

THE NATIONAL WAR COLLEGE
NATIONAL DEFENSE UNIVERSITY
STRATEGIC STUDY

ECONOMIC SECURITY ASSISTANCE
AS A TOOL OF AMERICAN FOREIGN POLICY:
THE CURRENT DILEMMA AND FUTURE OPTIONS

by

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A RESEARCH REPORT SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE RESEARCH
REQUIREMENT

Research Supervisor: Ambassador Jay P. Moffat

NATIONAL WAR COLLEGE

FEBRUARY 1987

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THE NATIONAL WAR COLLEGE

STRATEGIC STUDIES REPORT ABSTRACT

TITLE: Economic Security Assistance As a Tool of American Foreign Policy:
The Current Dilemma and Future Options

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DATE: February 1987

This study discusses the U.S. economic security assistance program and examines whether, given the current foreign aid budget and policy constraints, it can continue to be an effective tool in advancing key American foreign policy objectives. The report traces the evolution of economic security aid since the early 1950s and describes some basic characteristics of the program. It notes how in recent years, policymakers have altered the scope of economic security assistance and used it to support an expanding list of U.S. interests abroad. Funding reductions, congressional earmarks for a few recipients, inappropriate budget planning, and limited alternatives during the past two years have led some observers to conclude that economic security resources are stretched too thin to uphold important U.S. commitments and goals. This, they believe, constitutes a serious foreign policy crisis for the United States. The paper examines alternatives and options to deal with the crisis and presents a series of policy recommendations that would enhance the effectiveness of economic security aid as a tool of American foreign policy.

BIOGRAPHICAL SKETCH

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Chapter 1

INTRODUCTION

In early May 1986, during an important visit by Secretary of State George Shultz to the Philippines and other Asian countries, State Department officials abruptly interrupted the Secretary's schedule to brief him on an event that had just occurred in Washington. Upon receiving the information, Mr. Shultz characterized the event as a "tragedy for United States foreign policy" and an action that "threatens nothing less than the reversal of 40 years of constructive American leadership for peace and freedom."¹

What was it that struck at the heart and fiber of American foreign policy and would incite such a strong and passionate response from the Secretary of State? The event was a preliminary congressional budget recommendation that would slash U.S. foreign assistance for fiscal 1987 by about 25% and reduce some individual programs by as much as 60%. Some observers speculated that after Congress and the President protected high priority recipients like Israel, Egypt, and Pakistan, other long-time friends, fragile new democracies in Latin America, and famine-plagued nations in Africa would receive little or nothing.²

In the end, after months of contentious debate, the cut was not as bad as originally feared -- 17% less than requested. But reductions were severe in selected cases: compared with its recommended budget, the Executive branch cut aid to Kenya by 35%, Sudan by 69%, Jordan by 59%, Thailand by 51%, Tunisia by 54%, Peru by 65%; and South Korea received \$2 million out of a planned allocation of \$232 million. Moreover, fiscal 1987 represented the second consecutive year of significant foreign aid reductions by a deficit-minded Congress. The actions in 1985 and 1986 came as particularly severe jolts to American foreign policymakers who, after a four year period of dramatic

increases in foreign assistance budgets, had become accustomed to a rising foreign aid program, particularly in security-related activities. The \$13.55 billion approved for the current fiscal year is the smallest foreign aid appropriation since fiscal 1982 and 28.6% less than the amount provided in 1985. And like Secretary Shultz, a growing number of foreign policy analysts fear that unless something is done, the United States will face a serious crisis in which it will not have adequate resources to conduct effective policy abroad.

One of the most serious foreign policy consequence stemming from budget reductions and associated actions is the constraint placed on the composition and distribution of economic security assistance, resources channeled through the Economic Support Fund (ESF). Since its origin in 1951, economic security aid has played an important role in furthering U.S. interests around the globe. The program's flexible nature and potential for immediate impact make it a valuable tool to support virtually any U.S. political, economic, or security objective. A 1983 Presidential commission studying U.S. foreign assistance noted that "the growing use of ESF in a wide range of countries and in increasing amounts within overall budget constraints reflects the general recognition of its value as an effective instrument of policy."³ Many would argue that budget cuts in this channel are likely to have a more urgent, visible, and serious effect on the conduct of American foreign policy.

