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THE 99TH CONGRESS AND FOREIGN ASSISTANCE IN AN ERA OF BUDGET CONSTRAINTS

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ABSTRACT

This report examines the major factors that shaped U.S. foreign assistance legislation in the 99th Congress. Concern over the rising Federal deficit is cited as the prime reason U.S. foreign assistance declined from the 1985 level during both sessions. Although funding priorities were established consistent with U.S. foreign policy objectives, controversy surrounds the impact of the reductions on the U.S. interests overseas.

NOTE

This report was originally prepared at the request of the House Foreign Affairs Committee as a chapter for the Committee's publication, Congress and Foreign Policy, 1985-1986. With the Committee's permission the report is made available for general congressional use.

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THE 99TH CONGRESS AND FOREIGN ASSISTANCE IN AN ERA OF BUDGET CONSTRAINTS

OVERVIEW

In efforts to address the large U.S. Government deficit, the 99th Congress reduced foreign assistance funding levels after 5 consecutive years of growth.[1] Congress acted on the foreign aid budget and the budget process itself by passing the first foreign assistance authorization bill since 1981, and then enacting the Gramm-Rudman-Hollings Deficit Reduction Act (GRH) which mandated eliminating the Government deficit over the next six years. Both enactments were instrumental in making difficult choices and establishing definite priorities in the U.S. foreign assistance appropriations legislation.

The 99th Congress was more assertive than the previous Congress had been in foreign assistance and Government budget affairs. Since 1981, the administration had received much of what it requested in foreign assistance -- in amount and in program category. Military assistance, for example, increased as the administration had requested at a significantly greater rate than development assistance. Particularly absent, during the earlier period, was a degree of guidance and accountability the Congress normally imposes on U.S. foreign assistance programs through the regular authorization and appropriation process. The 99th Congress completed authorization legislation and restored some of the funding ratio that existed during the 1970s between military and developmental assistance.

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[1]For a description of U.S. foreign assistance programs, see appendix.

In addition, the U.S. Government budget deficit had been mounting to unprecedented levels -- a deficit of $78.9 billion in 1981 had ballooned to $212.2 billion in 1985. As the 99th Congress convened, Members knew something had to be done to reduce the deficit, but nobody was sure just what. Congress started early in the first session with the idea of a "budget freeze," but by the end of the session Gramm-Rudman-Hollings was enacted.

This chapter examines the budget factor and other major factors that shaped the U.S. foreign assistance authorization and appropriation legislation in the 99th Congress as well as the consequences of the legislation on U.S. foreign assistance programs.

In the first session, other factors that shaped congressional actions on foreign assistance included: 1) pressure to pass an authorization bill after a 4-year hiatus; 2) Presidential pressure to increase spending in some categories of foreign assistance -- military and Economic Support Fund (ESF); 3) an appropriation process that was evolving into a series of continuing resolutions; and 4) a series of congressional choices that prioritized funding levels for certain foreign assistance programs.

The legislative outcomes on foreign assistance funding were progressively more stringent as the first session wore on. The enacted authorization bill froze spending at fiscal year 1985 levels; but the attitude that emerged after passing Gramm-Rudman-Hollings was to reduce spending even more. As a result, fiscal year 1986 foreign assistance appropriations were lower than the President had requested and lower than appropriations levels in the previous year.

In the second session, Gramm-Rudman-Hollings set the tenor for the budgetary deliberations. After the President requested increased spending for foreign assistance and national defense and less spending for domestic programs, Congress had to make difficult choices among the various types of programs. The result was a significant cutback in what the administration had requested in foreign assistance and a moderate reduction from fiscal year 1986 levels.

To help prioritize bilateral funding levels to some countries, the Congress "earmarked" funds to ensure a certain level and type of assistance to them. A consequence of this approach was that as foreign assistance programs were reduced, most of the reductions took place in the non-earmarked categories. Because these reductions were significant and involved so many countries, some believe it has caused a crisis in U.S. foreign policy. However, others have maintained that given the debt situation of the United States and other domestic economic problems, the United States has had to concentrate its aid in those recipient countries where U.S. interests were best served.

THE FOREIGN ASSISTANCE SETTING AS THE 99TH CONGRESS CONVENED

In 1985 Congress faced a legislative process for U.S. foreign assistance that had changed significantly over the previous three years. Legislating foreign aid programs mainly occurred through continuing resolutions rather than through regular authorization and appropriation bills. This changed the process which permitted wide participation in foreign policy debates so that individual Members had the opportunity to influence emerging legislation. Under the process present at the beginning of the 99th Congress, many final decisions on foreign aid and foreign policy rested with the four-Member (from the Appropriation Committees) mini-conference on the continuing resolution -- a process that could exclude others from having a direct impact on the legislative outcome.[2]

Major factors contributed to changing the process. First, Members had often given higher priority to important domestic programs that could directly affect their constituents than to foreign assistance issues. Funding for foreign aid, some argued, could be at the expense of domestic programs. The high visibility of recurring votes on contentious foreign assistance issues in individual bills further contributed to the changing of the process.

Second, the executive branch was able to achieve its major objectives, increased spending particularly in security assistance programs, through continuing resolutions, while avoiding many congressional spending and policy conditions that are characteristic of authorization legislation.

The third factor related to the committees involved. Some observers felt that the development of strong subcommittees made it more difficult for the House Foreign Affairs Committee to build cohesive and supportable committee positions. Similarly, some contended that the foreign aid bills reported by the Senate Foreign Relations Committee were overly restrictive of executive branch policy and generally too "liberal" -- making it difficult to obtain broad support in the Senate.

The leadership of the committee chairmen was important. Many had attributed the successful House passage of the 1984 bill to the new leadership of Representative Dante Fascell. As the 99th Congress convened, Senator Richard Lugar was elected as the new chairman of the Foreign Relations Committee; he had support from and good relations with the administration.

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[2]For a more in-depth analysis, see Nowels, Larry Q. Foreign Aid: The Changing Legislative Process. Congress and Foreign Policy -- 1984 in U.S. Congress. House. Committee on Foreign Affairs. Washington, G.P.O., 1985.

