrate that a reduction of about $4.5 billion in the administration's $21 billion budget request can be accommodated without disastrous consequences for U.S. foreign policy. But Secretary Shultz, whose leadership in the adjustment to budget realities will be essential, cannot begin to work with Congress until he and the White House are prepared to accept that cuts are inevitable.

Even when that time comes, the difficult sorting out of priorities will depend on a degree of congressional cooperation that, at this juncture, seems unlikely. Congress, unfortunately, has shown little willingness to give the executive branch the flexibility it needs to intelligently manage a smaller foreign-affairs budget. To cut $5 billion from these programs without giving the administration the power to distinguish between worthwhile and less worthwhile programs is grossly irresponsible.