At first glance, the fiscal 1987 ESF appropriation of \$3.55 billion, 13% less than the Administration's request, represents a rather modest cut when compared with other foreign aid categories. Congressional action that protected -- or earmarked -- amounts at or above the President's proposed budget for a handful of countries, however, forces the overall reductions to fall disproportionately on all other planned recipients. After honoring

\$2.5 billion in earmarks for Israel, Egypt, Northern Ireland, Pakistan, Cyprus and the Philippines, only \$982 million remains for 48 other programs scheduled to receive nearly \$1.7 billion -- a cut totaling 42%.¹

It is upon this very important component of American foreign aid -- economic security assistance -- that this paper will focus. More specifically, it will address the issue of whether economic security aid can continue as a valid and effective instrument supporting U.S. objectives abroad given the continuing budget constraints. It will advance the thesis that while economic security assistance continues to be linked closely with U.S. security and political interests, fundamental changes in the way policymakers now apply ESF resources compound the dilemmas brought on by the current fiscal problems. The paper argues that the United States traditionally used economic security aid as a focused and highly concentrated instrument that usually supported only the highest U.S. foreign policy priorities. In contrast, starting late in the Carter Administration and expanded rapidly by President Reagan, ESF funds are now programmed to support a broad range of American commitments and objectives overseas. Within an Administration that views Third World issues increasingly in terms of East-West relations and seems to place a "high priority" on a long list of objectives, ESF aid has been a preferred tool with which to advance those interests. Clear and precise links with the most important U.S. foreign policy goals, however, are no longer as obvious as in the past. Moreover, in some cases policymakers have used ESF resources to initiate activities that appear to place economic and other concerns above security goals.

Despite this, the transformation occurred without a rational attempt by officials to understand the change and to recognize future implications and consequences. Paradoxically, demands placed on economic security assistance grew while resources declined. One economic aid expert highlighted this problem as early as 1984 when he noted, "there has been no coherent evolution

in the definition of purposes to which ESF should be devoted at this time of rapid expansion in its use...It would appear, then, that the time has come for a careful assessment of the role ESF should be playing."⁵

This paper begins by tracing the evolution of economic security assistance since 1951. It then examines the budget and policy crisis that developed in fiscal 1986 and 1987. The paper then considers a list of options available to policymakers to maximize the impact of limited economic security assistance resources. Finally, the paper analyzes the fiscal 1988 budget and assesses future prospects for an effective and valid application of ESF aid as a tool of American foreign policy.

Chapter 2

EVOLUTION OF ECONOMIC SECURITY ASSISTANCE

Some Basic Characteristics

With passage of the Mutual Security Act of 1951, the United States first initiated an economic aid program specifically designed to support American security and political interests. For the past 36 years, economic security assistance has been an important element of U.S. foreign aid furthering both economic development and military objectives. In many ways it is a unique aid tool that combines features found in many other programs and selectively applies these features in a flexible, case-by-case fashion. Because of its flexible nature -- it is programmed as cash, commodity imports, and projects -- and its ability to have an immediate effect, as well as a long-term impact, economic security assistance has been viewed by policymakers over the past three decades as an essential instrument of American foreign policy.

The Rationale

Although the program has assumed several names -- Defense Support, Supporting Assistance, Security Supporting Assistance, and Economic Support Fund -- the basic rationale for this type of assistance has remained relatively unchanged. Economic security aid has consistently been justified as a means to advance immediate U.S. foreign policy interests and to support countries with which the United States maintains a special political and security relationship. In most years, policymakers have emphasized three general objectives of economic security assistance: to protect nations threatened by communist or communist-inspired aggression; to encourage friends to grant military base and facility access rights to American forces; and to foster economic and political stability in countries where a deterioration of such stability would undermine U.S. security concerns.

In 1956, for example, Administration officials defended the \$1.1 billion Defense Support request, stating:

Defense support programs contribute directly to the security of the United States and the Free World by helping each of the receiving nations:

1. To maintain armed forces of a size needed for effective defense, but larger than the nation can support by itself; and, at the same time,
2. To achieve a rate of economic progress essential to maintaining its fiscal and political stability.⁶

Although legislative amendments in 1961 changed the program's name to Supporting Assistance, de-emphasized its previously strong relationship with military aid, and shifted authorization for such assistance to the development assistance part of the Foreign Assistance Act, these actions did little to alter the justification arguments advanced by the Administration: "Most of supporting assistance funds will be used in coordination with the military assistance program to strengthen the military-economic position of four countries on the fringe of the Communist bloc."⁷