Beyond these factors, as pressures to reduce the overall Federal budget deficit reached a critical stage, the budget for foreign assistance had continued to rise steadily. In addition, the mix of funding levels for individual foreign assistance programs had changed. Amounts for security programs almost doubled and represented a much greater proportion of the total funding than when President Reagan was elected. As a result, the 99th Congress would face pressures to reduce the foreign assistance budget and decide the "proper" mix of different types of foreign assistance programs.

Ultimately, the mix of the foreign aid budget request from another perspective would also have long-range consequences for final funding levels during the 99th Congress. Almost half of the increase from 1982 to 1985 in total U.S. foreign assistance went to five countries -- Pakistan, Greece, Turkey, Israel and Egypt, with the balance spread over approximately 50 countries, many in Latin America and the Caribbean. Not only what program, but also what country, would see its foreign aid funding level reduced in a budget crunch would have to be decided.

1985: CONGRESS REVITALIZES ROLE IN U.S. FOREIGN ASSISTANCE AMIDST BUDGET REDUCTION PRESSURES

President Reagan's FY 1986 budget proposal, presented in January 1985, was projected to raise overall Government spending only slightly, but would continue a trend of the past four years that shifted expenditures from domestic programs to national defense and related programs such as international security assistance programs. The budget deficit was projected to be reduced by $42 billion, but observers felt the Congress would never accept the necessary cuts in domestic programs to achieve the reduction.[3] With the President opposed to two viable alternatives of addressing the deficit, that is, increasing revenues through taxing or reducing spending for national defense and related programs such as U.S. foreign assistance, the battle lines were drawn for the session.

In addition, Members of Congress were upset with the U.S. foreign assistance portion of the budget request because expenditures for two major programs were left out, thus presenting an inaccurate picture of what the eventual expenditure level might be.[4] First, the figure did not include $1.5 billion in anticipated economic aid for Israel for later in the year. And second, the administration proposed to end the Export-Import Bank's $3.8 billion direct loan program which helped boost overseas purchases of U.S. exports and was popular among Members of Congress.[5]

During the first session of the 99th Congress, legislation determining the final funding levels for U.S. foreign assistance would take three different, but highly interrelated paths: as part of the overall budget resolution called for in the 1974 Budget and Impoundment Control Act (P.L. 93-344); as part of the appropriation process; and as part of the authorization process.

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[3]Fessler, Pamela. FY 1986 Budget Projects Small Rise in Spending. Congressional Quarterly, February 9, 1985: 219.

[4]Members Cool to Foreign Aid In Time of Domestic Cutbacks. Congressional Quarterly, February 23, 1985: 343.

[5]Although the Export-Import Bank is not considered a foreign aid program, it is funded within the International Affairs (150) budget account and its appropriations are a part of the Foreign Assistance Appropriations Act. It therefore competes, at times, with foreign aid funding from this account.

The Authorization Process

Two major foreign assistance acts were passed during 1985. The House and Senate Agriculture Committees as well as the House Foreign Affairs Committee initiated amendments on P.L. 480 which resulted in the enactment of the Food Security Act of 1985 (P.L. 99-198). The act reauthorized the P.L. 480 program for another five years, until the end of 1990, and permitted the President to waive the program's authorization ceiling to meet urgent humanitarian needs such as those prevailing in Africa.

In addition, the House Foreign Affairs and the Senate Foreign Relations Committees acted upon U.S. foreign assistance legislation resulting in the International Security and Development Cooperation Act of 1985 (P.L.99-83), which is the main focus of this section.

Initially, the House Foreign Affairs Committee and the Senate Foreign Relations Committees had a number of pressures relating to foreign assistance to consider: 1) pressure to pass something after a 4-year hiatus; 2) pressure from the Budget Committees to hold the line on spending (compared to FY 1985); 3) Presidential pressure to increase spending on some categories of foreign assistance--military and economic support (ESF)--or face a possible veto of the authorization bill; and 4) pressure not to make the policy language overly restrictive and thus possibly alienate other Members of Congress or force a Presidential veto.

Chairmen Fascell and Lugar, under a "budget freeze" scenario, pledged to make passing an authorization bill a top priority and to compromise on personal objectives in order to improve its chances of passage. Each achieved success in a different way, and the measures which finally passed each body were similar in funding levels though different in content. The Senate approved by the end of March 1985 an authorization bill which basically froze foreign aid spending at FY 1985 levels (but allowed for military aid increases for Israel and Egypt), supported the President on most issues, and was relatively free of constraints on Presidential policymaking. The House, though also freezing foreign aid spending levels (after allowing for military aid increases for Egypt and Israel), fundamentally rearranged the administration's requested priorities by reducing military assistance and increasing development aid.[6]

Senate Action

Two things characterized Senate Foreign Relations Committee consideration: the avoidance of nearly every sensitive or "budget-busting" issue that might complicate the bill's chances of Senate passage, and the effort to adhere sufficiently to administration prerogatives to assure acceptance of the bill by the White House. One such major controversial issue was economic sanctions against South Africa. Senators Mathias and Cranston, both of whom considered adding sanctions measures as amendments to the FY 1986 authorization bill, refrained from doing so at the request of the chairman and offered separate bills instead.[7]

In a similar vein, attempts were made to address the concerns of the administration and avoid taking actions which could have caused tension or raised the threat of a veto. For instance, committee members rejected several

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[6]The final Senate bill authorized $12.8 billion for FY 1986; the House bill authorized $12.6 billion for FY 1986. Both of these amounts excluded a special $2 billion in economic assistance for Egypt and Israel which was included in the enacted continuing resolution.

[7]See U.S. Library of Congress. Congressional Research Service. The 99th Congress and South Africa Sanctions. Report No. 87-942 F, by Robert Shepard. Washington, 1987.

amendments which would have placed restrictions on the administration's policies in Central America.[8] The committee also adopted a precedent-setting provision, requested by the administration, to provide in the FY 1986 authorization bill an annual $1.2 billion authorization for economic and development aid to Central America in FY 1987-1989.[9]

The committee consensus to avoid controversy was tested on only a few occasions. On one of these occasions, the committee, in its only direct contradiction of a major administration priority, passed an amendment to restrict aid to the Nicaraguan contras. This provision became doubly controversial when its author, Senator Pell, disagreed with the chairman as to whether the amendment the committee had just passed would prohibit only U.S. aid (Senator Lugar's view) or also would prevent the channeling of aid through other countries (Senator Pell's view).[10] The chairman's priorities on the authorization bill were demonstrated when he refrained from pressing his point and instead reserved the right to delete the measure during floor consideration--a move he ultimately decided against.

