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EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF MANAGEMENT AND BUDGET
 WASHINGTON, D.C. 20503

*File
Foreign
Aid*

January 30, 1981

MEMORANDUM FOR: Senior White House Staff
 FROM: Dave Stockman *DAS*
 SUBJECT: Foreign Aid Budget

At Dick Allen's suggestion, I'm providing some background information of the foreign aid budget issue which has attracted considerable attention.

Also, a copy of the paper which is scheduled for discussion in the Cabinet's Budget Working Group session this afternoon is attached.

Principal points that should be noted are:

A. The inherited Carter foreign aid spending levels are fundamentally incompatible with our general fiscal restraint program and the need to secure Capitol Hill political support for \$40-50 billion in spending cuts next year. Specifically, the following massive increases were included in the Carter Budget:

1. Major Foreign Aid program total: Multi-lateral Banks, International Organizations, P.L. 480, Peace Corps and Economic Support Fund(excluding Israel and Egypt)
 (in \$ millions)

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$6,008	\$8,068	34.3%

2. Multilateral Banks other than IDA:

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$ 484	\$1,419	293 %

3. UN and Other International Organizations

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$ 722	\$ 902	25%

4. Economic Support Fund (Excluding Israel/Egypt)

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$ 592	\$ 896	51%

5. Bi-Lateral Support - Agency for International Development (AID)

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$1,697	\$2,386	40.6%

6. AID - Functional Development Aid

<u>FY 81</u>	<u>Carter FY 82 Proposal</u>	<u>% Increase</u>
\$1,194	\$1,821	53 %

7. International Development Association (IDA) - World Bank Soft Window

Carter budget proposes Congressional ratification of \$3.24 billion contribution during 1981, and annual spending levels of \$1.1 billion for FY81-83. This proposal could not pass the last Congress despite strenuous Carter Administration efforts. With the massive shift in House and Senate membership and in the context of \$40-50 billion in domestic cuts for social programs and home district grants, there is no chance for approval of the \$3.2 billion IDA replenishment. OMB has proposed a 50% cut in U.S. three year obligation.

B. OMB Proposal

1. Eliminate massive foreign aid increase proposed in Carter Budget (\$2.0 billion).
2. Reduce FY 82 level to \$5.5 billion or 8% cut from actual FY 81 appropriation and 5% cut in outlays.
3. Re-allocate funds within various aid categories according to following criteria:
 - . Every major program should take some reduction.
 - . Bilateral aid has priority over multilateral aid programs.
 - . Security assistance has priority over development assistance.

C. Proposal - Not Decision.

One of the President's top priorities is bringing federal spending under control. The magnitude of the problem demands that every conceivable option be explored and analyzed. We are now engaged in this analysis. No final decisions have been made by the President with respect to any option.

File
Foreign
Aid

Budget Working Group Meeting #3

Foreign Aid Retrenchment

³⁰
1/28 p.m.

FOREIGN AID RETRENCHMENT

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January 27, 1981

January 27, 1981

"B" LIST

AGENCY: Funds Appropriated to the President: State, Treasury, and Agriculture Departments; Agency for International Development; and others

SUBJECT: Foreign Aid Retrenchment

POTENTIAL REDUCTIONS FROM:

	1981	1982	1983	1984	1985
<u>Current Services</u>					
(\$ in millions)					
Budget Authority	-777	-1,530	N.A.	N.A.	N.A.
Outlays	-43	-387	N.A.	N.A.	N.A.
<u>Carter Budget</u>					
Budget Authority	-791	-2,597	-2,359	-3,656	-4,042
Outlays	-56	-674	-1,422	-2,338	-2,929

PROGRAM

The 1981 and 1982 budget authority for these programs is as follows:

(BA in \$ millions)

	<u>Current Services</u>		<u>Carter</u>
	<u>1981</u>	<u>1982</u>	<u>1982</u>
<u>Major Foreign Aid Programs</u>			
• International Development Association	1,100	1,080	1,080
• Other Multilateral Development Banks	484	1,334	1,419
• International Organizations (assessed and voluntary contributions)	722	902	902
• Agency for International Development (AID)	1,697	1,707	2,386
• P.L. 480 Food Aid Title I and III soft loans	482	477	477
• P.L. 480 Food Aid Title II donations	823	786	786
• Peace Corps	108	122	122
• Economic Support Fund (except Egypt and Israel)	592	593	896
Totals	6,008	7,001	8,068

POTENTIAL CHANGES:

As the table shows, the Carter 1982 budget calls for a budget authority increase of more than \$2 billion or 33% above current services levels for 1981 (the higher 1982 current services amounts in fact reflect policy decisions). Under normal circumstances Congress would not support such an increase in foreign aid, and if Congress is to be persuaded to adopt severe reductions in domestic programs, proposing such increases is out of the question.