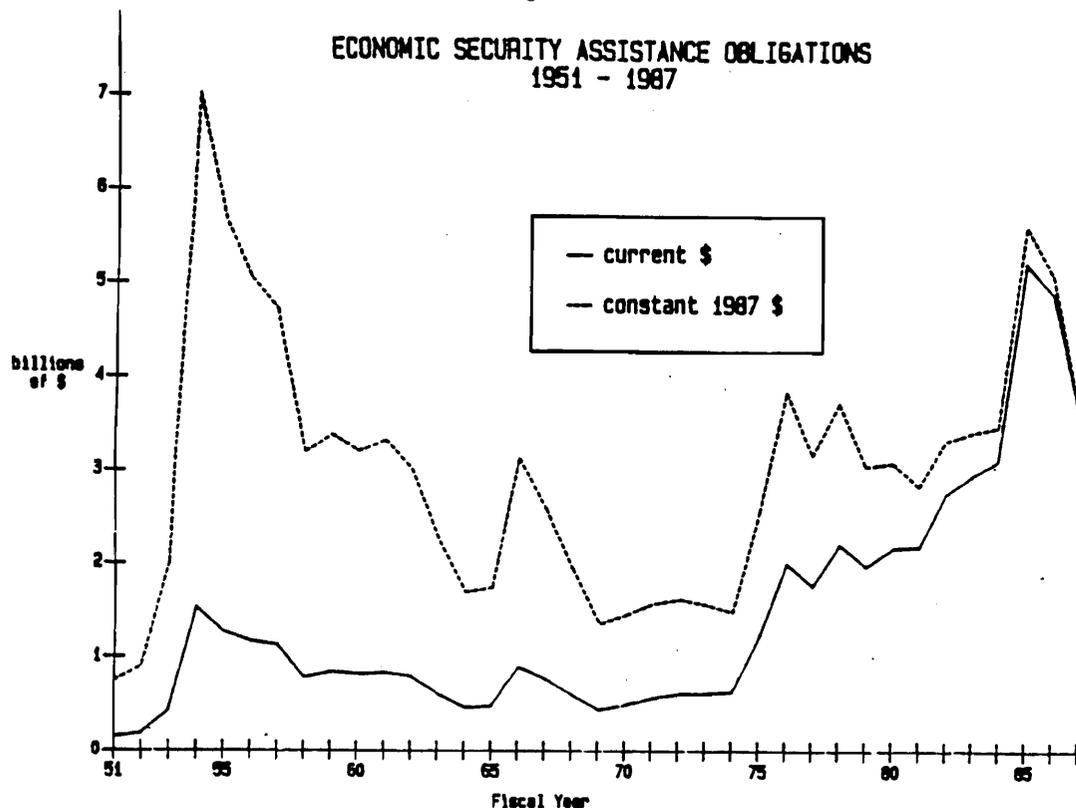
Congress renamed the program once again in 1971 to Security Supporting Assistance (SSA) and moved the authorizing text to the military assistance part of the Foreign Assistance Act of 1961. Lawmakers, however, suggested no significant changes to the objectives of the program. A few years later, some members of Congress sought to de-emphasize the security orientation of SSA funds so that such aid would augment development programs carried out under the newly-instituted "New Directions" mandate.⁸ Although Congress changed the name of the program to the Economic Support Fund in 1978, efforts to reduce the security relationship of ESF largely failed. Instead, lawmakers inserted legislative text that directed that, "to the maximum extent possible," such aid should follow the policy guidance for development assistance programs. The non-binding nature of this amendment permitted policymakers to continue the flexible, security-related application of ESF aid and to ignore, at least as the primary rationale, the long-term development motivation. The Carter Administration, for example, whose foreign aid program emphasized development

assistance over military programs and might have been expected to change the nature of ESF assistance given these new incentives, continued to emphasize the security rationale of the program. During his four year term, President Carter programmed nearly all ESF aid to support peace and stabilization initiatives in the Middle East, southern Africa, and Nicaragua. Executive branch officials typically viewed ESF aid as a program "to support solutions to political and economic problems which threaten U.S. national interests and the attainment of U.S. foreign policy objectives."⁹ In even stronger terms, the executive branch most recently described ESF assistance as a program that "advances U.S. economic, political, and security interests by offering...assistance to allies and developing countries of strategic concern to the United States...The Economic Support Fund is also used to support allies and developing nations heavily burdened by high costs of their own defense."¹⁰