A second test of the committee's cooperative mood occurred on measures relating to U.S. population assistance programs. The issue focused on the continuation of American support for groups that use their own funds for

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[8]The amendments, offered by Senator Dodd, would have prohibited foreign aid to any country providing support to the contras, imposed conditions on aid to El Salvador and Guatemala, and reduced aid to Costa Rica, El Salvador, and Guatemala.

[9]The administration argued that the multi-year authorization was essential to provide continuity to the region and assure it of continued U.S. support. Senator Kassebaum's amendment to delete the multi-year authorization was defeated on an 8-8 vote.

[10]See U.S. Library of Congress. Congressional Research Service. The Battle Over Nicaragua. Report No. 87-890 F, by Anne L. Potter. Washington, 1987.

abortion-related activities or that continue to conduct voluntary programs in countries which are alleged to conduct coercive abortion practices. Despite a series of controversial amendments, the issue was not sufficient to derail the committee's action. The committee passed S. 960. the foreign assistance authorization bill, by a vote of 16-1 on March 27.

In a move designed to further speed consideration, Senate leaders pursued a floor strategy designed to keep controversial or "budget-busting" amendments from being offered on the Senate floor. With minimized controversy during the two-day debate on May 14-15, committee leaders were able successfully to hold together a fragile coalition of liberals and conservatives to achieve the bill's passage by one of the largest majorities ever for this type of legislation.[11]

House Action

Like the Senate Committee, the House Committee on Foreign Affairs was under pressure to enact authorization legislation (though it enjoyed the distinction of having won House passage of an authorization bill the previous year), and because of it, Chairman Fascell also attempted to keep divisive issues to a minimum. When compared with the Senate bill, the House Committee bill bristled with policy initiatives. One of these was a comprehensive international narcotics control initiative designed to strengthen both U.S. and

[11]The fragility of the coalition became clear at one point during floor debate, when Senator Bingaman offered an amendment to delete $100 million from military assistance programs with the intent of transferring it to P.L. 480 Food for Peace programs. Senator Helms, addressing the chairman, suggested that passage of the amendment would break a compromise agreement reached in committee, and asked whether that would then leave the bill open to a whole range of amendments to raise or lower various funding amounts. Helms, Jesse. Remarks in the Senate. Congressional Record, Daily Edition, May 15, 1985: S6162.

international participation in narcotics control enforcement, including: repeal of an old law forbidding U.S. officials from being present during direct anti-narcotics police actions in foreign countries; an earmark of $1 million of grant military assistance for aircraft used in narcotics control; and a requirement that U.S. narcotics control assistance be provided to foreign countries only on a 75/25 percent cost-sharing basis. In addition, the bill mandated more specific action in the cases of Jamaica, Bolivia, and Peru by directly tying U.S. economic aid for these countries to their earnest and successful actions in controlling narcotics production.[12]

The intent of committee members to reassert congressional initiatives in the policy arena was clearly evident. Even though acceding to the executive branch on some points, the committee adopted a bill, H.R. 1555, which incurred the opposition of the administration on a number of issues, at least one of which brought a veto threat from the White House. Among those provisions were a prohibition on U.S. combat troops in Nicaragua and El Salvador without congressional approval; a cut of $152 million from the administration's funding request for the Central America region; and a ban on sales of military aircraft to Jordan unless that country recognized and agreed to negotiate with Israel.[13]

A major issue with which the committee chairman had to contend was the presence of a Republican substitute bill to restore certain funding levels important to the administration and remove restrictions on executive action which the committee had adopted in its own authorization bill. While opposing

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[12]The Senate, in floor action, had also enacted comprehensive narcotics control measures, assuring that the public law would contain stringent provisions.

[13]The Jordan provision prompted the veto threat from the Administration. The enacted bill included this provision as a sense-of-Congress statement and a requirement for the President to certify Jordan's compliance when notifying Congress of a proposed sale of advanced weapons.

the committee measure, the administration, perhaps reflective of its relative satisfaction with how it had fared under the continuing resolution process, also opposed the Republican substitute. Absence of executive branch lobbying for any House measure raised initial doubt in the minds of many as to whether the House could finally pass a bill.

Recognizing that the committee-reported bill had little chance of passage in its present form, Democrats expressed willingness to compromise on many politically sensitive issues. Paramount among these was the issue of the overall spending levels contained in the committee-reported bill. Under pressure from other Members who were prepared to offer amendments mandating cuts of as much as 10 percent in the bill's already pared-down funding levels, Chairman Fascell took the unusual step of offering to propose an amendment to his committee's bill, at the outset of floor debate, to cut 3.2 percent across-the-board in the bill's authorization levels. In his floor statement, the Chairman indicated that his amendment had the support of both Democrats and Republicans.

During the remainder of floor debate, other extensive changes were made in the bill, including the attachment of a provision providing humanitarian assistance to the Nicaraguan contras, to make the bill more acceptable to the House as a whole. Among those actions that may have helped achieve this was the approval of a series of amendments strengthening the bill's provisions for open assistance programs to a range of non-government, anti-Communist resistance forces battling governments backed by the Soviets or by Soviet clients. In the most startling of these provisions, the House enacted an amendment on July 10 which repealed the "Clark Amendment" which, since 1976, had barred U.S. involvement in rebel activities in Angola. Previously most of these programs had been conducted quietly under covert operations of U.S. intelligence agencies.

In another such action, fueled by the hijacking of an American TWA commercial airliner and a rash of airport and airline bombings, the House approved a series of amendments to strengthen significantly U.S. anti-terrorism assistance programs and security measures at foreign airports.[14] Ultimately, these and similar amendments may have helped secure the bill's passage by voice vote.