A foreign aid program more in line with the domestic budget cutting effort would involve

- budget authority levels considerably below current services for most programs, achieving aggregate 1982 outlay savings of \$387 million below current services, and

- limited growth, about 3% in selected programs during 1983-85, achieving outlay savings of \$2.9 billion from the Carter 1985 projection.

In allocating the aggregate reductions among the major programs the following assumptions were used:

- every major program should take some reduction,
- bilateral aid has priority over multilateral aid programs.
- security assistance has priority over development assistance, and

In summary, the basic actions to be taken are as follows

International Development Association (World Bank's concessional lending fund) - The United States would revoke its recent, non-binding pledge to contribute \$3.24 billion for the 1981-1983 period and would reopen negotiations with other donors to reduce the contribution by half.

Other Multilateral Development Banks - The United States would make no contributions to concessional multilateral lending programs after current formal commitments have been paid. On the same basis it would cease to provide paid-in capital to non-concessional lending programs, attempting to continue these programs through guarantees of commercial borrowing. This would require renegotiation of the pending World Bank capital increase.

International Organizations - The total budget authority level would be held to \$700 million per year. This would require that the United States refuse to support real increases in assessed contributions and eliminate or very sharply cut back voluntary contributions.

Agency for International Development - Bilateral development aid would be held to current services levels in 1982, \$686 million below the Carter budget, followed by 3 percent growth during 1983-85.

P.L. 480 Food Aid - The Title I/III credit sale program would be phased out by 1984, possibly requiring alternative funding arrangements for Egypt, and Title II donations would be continued at the current services level.

Peace Corps - Volunteer levels would be cut by 25 percent over time.

Economic Support Fund - Funding would be well above current services levels, but a \$100 million contingency fund would be eliminated.

PROBABLE IMPACT:

The primary impact of this proposal would be to eliminate or reduce U.S. participation in a range of multilateral organizations which are not responsive to U.S. foreign policy concerns and which in many cases may be

ineffective in producing sound economic development. The reductions in aid would mainly affect the poorer countries of Africa and the Asian sub-continent. If other donors were to make similar cutbacks in their multilateral contributions, the reduction in new aid commitments could run as high as \$4 billion. The reduction in actual flows of resources (i.e., outlays) would be only a small fraction of this amount in the 1982-83 period.

Bilateral development aid, held at current levels, could be concentrated on a small number of countries of key importance to the United States, perhaps at the loss of influence in countries of lesser importance. Major current security assistance objectives could be achieved, but any new major initiatives would require reallocation of funds away from lower priority recipients.

FOREIGN AID RETRENCHMENT
Aggregate Comparison Table
1982 Reagan Budget

(\$ in millions)

<u>Budget Authority</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
a. Carter 1982 Budget	6,022	8,068	7,428	8,506	9,014
b. Current Services	6,008	7,001	NA	NA	NA
c. Proposed Alternative	5,231	5,471	5,069	4,850	4,972
d. Carter Budget Increases over Current Services	+14	+1,067	NA	NA	NA
e. Proposed Cuts from Carter Budget	-791	-2,597	-2,359	-3,656	-4,042
f. Proposed Cuts from Current Services	-777	-1,530	NA	NA	NA
<u>Outlays</u>					
g. Proposed Cuts from Carter Budget	-56	-674	-1,422	-2,338	-2,929
h. Proposed Cuts from Current Services	-43	-387	NA	NA	NA