Size and Scope

Although the basic justification for economic security assistance has remained generally consistent during the past 36 years, funding levels have been erratic. As Figure 1 shows (next page), ESF obligations, when measured in current dollars, grew rapidly in the mid-1950s, stabilized at lower levels for the period 1957-1974, climbed steadily through 1985 when the program peaked at \$5.2 billion, and subsequently, fell sharply to \$3.55 billion in 1987. (A major factor in the large size of the program in fiscal 1985 was the transfer of \$1.1 billion to Israel, Egypt, and Jordan as part of a special, one-time emergency economic aid transfer that was above and beyond the regular ESF program for these countries.) In constant terms, the highest level of economic security assistance came in 1954, followed by a continuing slide through 1965, a brief rise for 1966-1968, and gradual increases through 1985. The 1985 ESF obligation in real terms, was the highest ever except for 1954 and 1955.

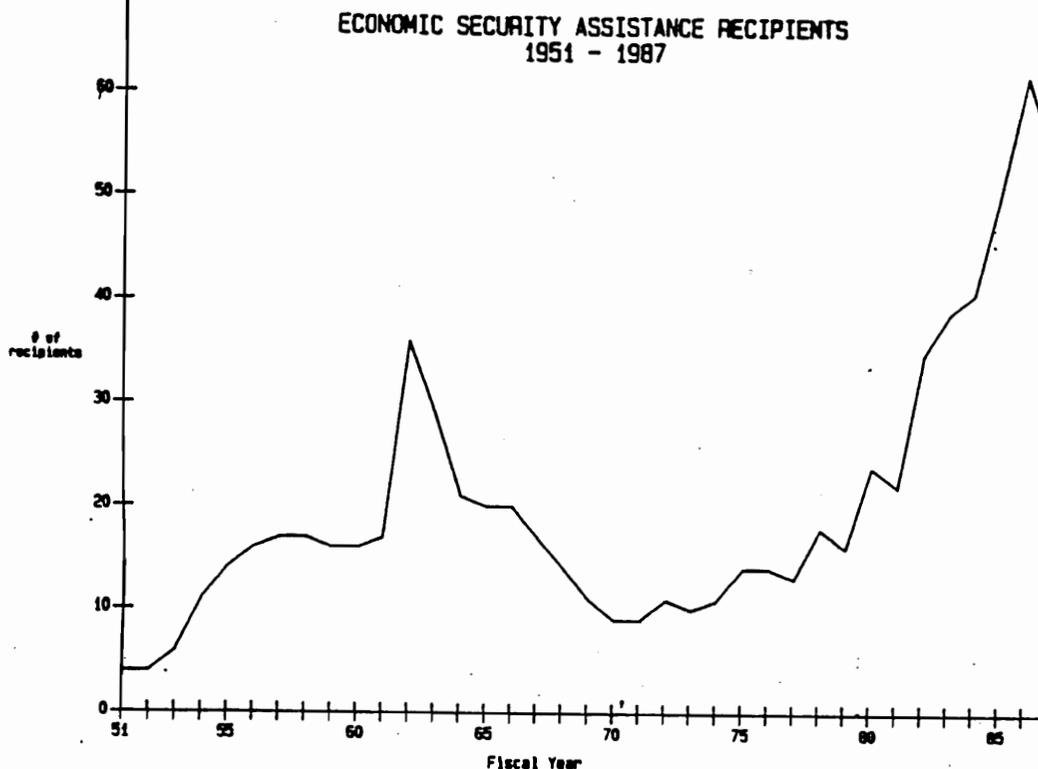
Figure 1



An additional feature that illustrates a sharp difference between current and past patterns of economic security assistance concerns the number of countries that received annual ESF support since 1951. As Figure 2 shows (next page), until 1980, except for a brief period in the early 1960s, the number of ESF-type recipients remained relatively stable at between 10 and 20. Even when policymakers expanded other channels of American foreign assistance in the 1960s and 1970s to assist a growing number of newly independent nations, security assistance remained a focused tool that addressed the most important U.S. interests in only a few areas of the world. During the final two years of the Carter Administration, the number of ESF recipients edged beyond 20 and in 1982, the first year of the Reagan White House, the figure jumped to 35. By fiscal 1986, 62 countries and regional programs received economic assistance justified within the context of a security or political relationship with the United States. Budget constraints, poor economic performance, and political

pressures reduced the number of ESF recipients for 1987 to 54, with programs ending in Panama, Poland, Sudan, Togo, and Zimbabwe, among others.