In his closing floor remarks, Chairman Fascell stated that the all-important passage of foreign assistance authorization legislation had once again established the authority of the authorizing committees, absent which "the whole issue of policy formulation and its implementation [becomes a] negotiation between the Appropriations Committee and the administration.[15]

Conference Action

Having passed the foreign assistance authorization bill in their respective Houses of Congress, the chairmen of the House Foreign Affairs and Senate Foreign Relations Committees made every effort to assure the bill's success in conference. Representative Fascell, chairing the conference committee, pressed for agreement on the approximately 200 differences between the two bills. In

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[14] A consequence of the anti-terrorism amendments was that the annual amount finally authorized for U.S. anti-terrorism assistance in FY 1986/87 ($9.8 million) was nearly double what the administration had requested for each year. In addition, the bill provided for various unilateral sanctions and restrictions against countries that are either engaged in terrorism or that give sanctuary to terrorists. See chapter below, The 99th Congress and the Response to International Terrorism.

[15] Fascell, Dante. Remarks in the House. Congressional Record, Daily Edition, July 11, 1985: H5522.

the last major disagreement, Senator Lugar, holding out for a Senate provision concerning CIA involvement in Nicaragua, ultimately compromised when House conferees made clear their intention to reject the bill rather than approve the Senate position.[16] Finally, both chairmen adamantly refused to reopen the bill for change after the conclusion of the conference, even when it appeared that the administration was anxious to do so.

The final passage of the conference report by House and Senate, and the ultimate signing of the public law by the President, appeared to revitalize the authorizations process and the authority of the authorizing committees. Impending legislation on deficit reduction measures, however, would shortly impose other spending ceiling requirements which, when interpreted and imposed by the appropriations committees, would have serious consequences for actions that the authorizing committees had taken.

Linking the Budget Process to the Authorization and Appropriation Processes

As the foreign assistance authorization bills wound their way through the Congress, the House and Senate concurrent resolutions on the budget bills were doing the same. The first major deadline for the full Congress was May 15, by which time Congress was supposed to adopt the first non-binding concurrent resolution on the total Government budget. The Senate and House adopted their budget resolutions (S. Con.Res. 32) on May 10 and May 23, respectively setting spending and revenue targets for FY 1986-88.

[16] Senator Lugar later said that the "success of the conference was more important" than any of the provisions at issue. Felton, John. Conferees Loosen Strings, Agree on Foreign Aid. Congressional Quarterly. July 27, 1985: 1475.

The targets were to guide the authorizing and appropriations committees in forming their legislative priorities for FY 1986. If, as happened often in recent years (and would happen in this session), Congress failed to take action on a second measure by September 15, the targets in the first resolution would become binding.

Some of the differences that existed between the House and Senate resolutions were as follows. First, the House budget deficit projections were higher than the Senate's (in FY 1986 by $1.8 billion). Second, the Senate voted to eliminate for a year a cost-of-living adjustment (COLA) for Social Security, while the House voted to retain it. And third, there were differences in non-binding assumptions pertaining to the international affairs 150 account as shown below:[17]

House	Senate
o Limit the direct-loan program of the Export-Import Bank to $2.8 billion in FY 1986. The President had requested that the direct loan program, which helps foreign customers purchase such costly U.S. exports as airplanes, be replaced with a $1.8 billion loan guarantee program.	o Terminate the Export-Import Bank direct loan program and assume instead a $3 billion subsidized guaranteed loan program, with $175 million per year in appropriated funds for the interest rate subsidies.
o One-year <u>overall freeze</u> at FY 1985 levels.	o Assume <u>FY 1986</u> levels for other <u>foreign aid</u>, State Department programs, the United States Information Agency, and other programs as approved by the Senate Foreign Relations Committee in the FY 1986 authorization bill; also an additional $200 million in budget authority for FY 1986 for unspecified restorations of parts of the Reagan budget request, which had been cut off by more than $700 million by the Foreign Relations panel.

[17]Wehr, Elizabeth. Budget Conference Outlook. Tough Task: Reaching An '86 Budget Accord. Congressional Quarterly, June 1, 1985: 1047.

Assume the supplemental appropriation for African famine relief (H.R. 1239), cleared April 2, and assume appropriations for embassy security and payments to regional development banks.

It took Congress until August 1 to work out a compromise which essentially split the deficit differences between the two chambers, but included neither tax increases nor reductions in Social Security COLAs despite the belief by some prominent leaders that both were essential for significant deficit reductions.[1] In the international affairs account, the Export-Import Bank direct loan program survived; but new budget authority was limited to $1.8 billion over three years, a substantial reduction over the previous year's allocation.

This delay in the budget process (by 2 1/2 months) caused major problems in the authorization and appropriation processes because, at least in theory, Congress was not to act on authorization or appropriation bills until it had completed the first budget resolution. One observer noted that this now-routine failure of Congress to make its own deadline has made for less scrutiny of programs by authorizing committees and delays in action on appropriation bills.[2] The results show that during the fiscal years 1982-1986, Congress finished only one or two -- never more than four -- of the 13 regular appropriations bills before October 1, the beginning of the fiscal year.

These and other frustrations over the budget process continued to mount as did the Government's budget deficit, and this came to a head in the Senate during the beginning of October 1985. At that time, action was delayed on legislation (H.J.Res. 372) to raise the ceiling on the Federal debt to over $2 trillion as Senators Gramm, Rudman, and Hollings persuaded the Senate to adopt an amendment to the measure that reformed the budget process. Among other things, the amendment mandated annual reductions in the Federal deficit to produce a balanced budget by FY 1991. If Congress and the President failed to make the mandated reductions, automatic, across-the-board spending reductions would go into effect.

Despite grave questions of whether the deficit reduction was either constitutional or workable, the Senate and the House by large majorities both passed the Gramm-Rudman-Hollings (GRH) plan by November 1, 1985. It was enacted into law (P.L. 99-177) on December 12, 1985. It set binding deficit targets for the ensuing five years and required a balanced budget by October 1, 1990. It also established a procedure for across-the-board cuts in "non-exempt" programs by a uniform percentage and divided automatic cuts between defense and non-defense accounts which included foreign assistance.

Seven days later (December 19, 1985), Congress sent the President a $362 billion FY 1986 appropriations bill (H.J. Res. 465) in the form of a continuing resolution (CR) to keep the Government running another year. The bill was $5.9 billion below spending levels in FY 1985, and $18.4 billion below the President's FY 1986 request. The bill was quickly signed (as P.L. 99-190) the same day because a short-term catchall funding bill (H.J.Res. 491 -- P.L. 99-184) -- the fourth since the start of FY 1986 -- had expired at midnight that day.