January 27, 1981

FOREIGN AID RETRENCHMENT

Major Programs	1981			1982		
	<u>Carter Budget</u>	<u>Current Services</u>	<u>Potential Changes</u>	<u>Carter Budget</u>	<u>Current Services</u>	<u>Potential Changes</u>
<u>Budget Authority</u>	<u>(\$ in millions)</u>					
1. International Development Association (IDA)	1,100	1,100	560	1,080	1,080	540
2. Multilateral Development Banks (except IDA)	484	484	466	1,419	1,334	604
3. International Organizations (assessed and voluntary)	722	722	700	902	902	700
4. AID	1,711	1,697	1,500	2,386	1,707	1,700
5. P.L. 480 - Title I & III	482	482	482	477	477	250
6. P.L. 480 - Title II	823	823	823	786	786	786
7. Peace Corps	108	108	108	122	122	95
8. Economic Support Fund (except Egypt and Israel)	592	592	592	896	593	796
Totals	<u>6,022</u>	<u>6,008</u>	<u>5,231</u>	<u>8,068</u>	<u>7,001</u>	<u>5,471</u>
<u>Outlays</u>						
1. International Development Association	572	572	563	704	704	642
2. Multilateral Development Banks	442	442	424	555	555	465
3. International Organizations (assessed and voluntary)	745	745	732	853	853	719
4. AID	1,608	1,595	1,592	1,669	1,590	1,569
5. P.L. 480 - Title I & III	515	515	515	477	477	250
6. P.L. 480 - Title II	955	955	955	786	786	786
7. Peace Corps	107	107	107	121	121	95
8. Economic Support Fund (except Egypt and Israel)	560	560	560	723	515	688
Totals	<u>5,504</u>	<u>5,491</u>	<u>5,448</u>	<u>5,888</u>	<u>5,601</u>	<u>5,214</u>

January 27, 1981

FOREIGN AID RETRENCHMENT

Major Programs	1983		1984		1985	
	Carter Budget	Potential Changes	Carter Budget	Potential Changes	Carter Budget	Potential Changes
<u>Budget Authority</u>	<u>(\$ in millions)</u>					
1. International Development Association	1,080	540	1,600	540	1,600	540
2. Multilateral Development Banks (except IDA)	520	338	542	--	542	--
3. International Organizations (assessed and voluntary)	886	700	957	700	1,027	700
4. AID	2,678	1,751	3,010	1,804	3,343	1,858
5. P.L. 480 - Title I & III	448	--	563	--	612	--
6. P.L. 480 - Title II	825	825	866	866	909	909
7. Peace Corps	130	95	142	95	155	95
8. Economic Support Fund (except Egypt and Israel)	861	820	826	845	826	870
Totals	<u>7,428</u>	<u>5,069</u>	<u>8,506</u>	<u>4,850</u>	<u>9,014</u>	<u>4,972</u>
<u>Outlays</u>						
1. International Development Association	798	663	884	652	925	586
2. Multilateral Development Banks	576	440	602	428	606	349
3. International Organizations (assessed and voluntary)	870	679	936	704	1,005	703
4. AID	2,021	1,734	2,370	1,832	2,703	1,869
5. P.L. 480 - Title I & III	448	-113	563	-535	612	-555
6. P.L. 480 - Title II	825	825	866	866	909	909
7. Peace Corps	128	95	139	95	152	95
8. Economic Support Fund (except Egypt and Israel)	785	706	840	820	850	877
Totals	<u>6,451</u>	<u>5,029</u>	<u>7,200</u>	<u>4,862</u>	<u>7,762</u>	<u>4,833</u>

January 27, 1981

International Development Association

POTENTIAL REDUCTIONS FROM:

	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
- Budget Authority	-540	-540	N/A	N/A	N/A
Outlays	- 9	-62	N/A	N/A	N/A
<u>Carter Budget</u>					
Budget Authority	-540	-540	-540	-1,060	-1,060
Outlays	-9	-62	-135	-232	-339

PROGRAM DESCRIPTION:

The International Development Association (IDA) is a fund managed by the World Bank which makes concessional (very low interest) loans to the world's poorest countries. By the end of February, 1981, IDA will have committed all funds available to it for loans. The Carter Administration has negotiated a three-year "sixth replenishment" of IDA starting in 1981, with the United States share equal to \$3.24 billion, or 27 percent of the total \$12 billion in new IDA funds. The 1981 U.S. contribution has not been authorized or appropriated.

POTENTIAL CHANGE:

The savings above contemplate renegotiating the U.S. commitment to the sixth replenishment with the goal of achieving a halving of the U.S. contribution. Because the U.S. share of this replenishment is already below the last one, other donors would probably be more willing to reduce the replenishment than see the U.S. share cut further. This reduction implies a \$6 billion replenishment, below the \$7.6 billion of the fifth replenishment. Outlay savings are small initially because of the slow spendout of IDA projects, but they become significant in the medium term.

PROBABLE IMPACT:

Because of the large number of subscribers and the need to achieve many objectives, aid provided through IDA is less easily targeted to achieve maximum political and security benefits for the United States. Reducing IDA's share of total U.S. assistance would enable the United States to focus assistance to encourage selected countries to develop economic and political systems compatible with U.S. interests.