Figure 2



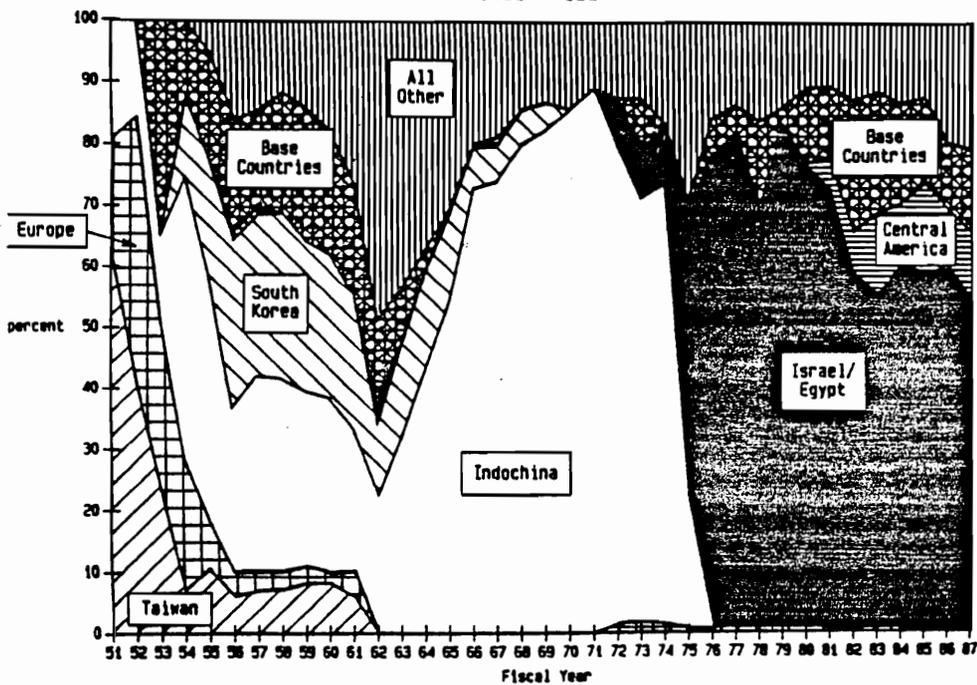
Application of Economic Security Assistance: 1951-1981

A striking feature of economic security assistance through 1981 is the degree to which aid administrators applied this form of assistance in support of the highest U.S. foreign policy priorities. In most years, the United States concentrated economic security aid on a very few recipients where American national security interests were clearly the primary motivation. During this first 30 year period, policymakers generally did not utilize economic security assistance as a worldwide program, but applied the resources in a focused and concise fashion to maximize the impact on specific policy goals.

Figure 3 (next page) provides a summary of U.S. application of economic security assistance over the past 37 years. [For a more detailed and in-depth

analysis of economic security assistance trends, see Appendix I.] During the early 1950s, Taiwan and a few countries in Europe received over 80% of Defense Support, as the program was labeled at the time. For the remainder of that decade, the emphasis shifted to South Korea and Indochina where American aid bolstered these war-torn economies. U.S. officials also offered economic security assistance in connection with military base agreements concluded with Spain, Greece and Turkey. Combined, this small cluster of recipients accounted for between 80% and 100% of the Defense Support program.

Figure 3
Concentration of ESF Resources
1951 - 1987



For a brief time during the early 1960s, the pattern of economic security assistance allocations changed dramatically. Policymakers supported numerous foreign policy initiatives with aid that Congress now called Supporting Assistance. Southeast Asia, the area of highest concentration, received only about 25% of the program's budget while new small programs, particularly in Latin America and the Middle East, expanded the use of economic security

assistance as a worldwide foreign policy instrument. By the mid-1960s, however, the scope of Supporting Assistance programs narrowed and focused almost exclusively on the states of Indochina. The number of recipients dropped to around ten and in some years, Southeast Asia accounted for nearly 90% of the program.

In the mid-1970s, the focus of American foreign policy shifted from Indochina to the Middle East and to strategies designed to establish a lasting regional peace agreement. Accordingly, economic security aid -- now called Security Supporting Assistance -- became an instrument to further these peace efforts and specifically to foster a settlement between Israel and Egypt. Through 1981, these two recipients accounted for 75% of the SSA program. Increasing levels for Jordan and Syria meant, that in some years, nearly 90% of economic security assistance supported Middle East peace efforts.