The continuing resolution provided funding for programs covered by seven regular appropriations that were not enacted that year: Agriculture, Defense, Interior, Transportation, Treasury-Postal Service, the District of Columbia, and Foreign Aid. The enacted 1986 appropriation level for foreign aid was $15.0 billion. How that figure was settled upon, how associated policy issues were decided, and what kind of restrictions were placed on the funding is the focus of the next section.

Foreign Assistance Appropriations: Short-Circuiting the Process

As part of the budget process, the House and Senate Appropriation Committees, like the authorization committees, filed with the budget committees a annual "views and estimates" report on the President's budget request. The House Appropriations Committee, in its "views and estimates" report, cited three significant factors in considering the FY 1986 foreign aid budget: 1) the size and scope of a yet undefined administration proposal to address Israel's economic crisis; 2) the administration proposals on the Export-Import Bank; and 3) perhaps most importantly, the impact of the U.S. deficit and the depth of proposed cuts in domestic programs on the foreign assistance appropriations debate.[18]

House Action

When the President introduced the budget for U.S. foreign assistance, the members of the Appropriations Committee reacted with disbelief. Representative Obey, who chaired the Appropriations Subcommittee on Foreign Operations, complained that the administration submitted "a phony request" for foreign assistance, especially because it proposed an "impossible cut" in the Export-Import Bank and left out an anticipated additional request of $1.5 billion in emergency aid to Israel.[19]

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[18] Views And Estimates Of Committees Of the House. House Of Representatives Committee On The Budget. March 1985. p. 99.

[19] Members Cool to Foreign Aid In Time of Domestic Cutbacks, p. 343.

Representative Obey's subcommittee had to deal with the President's request and its complications, not in isolation, but taking into account what had been decided in the authorization and budget process (for the 150 account). Table I -- (this page) -- summarizes the authorization and budget resolution levels that the subcommittee had to take into consideration as the its deliberations progressed.

Table I

Foreign Assistance Funding Levels Proposed in the Authorization, Budget, and Appropriations Bills (in millions of dollars)[20]

	Fiscal year 1985 level[1]	Fiscal year 1986 request	House passed budget resolution	House passed authorization	House Appropriation Committee recommended for fiscal year 1986
Military assistance programs	$5,909.8	$6,670.0	$5,665.9	$6,044.4	$5,916.1
Economic support fund	3,826.0	4,024.0	3,326.0	3,775.6	3,651.3
Development assistance[3]	4,536.3	4,026.1	4,365.3	....	3,940.1
(comparable programs)[2]	....	....	....	2,818.0	(2,600.9)
Subtotal	14,562.1	14,970.2	13,447.2	....	13,776.5
Export-Import Bank, direct loans	3,865.0	0	2,800.0	....	783.9
Total, Budget Authority	18,427.1	14,970.0	16,247.2	....	14,560.4

[1] Includes 1985 continuing resolution appropriations plus House passed levels for regular annual programs.

[2] These figures are comparisons of programs funded in both the Foreign Affairs Committee authorization bill and in the foreign assistance and related programs appropriations bill.

[3] Development assistance includes all multilateral and bilateral economic programs excluding the economic support fund.

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[20] Source: House Report 99-252.

To deal with the various funding considerations, highlighted most by concern for reducing the Federal deficit, the subcommittee constructed a formula for arriving at what it characterized as a fair and reasonable foreign assistance appropriation. The subcommittee reduced each program request by the same percentage unless the reduction resulted in a program or country allocation falling below the prescribed level when compared to its FY 1985 funding level.[21] The subcommittee made two other major adjustments in applying this formula: 1) it was not applied to the Export-Import Bank; and 2) three countries -- Israel, Egypt and Pakistan -- received funding at the President's requested level and the funding was earmarked to those countries.

The full House Appropriations Committee, accepting the subcommittee's recommendations, reported out its FY 1986 foreign assistance funding levels at $13.8 billion (excluding the Export-Import Bank), which was $700 million less than the FY 1985 level and $1.2 billion less than the President's request. The Export-Import Bank's direct loan program was funded at $784 million; the administration had zeroed out the program. Reductions were made in bilateral development programs, economic support fund (ESF), and military aid from requested levels, although the latter two were reduced a much greater percentage as the committee sought to reduce the increasing administration emphasis on these programs. Multilateral aid was slightly increased from the requested levels.

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[21] For a greater description of the formula, see U.S. Congress. House. Committee on Appropriations. Report on Foreign Assistance and Related Programs. House Report No. 99-252, 99th Cong., 1t Sess., August 1, 1986. Washington, G.P.O., 1986. p. 6.

Senate Action

The Senate Appropriations Committee recommended $14.4 billion, a level about halfway between the House Appropriations Committee's proposal and the President's request. Compared to the House measure, the Senate's bill made cuts to multilateral aid programs, increased some bilateral development activities (i.e. agriculture), and boosted ESF and military aid spending. Aid levels earmarked for Israel and Egypt were identical to the House bill. Earmarks were also included for Greece, Turkey, the Philippines, and Tunisia. In addition, the legislation provided the authority to reduce the interest on repayments of past military loans to Israel; but that was later dropped.

These bills never reached the floor for full House or Senate consideration; instead, they were included in the respective continuing appropriation resolutions -- a process that in the House precluded floor consideration of foreign aid amendments -- and then went to a "conference committee" formed from House and Senate Appropriations Committee members. Their compromise was inserted into the continuing resolution conference report as the foreign assistance appropriation budget. Possible explanations on why the bills never reached the floor were: (1) there was not enough time left in the congressional session to iron out the differences between the two bills; (2) foreign aid is so politically unpopular that the bills would not have passed even if there was enough time; and (3) most Members preferred not to vote directly on a foreign aid spending bill if it could be buried in an omnibus bill.

The consequence of no direct debate on foreign aid, however, was that a relatively small number of Members ultimately decided foreign assistance funding levels and in some cases policy refinements. The two points of major contention -- the balance between development and military aid, and the emphasis on bilateral versus multilateral aid -- caused sharp disagreement among conference members. All of the Republican Members from the House subcommittee except Representative Conte refused to sign the foreign aid section of the continuing resolution.[22] Leaders of the House and Senate Foreign Operations Subcommittees had negotiated the aid provisions during a conference meeting on December 11, 1985.