It is widely accepted that economic policies of the developing countries themselves rather than development assistance influence country economic growth rates. IDA has supported state planning efforts in some countries and in recent years has placed a major emphasis on programs fostering income redistribution. IDA has not been vigorous in using the leverage inherent in its large lending program to press recipients to redirect their economies toward a market-orientation.

January 27, 1981

Multilateral Development Banks (Except IDA)

POTENTIAL REDUCTIONS FROM:

	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
Budget Authority	-18	-730	N/A	N/A	N/A
Outlays	-18	-90	N/A	N/A	N/A
<u>Carter Budget</u>					
Budget Authority	-18	-815	-182	-542	-542
Outlays	-18	-90	-136	-174	-257

PROGRAM DESCRIPTION:

The multilateral development banks (MDBs) provide investment capital and technical assistance to developing nations. The banks' loans are of two types: concessional loans to the poorest nations and non-concessional loans to middle income countries. The U.S. provides funds to the banks through the mechanism of multi-year replenishments. Direct contributions from the United States and other donors finance all concessional lending. Nonconcessional loans are financed with small amounts of paid-in capital contributions plus callable capital guarantees which back the banks' commercial borrowings. Paid-in capital leads to outlays as the banks' loans are disbursed. Callable capital has never led to outlays and does not now require budget authority.

POTENTIAL CHANGE:

Effective during 1981, the U.S. would revoke its three year pledge of funds to the African Development Bank replenishment. For 1982, the U.S. would withdraw from negotiations for a replenishment of the International Fund for Agricultural Development, stop all voluntary payments to the World Bank selective capital increase, and reopen negotiations for the World Bank general capital increase (effective October 1, 1981) to eliminate all contributions of paid-in capital. In all future replenishments, the U.S. would decline to contribute to the concessional facilities of the banks and provide only callable capital backing for non-concessional lending. With the exception of IDA, there would be no new budget authority for the banks after 1983.

PROBABLE IMPACT:

The potential change would represent a major shift away from multilateral aid toward bilateral aid, the reductions falling on that portion of the current program which is less responsive to U.S. political priorities. The soft lending programs have many of the policy drawbacks of IDA, and the overall quality of their lending is generally regarded as poorer than IDA's. The elimination of paid-in capital, while temporarily disrupting borrowing plans for non-concessional lending, may not materially affect the levels of such lending over time.

January 27, 1981

International Organizations (Assessed and Voluntary Contributions)

POTENTIAL REDUCTIONS FROM:

	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
Budget Authority	-22	-202	N/A	N/A	N/A
Outlays	-13	-134	N/A	N/A	N/A
<u>Carter Budget</u>					
Budget Authority	-22	-202	-186	-257	-327
Outlays	-13	-134	-191	-232	-302

PROGRAM DESCRIPTION: As a member of 47 international organizations, the United States is bound by treaties to pay annual assessments for their operating costs. The UN and its 11 specialized agencies account for 75% of the estimated \$655 million of U.S. assessments in 1982. Regional organizations (NATO, Organization of American States (OAS), etc.) and many small organizations comprise the balance. Voluntary contributions of \$248 million, largely for technical assistance activities, are proposed for the UN Development Program (UNDP), UNICEF, the OAS, the International Atomic Energy Agency (IAEA), and ten other smaller programs.

POTENTIAL CHANGE: (1) Rescind \$22 million of 1981 appropriation of \$262 million for voluntary contributions and reduce 1982 to \$73 million or 70% below current services/Carter budget. Contributions would be limited to UNDP, UNICEF, OAS and IAEA; none would be made to the other ten voluntary programs. (2) Because assessed budgets have been generally increased contrary to U.S. advice, announce that the United States will contribute no more than amounts consistent with tight (no real growth over 1981) organization budgets.

Alternatively, the impact on voluntary contributions could be lessened by announcing withdrawal from UNESCO at once because of UNESCO's pro-PLO policies and its support for measures limiting the free flow of information. Withdrawal could reduce 1981 and 1982 by \$25 and \$62 million respectfully if the United States refused to pay its legally-binding assessments for those years. Savings would not occur until 1983 if legal withdrawal procedures were followed.