The House and Senate conferees agreed to set FY 1986 foreign assistance spending at $15.0 billion (including the Export-Import Bank) which was about what the President requested. The composition of the appropriation, however, was different from the President's budget. It must be remembered that the Export-Import Bank had been zeroed out by the President; the $1.1 billion appropriated for the Bank by the conferees essentially was created by taking funding from those programs -- primarily in the ESF and military programs -- that the President had asked to be increased. The Congress also approved $1.3 billion for the P.L. 480 program. As a result, if the Export-Import Bank was excluded, Congress reduced the level of the President's request for foreign assistance (including the P.L. 480 program) by 5 percent.

The relatively small reduction in the President's request camouflaged the significant impact of this reduction on countries receiving particular types of bilateral U.S. foreign assistance which were non-earmarked. For FY 1986, a high proportion of U.S. military aid, and economic aid in the Economic Support fund (ESF) was earmarked funding -- essentially guaranteeing amounts to countries with a high priority in U.S. foreign policy. The result was that most of the reductions in the military and ESF programs was borne by the non-

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[22] Felton. John. Budget Cuts Leave Mark on Foreign Aid. Congressional Quarterly, December 21, 1985: 2688.

earmarked funding portion of the programs. The U.S. military aid was reduced 10 percent from the President's request; however, the funding level for the earmarked countries -- Israel, Egypt, Pakistan, Turkey, Greece, and Tunisia-- was reduced by only 5 percent, while non-earmarked funding was reduced by 30 percent. ESF funding was reduced 8 percent, but non-earmarked funding was reduced by 43 percent.

In early 1986, in accordance with the provision of the newly enacted Gramm-Rudman-Hollings (GRH) deficit reduction plan, the automatic across-the-board reduction mechanism was triggered and foreign assistance funding was reduced an additional 4.3 percent. Many in Congress were thinking of how to absorb the FY86 budget reductions, still maintain their spending priorities for the Federal Government, and deal with a President who opposed tax increases and favored increases in defense spending. As the FY87 budget process began, another consideration was that the FY87 Government deficit would have to be within $10 billion of $144 billion (a reduction of $33 billion from FY86) as mandated by GRH or mandatory reductions in spending levels would be triggered.

1986: CONGRESS GRAPPLES WITH BUDGET CONSTRAINTS

The President's proposed FY 1987 budget met the GRH guideline, contained no tax increase, and increased defense spending, but also included two major, and, to many in Congress, politically unacceptable results: severe cuts in domestic spending and major increases in foreign assistance. This put a tremendous amount of pressure on the Congress, particularly the Budget, Authorization, and Appropriations committees to arrange spending priorities as quickly as possible.

The President requested $22.6 billion for the international affairs account (the 150 account), a level about 10 percent above his FY 1986 request and 20 percent above what was appropriated for FY 1986 after the GRH reductions.[23] Major increases sought included: 1) a rise of $1.5 billion in international security assistance (military assistance and Economic Support Fund); and 2) a new five-year State Department program increasing its security measures worldwide and costing $4.4 billion, $1.4 billion of which was in FY 1987.

Conspicuously absent from the administration's request was funding the Export-Import Bank's direct loan program which even after GRH sequestration was funded at $1.0 billion in FY 1986.

After examining the 150 account, many Members felt that the administration had ignored the new budget restrictions for its favored programs, and established an atmosphere of confrontation between the administration and Congress on this as well as the much larger defense budget.[24] It was not a question of whether or not the 150 account would be reduced, rather it was a question of what programs in the account would be reduced and by how much.

Authorization Process

Under the budget process, the House Foreign Affairs Committee had to make its suggestions to the Budget Committee by February 25, 1986, on how it would cut spending on programs under its jurisdiction. House Foreign Affairs Committee Chairman Fascell moved quickly to establish the committee's

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[23]This estimate excluded the 155 account (part of 150) International Financial Programs because of its abnormally large, by historical standards, revenue impact.

[24]Madison, Christopher. Crisis in Foreign Aid. National Journal, September 20, 1986: 2239.

priorities with the Budget Committee. In its letter of "views and estimates," the committee proposed a spending ceiling of $15.0 billion for those programs in the 150 account under its jurisdiction or a 13.5 percent reduction in the President's request.[25] The Administration had requested $17.35 billion for those programs; the FY 1986 spending level was $15.5 billion.

In an attempt to reduce the overall impact of the budget cuts, the committee proposed giving special treatment to expanding State Department security overseas by proposing that the $1.4 billion be considered separately. The committee also put off the much tougher decisions of how it would cut individual programs to meet the overall target.

In an effort to set its own priorities for individual programs cuts, though, the committee announced an unprecedented plan to reduce previously enacted authorizations -- in the Foreign Assistance Authorization Act (P.L. 99-83) and the State Department Authorization Act (P.L. 99-93), whose combined annual authorizing levels were $17.0 billion. The plan did not come to fruition, however, and there was no such analogous plan on the Senate side. Other than recommending reductions in line with new Budget Committee targets, the Senate Foreign Relations Committee took no action to reopen the authorization process.[26] The major decisions on how substantial reductions in FY 1987

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[25]All those programs included in the foreign assistance authorization bill and the State Department authorization bill.

[26]Senator Lugar, having just barely achieved the delicate working consensus necessary to get a bill through the Senate, mainly by promising separate committee action on a number of controversial issues, expressed reluctance to reopen the authorizations process, stating that it "opens up the possibility for all sorts of debates that we hoped would be quiet for a couple years." Hefty Boosts Aid Programs Not likely to Survive on Hill. Congressional Quarterly, February 8, 1986: 239. As in the House, however, the Senate opted for separation of the embassy security initiative from the main foreign aid bill; ultimately, the Diplomatic Security Act (H.R. 4151) was enacted into law.

foreign assistance levels would be allocated as a result, emanated from the Budget and Appropriations committees.

<u>The Budget Process Narrows the Boundaries for the Appropriations Committees</u>

Once reported from the Budget Committees, the House and Senate quickly approved the budget resolutions. On May 15, the House passed H.Con.Res. 337 with a projected deficit of $137 billion deficit, $7 billion less than the Senate's resolution (S.Con.Res. 120). In the Senate-House conference, the compromise FY 1987 spending target for the international affairs account was $17.5 billion (minus the new State Department security program). These targets were given to the Appropriations Committees, which established the over-all spending authority limits used by the appropriation subcommittees with jurisdiction over each part of the budget.

One such limit provided $12.99 billion for U.S. foreign aid programs (including the Export-Import Bank) under the jurisdiction of the House Foreign Operations Subcommittee. This budget level represented a 9.7 percent cut from FY 1986 GRH levels in total funds available to the subcommittee. This also represented a cut of approximately 16 percent from the administration's FY 1987 request including the Export-Import Bank; excluding the Bank (at FY 1986 funding levels) in these figures resulted in a cut of approximately 20 percent in the administration request.

To arrive at funding level recommendations, the subcommittee used a complex formula which included enacted budget resolution and GRH guidelines. The recommendations are shown in table II. Of special note is the action the subcommittee took in earmarking funding levels for certain countries in the Economic Support Fund and Foreign Military Credit Sales (FMS) programs. The

Table II

U.S. Foreign Assistance FY 1987 Funding Recommendations
(in billions of dollars)

	Fiscal year 1986 actual	1987 actual	House Appropriations Committee	Senate Appropriations Subcommittee
Bilateral development aid	2.6	2.8	2.6	2.7
Multilateral development aid	1.4	1.6	1.3	1.0
Economic support fund	3.5	4.1	3.2	3.9
Military aid	5.8	6.7	5.0	5.0
Export-Import Bank	1.1	---	0.9	0.9
Total foreign aid	$14.4	$15.5	$12.9	$13.1

subcommittee projected that, after earmarking funding for Israel, Egypt, Pakistan and Ireland, the total available funding for the other countries in the program would decrease by 32 percent.[27] Similarly, the subcommittee projected that in the Foreign Military Credit Sales Program, after earmarks for Israel, Egypt and Pakistan were taken into account, the total available for other countries would decline approximately 51 percent.[28] Particularly hit hard were the "base rights" countries, with which the United States has agreements permitting U.S. forces to use their military bases. However, it should be pointed out that from FY 1981 to FY 1986, U.S. foreign assistance to these countries had increased from $985 million to $1.9 billion.

[27]Foreign Assistance and Related Programs Appropriations Bill, 1987. House Report 99-747. p. 12.

[28]Foreign Assistance and Related Programs Appropriations Bill, p. 12.

The Senate Foreign Operations Subcommittee approved foreign assistance legislation that added Greece and Turkey to the list of earmarked countries, although the aid levels were significantly below those requested. Its bill also contained a major reform proposal to change the military aid program to allow the administration to convert up to $3.5 billion in unused military credits into grants. The rationale was to give, rather than lend, money to financially strapped countries, such as Egypt and Turkey, who were struggling to repay past loans.

The reform proposal became a main obstacle to reaching an agreement on the foreign assistance appropriation bill in conference. The final compromise boosted the Military Assistance Program (MAP) to $900 million and gave the President discretionary power to allocate the $4 billion in Foreign Military Sales (FMS) credits as grants or low-interest (concessionary) loans.

In the other major security aid issue, the House-Senate funding difference for Economic Support Funds (ESF) was split in half at $3.55 billion. But in a move to reduce the impact of actual budget outlays during FY 1987 (due to a GRH-related constraint), the bill allowed the administration to obligate the ESF funds during both FY 1987 and FY 1988.

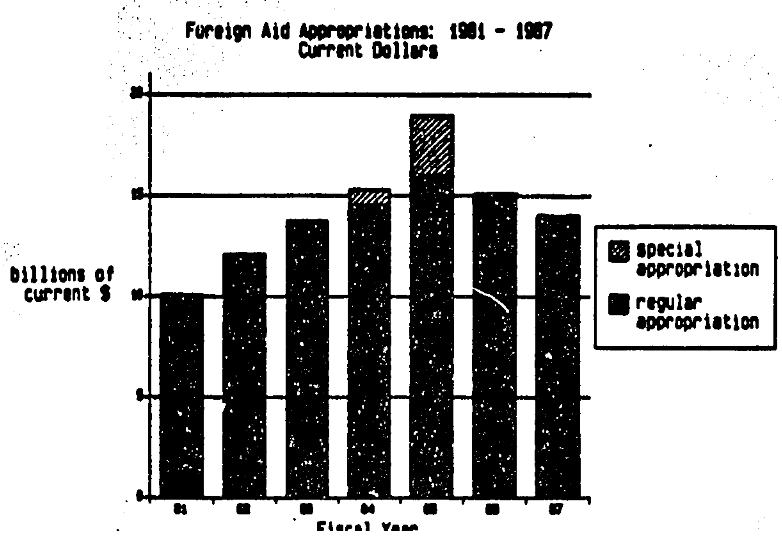
After the conference negotiations were completed, foreign assistance appropriations (including the Export-Import Bank) amounted to $13.37 billion which were folded into the FY 1987 omnibus appropriations bill (H.J.Res. 738) containing all 13 regular appropriation bills. The total for foreign assistance (excluding Export-Import Bank, but including the P.L. 480 program) was $13.94 billion; and the total for the entire 150 account was $18.0 billion (P.L. 99-591, signed on October 30, 1986).

Impact of Gramm-Rudman-Hollings on FY 1987 Foreign Assistance Funding

Gramm-Rudman-Hollings forced the second session of the 99th Congress to make tough choices, establish funding priorities, and then compromise or accept a prescribed decision. Almost every foreign assistance program was reduced in some way. The decisions reached on foreign assistance funding included the following results. First, the balance among the major U.S. foreign assistance programs shifted; for the first time in five years, funding for development assistance and food aid programs increased as a proportion of total U.S. foreign assistance, while military aid and ESF (which is most often allocated according to U.S. political and security interests) decreased.

Second, U.S. foreign assistance funding was reduced for the second consecutive year after five years of growth (see chart below).[29]

Chart I



Source: Congressional Research Service graphics using data from various reports of House and Senate Appropriation Committees.

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[29]For purposes of comparison, Chart I distinguishes between regular funding bills and special appropriations that support initiatives that are not regular and continuing elements of the program. Famine relief assistance for sub-Saharan Africa in FYs 1984 and 1985 and a $2.25 billion emergency aid package for Israel, Egypt, and Jordan in FY 1985 are included in this special category. Including these amounts among the regular funds would distort, to a certain extent, the general trend analysis.