PROBABLE IMPACT: All voluntary programs would face financial crises and several, especially UNDP, could collapse if other donors also reduce their contributions. The amount of technical assistance available to developing countries would sharply contract and pressures would increase to provide such aid through assessed budgets. Nevertheless, the developmental effectiveness of many of these programs is open to question. Arrearages would result from unpaid assessments, but the United States would not lose its vote until arrearages totalled the equivalent of two years' assessments, several years in the future. If concerted with other major donors, this effort might reduce increases in organization budgets. Withdrawal from UNESCO and not paying 1981 and 1982 assessments might result in legal action in the World Court.

January 27, 1981

Agency for International Development

POTENTIAL REDUCTIONS FROM:

	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
<u>Budget Authority</u>	-197	-7	NA	NA	NA
<u>Outlays</u>	-3	-21	NA	NA	NA
 <u>Carter Budget</u>					
<u>Budget Authority</u>	-211	-686	-927	-1,206	-1,485
<u>Outlays</u>	-16	-100	-287	-538	-834

PROGRAM DESCRIPTION:

AID provides grants and concessional loans primarily to the poorest developing countries in Africa, Asia, and Latin America, assists U.S. organizations that carry out development programs abroad, and finances development-related research activities of U.S. universities. Since 1973, bilateral activities have followed a strategy of meeting basic human needs by concentrating on food production, rural development, primary health care, family planning, and, more recently, energy. AID has been concentrating activities geographically by phasing out programs in some more economically advanced countries (Tunisia, Paraguay) and discontinuing several small country programs.

The program has been held near 1979 funding levels under continuing resolutions in 1980 and 1981. For 1982, the Carter Budget proposed a 40% nominal increase in bilateral aid over the current services level. This program growth was intended to be a "Leadership Package" that would elicit similar increases from other Western donors and therefore accelerate economic growth in the third world.

POTENTIAL CHANGE:

The reductions indicated above would provide a 1981 program 9% below the actual 1980 level. The 1982 program would be at the current services level, with a 3% growth rate in later years.

PROBABLE IMPACT:

The proposed change could be accomplished by rapid phase-out of programs in oil-exporting countries, substantial sectoral and geographic concentration of remaining country programs and curtailment of some central research activities. The reductions would force choices of geographic emphasis between the Asian subcontinent, Central America and the Caribbean, and sub-Saharan Africa.

January 27, 1981

Food Aid: P.L. 480 Title I/III

POTENTIAL REDUCTIONS FROM:

	(\$ millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
<u>Budget Authority</u>	--	-227	NA	NA	NA
<u>Outlays</u>	--	-227	NA	NA	NA
<u>Carter Budget</u>					
<u>Budget Authority</u>	--	-227	-448	-563	-612
<u>Outlays</u>	--	-227	-561	-1,098	-1,167

PROGRAM DESCRIPTION:

Under Title I of P.L. 480, long-term loans are made to developing countries at concessional rates to finance commercial purchases of U.S. agricultural commodities. Recipient governments either sell the commodities immediately to generate revenue, or far less frequently, put them into buffer stocks. Title III is a modification of Title I allowing multi-year supply assurances and forgiveness of loan repayments in exchange for a recipient government commitment to spend the proceeds from commodity sales on approved self-help projects. Because much of Title I/III substitutes for commercial purchases, its principal economic impact is to provide balance-of-payments and budget support.

PROPOSED CHANGE:

New program activity would be phased out by 1984. In 1982 and beyond, excluded countries will need to find other sources of balance-of-payments support. Egypt, a major recipient, will need to institute rigorous policies on foreign exchange use and food subsidies if other forms of U.S. aid are not substituted for its current \$313 million of Title I aid.

PROBABLE IMPACT:

This program has been regarded by many as a relatively ineffective form of foreign aid, which has been continued because of its popularity with domestic farm interests. With forecasts of lower U.S. stock levels and continued record increases in U.S. commercial grain exports, the need for Title I as a surplus disposal and market development device is marginal. Forecasts for 1981 net farm income are \$5 billion above the 1980 level of \$27 billion. To the extent that future U.S. interests require help to relieve balance-of-payments pressures in selected countries, this should be done explicitly through the Economic Support Fund or fast-disbursing development aid.

January 27, 1981

PL 480 Title II Food Aid

POTENTIAL REDUCTIONS FROM:

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services/Carter Budget</u>					
Budget Authority	--	--	--	--	--
Outlays	--	--	--	--	--

PROGRAM DESCRIPTION:

The PL 480 Title II food aid program provides humanitarian and disaster relief assistance directly to recipients through a number of non-profit voluntary agencies (mainly CARE and Catholic Relief Services), the UN World Food Program, and government-to-government arrangements. The Title II authorizing legislation specifies a minimum quantity of agricultural commodities to be distributed annually (1.7 million tons in 1982 and beyond) and earmarks a portion of that total for voluntary agencies and the World Food Program. The current services level for 1982 provides for the distribution of 1.718 million tons of commodities at a cost of \$786 million, including ocean transportation. Outyear estimates have been straightlined at the 1.7 million ton statutory minimum.

POTENTIAL CHANGE:

The program would be held at the current services level, which is above the statutory minimum. The Title II program, in addition to its popularity in the Agriculture Committees and the Congress in general, is a high-visibility foreign assistance program which has significant international and domestic constituencies due to its humanitarian objectives.

January 27, 1981

Peace Corps

POTENTIAL REDUCTIONS FROM:

	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
<u>Budget Authority</u>	--	-27	N/A	N/A	N/A
<u>Outlays</u>	--	-26	N/A	N/A	N/A
<u>Carter Budget</u>					
<u>Budget Authority</u>	--	-27	-35	-47	-60
<u>Outlays</u>	--	-26	-33	-44	-57

PROGRAM DESCRIPTION:

The Peace Corps recruits and sends U.S. volunteers overseas to fill the trained manpower needs of developing nations and promote mutual understanding. Volunteers are currently in 63 developing countries working in energy, health, education, agriculture and a range of other fields in personal contact with the people of the developing world. The volunteers are given language and skills training, are maintained at a subsistence level during their two-year tour, and are provided with readjustment allowances at the end of their tours. Under current plans, the agency would fund 5,000-5,200 "volunteer-years" of service overseas each year in 1981 and 1982. Over the years there has been substantial debate whether volunteers have a significant impact on development or whether the main result of the Peace Corps is improved mutual understanding.

POTENTIAL CHANGE:

This cutback would reduce trainee levels by more than 25% in 1982 and lead to an eventual reduction of the same magnitude in the overseas program. This would be the lowest level of volunteers since the early years of the agency. The Peace Corps would have to eliminate peripheral activities and program improvements of recent years, simplify programming, and consolidate its overseas program by eliminating some country programs and making others smaller through attrition as volunteers complete service.

PROBABLE IMPACT:

Friends of the Peace Corps on the Hill might accept this reduction as equal sharing of the pain of budget reductions, but there would be pressure, reinforced by complaints from returned-volunteer organizations, to restore the cuts and prevent a steady erosion of the overseas program.

Countries losing programs or high levels of volunteers will be upset but probably will not register major objections. The State Department and other U.S. overseas agencies would object to the loss of this positive overseas U.S. presence, especially in small countries where it may be an important element of U.S. relations with the country.

January 27, 1981

Economic Support Fund (except Egypt and Israel)

<u>POTENTIAL REDUCTIONS FROM:</u>	(\$ in millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Current Services</u>					
Budget Authority	--	+203	N/A	N/A	N/A
Outlays	--	+173	N/A	N/A	N/A
<u>Carter Budget</u>					
Budget Authority	--	-100	-41	+19	+44
Outlays	--	- 35	-79	-20	+27

PROGRAM DESCRIPTION:

ESF was established to promote economic and political stability in areas where the U.S. has special security interests. ESF is provided to governments and organizations in the form of grants and loans for balance-of-payments (BOP) support, capital project financing and technical assistance. In the Carter Budget, 63% of the 1982 ESF program goes to Israel and Egypt. Turkey, a NATO member with a strategic location in the Middle East and with serious economic problems, is the next largest recipient, scheduled for \$300 million, or 33% of the remainder. Assistance connected with base rights arrangements comprises another 14% of the residual. The Carter Budget assigns \$135 million to the Southern African Regional Program (four countries and several regional projects), \$120 million to the Caribbean/Central American area, and \$90 million to other countries in the Middle East/Indian Ocean region. In addition there is proposed a \$100 million contingency fund and a few small country programs.

POTENTIAL CHANGE:

This reduction eliminates the \$100 million Special Requirements Fund (for contingencies) proposed by Carter for 1982, which would probably face strong Congressional opposition in any case. Beginning in 1983, 3% has been added per year to meet expected growth of country programs.

PROBABLE REACTION:

There will be no serious opposition but the State Department may argue that the President's flexibility to respond to unforeseen situations would be seriously limited.

January 27, 1981