And third, although priorities in bilateral U.S. foreign assistance seemed to have been maintained -- primarily in earmarking funding levels; some programs were reduced to what many considered rather drastic levels.[30] Perhaps the prime examples are the non-earmarked funding levels for the countries in the military aid and Economic Support Fund aid (ESF) programs. Total military aid was reduced 26 percent; but, while earmarked funding (to Israel, Egypt, Pakistan, Turkey, and Greece) was reduced 11 percent, non-earmarked funding was reduced 62 percent. ESF aid was reduced 13 percent; but, while earmarked funds (to Israel, Egypt, Pakistan, Turkey, and Northern Ireland) were reduced 6 percent, non-earmarked funding was reduced 25 percent.

Also among the hardest-hit programs were U.S. contributions to the World Bank and other international development banks. The 1987 appropriation bill included $949 million for cash payments for those banks -- $443 million less than the administration's request and $523 million less than the FY 1986 appropriation. When added to reductions prior to FY 1987, it meant that the United States had fallen $690 million behind in payments that the administration had pledged.

The ultimate impact on U.S. foreign policy of reducing the foreign assistance in the 2nd session as well as the 1st session of the 99th Congress is open to conjecture. Some believe the budget reductions, particularly to non-earmarked countries in the U.S. bilateral security and ESF aid programs, has harmed U.S. foreign policy; some even go as far as saying this budget has caused a crisis in U.S. foreign policy.[31] Higher levels of U.S. aid, they believe, could provide a cost-effective means of protecting U.S. security

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[30]Foreign assistance here includes the P.L. 480 program, but excludes the Export-Import Bank.

[31]Madison, Christopher. Crisis in Foreign Aid. National Journal, September 20, 1986: 2236.

interests without direct U.S. involvement, as well as providing political stability in the Third World and U.S. access to international markets and resources.

Others, however, argue that U.S. foreign aid levels should be kept in proper perspective. First, in their view foreign aid should be subjected to the same deficit-reducing pressures as other components of the U.S. budget. Second, from FY81 to FY87, aid levels increased significantly, although it was primarily in the military aid and Economic Support Fund aid programs. And third, they contend the United States, as the world's largest debtor nation, can no longer afford to support Third World nations and multilateral institutions to the degree it has in the past and therefore, should concentrate on those countries where the dividends are likely to be the greatest.

In sum, the 99th Congress's action on the foreign aid budget and the budget process itself forced difficult choices and did establish funding priorities and their impact on U.S. foreign policy will be a important topic of debate in the 100th Congress.

APPENDIX

Foreign Assistance Program Descriptions[32]

Development Assistance (DA) helps friendly countries work toward achieving sustained economic growth and satisfying the basic human needs of their populations. Included are programs in agriculture, rural development, and nutrition; population planning, health, education and human resources, disaster assistance, private enterprise development, Sahel development, housing, AID operating expenses, and American Schools and Hospitals abroad.

Economic Support Fund (ESF) loans and grants are used to support U.S. economic foreign policy, and national security interests. The Fund finances development projects, capital projects, commodity import programs, and balance of payments support in countries of special importance to U.S. political or security interest.

P.L. 480 Title I provides food aid to friendly governments on a credit basis for sale in commercial markets.

P.L. 480 Title II provides food on a grant basis directly to governments and through private voluntary agencies and the World Food Program.

Peace Corps places trained volunteers in 59 developing countries to work with local counterparts in food production, education, health, natural resource management, and other fields.

Narcotics Control programs help increase awareness in developing countries of local and international drug problems and help design projects that provide economic alternatives to farmers in narcotics-growing areas.

Migration and Refugee Assistance programs in the Department of State help fill the immediate needs of refugees for food, shelter, and medical supplies. AID programs help some refugees and displaced persons to resettle and become self-supporting.

Multilateral Development Banks (MDBs) are also supported by U.S. foreign assistance as a complement to U.S. bilateral programs. Contributions or subscriptions to the following institutions have been negotiated or agreed to by the U.S. Government and have received congressional authorization: International Bank for Reconstruction and Development, International Development Association (IDA), and International Finance Corporation (IFC) (the World Bank Group); Asian Development Bank (ADB), and Fund (ADF); African Development Bank (AFDB), and Fund (AFDF); Inter-American Development Bank (IDB), and its Fund for Special Operations (FSO); and Inter-American Investment Corporation (IIC). Funds are also proposed for U.S. participation in a Selective Capital Increase for the World Bank, a capital increase for the International Finance Corporation, the fourth replenishment of the African Development Fund, and in a new affiliate of the World Bank, the Multilateral Investment Guarantee Agency (MIGA).

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[32] Taken from Foreign Aid -- A Policy Overview. CRS Issue Brief IB87016.

International Organizations and Programs that are partially funded with U.S. foreign assistance include the U.N. Development Program, U.N. Children's Fund, International Atomic Energy Agency, OAS Development Assistance, U.N. Environment Program (UNEP), the International Fund for Agricultural Development, and 16 smaller programs.

Other economic assistance aid includes funds for the Trade and Development Program, Emergency Refugee Assistance, Inter-American Foundation, African Development Foundation, Foreign Service Retirement Fund, and has included aid to the Nicaraguan counter-revolutionaries and a foreign assistance contingency fund. AID includes in this category in its congressional presentation documents certain Treasury receipts and, in the past, adjustments for reobligated funds, none of which affects appropriations.

Foreign Military Sales (FMS) Market Rate Credits are loans extended to friendly countries at the rate of interest at which the Government borrows money. These funds are generally used by the recipient to buy U.S. defense articles and services.

Foreign Military Sales (FMS) Concessional Rate Credits are military credits extended at rates less than those at which the U.S. Government borrows money but by law, not less than 5 percent. Repayments of FMS credits by Israel and Egypt are to be forgiven as they have been for the last several years.

Military Assistance Programs (MAP) provide funds on a grant basis that are merged with the recipient country's FMS credits and used to buy U.S. defense articles and services.

International Military Education and Training (IMET) is grant aid to support instruction of foreign military personnel and thereby to increase rapport and understanding of the United States as well as the technical skills of the personnel.

Other Military Assistance includes funds to support Peace Keeping Operations (PKO) in Cyprus, the Sinai, and the Caribbean, and anti-terrorism programs.

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