Expanding the Scope:
Economic Security Assistance in the 1980s

Although actions taken by the Reagan Administration are primarily responsible for recent changes in economic security assistance programming, it was actually during the final year of the Carter presidency that the scope of ESF programming began to broaden. Late in his administration, President Carter, reacting to a series of international events, assumed a more activist and confrontational approach to foreign policy, particularly with regards to the Soviet Union. ESF became a useful instrument in addressing quickly these new White House initiatives. After requesting an ESF program for 18 recipients in fiscal 1981, over the course of the year the executive branch expanded the distribution to 24 through a series of reprogrammings, reappropriations, and supplementals. In his last budget submission (fiscal 1982), President Carter asked for an ESF program that would assist 29 countries and regional activities. In that final foreign aid request, transmitted to Congress only days before President Reagan took office, the Administration argued that,

The need for ESF assistance has increased over the past year. The invasion of Afghanistan, political upheaval in the Caribbean Basin, war in the Persian Gulf, and the waves of refugees in Indochina, Pakistan and parts of Africa all have jeopardized peace and contributed to a much less stable international scene. ESF has proven to be valuable as a means of responding to such critical events.¹¹

Most of the new recipients consisted of countries with which the Administration had negotiated agreements for military facility access rights by American forces in or near the Persian Gulf. This list of new ESF beneficiaries -- Djibouti, Kenya, Liberia, Mauritius, Oman, Seychelles, and Somalia -- went well beyond the more traditional economic support offered to three or four countries as part of base rights arrangements dating back to the 1950s. In addition, the first ESF programs for Central America began late in the Carter Administration.

The foreign aid program outlined by Reagan Administration officials shortly after taking office in January 1981 not only endorsed the Carter ESF budget for fiscal 1982, but broadened the general strategy to incorporate other priority foreign policy concerns. Executive branch officials increased from \$100 million to \$250 million a pending request for an ESF "special requirements fund" that would be available to respond quickly to foreign policy emergencies. They later added \$100 million for Pakistan (an initiative that had collapsed under President Carter), and submitted a supplemental package for the Caribbean Basin that included large ESF sums for El Salvador, Honduras, Costa Rica, and Guatemala. By the end of fiscal 1982, the ESF budget had grown to \$2.77 billion -- 25% above the previous year -- and supported 35 countries and regional activities.

During the first year, the Reagan White House appeared to simply accelerate a re-shaping of foreign assistance begun by President Carter. Nevertheless, the new administration differed sharply with its predecessor on the management of foreign assistance. New Executive branch officials maintained that, like the defense budget, security assistance spending had declined precipitously. Such actions, they argued, placed many of America's

friends in jeopardy to Soviet-inspired aggression around the world. Hence, they stressed the need for a higher foreign aid budget that would emphasize security-related and bilateral programs over development and multilateral activities. To some, security assistance programs became America's "first line of defense."¹²

The Economic Support Fund became an important tool of this effort to link foreign assistance more directly with U.S. national security and defense policy goals. In a broad sense, the Reagan Administration continued to apply ESF aid as it had in the past: to support peace efforts in the Middle East, to enhance U.S. access to military bases overseas, and to counter Soviet-backed insurrection against American friends in the Third World. But within the context of a foreign policy that defined U.S. strategic interests in a growing number of situations and that characterized nearly every initiative as a "high priority," the possible applications of ESF aid to ensure base access rights and to counter Soviet behavior expanded dramatically.

ESF assistance continued to support U.S. agreements with "traditional" base rights countries -- Turkey, Spain, Portugal, and the Philippines. But the list expanded even beyond the Carter additions to include those nations with whom the United States maintained "access" agreements. Hence, by fiscal 1987, the Administration justified ESF assistance to Djibouti, Kenya, Liberia, Morocco, Oman, Panama, Somalia, and Sudan due to their importance in facilitating "transit and exercise arrangements, and other valuable military, navigational and communications facilities."¹³

The Executive branch also programmed growing amounts of economic security assistance to help U.S. friends facing externally-supported violence sponsored by the Soviet Union or its proxies. Based on this rationale, Pakistan became the third leading ESF recipient (behind Israel and Egypt) and Central America's ESF budget rose from \$35 million in fiscal 1981 to over \$750 million in fiscal

1985. Other countries currently placed in this category are the Cambodian resistance forces, Chad, Thailand, Tunisia, and Yemen.¹⁴

At the same time that the Administration broadened the scope of traditional security objectives supported with ESF resources, it faced another challenge that further altered the use of ESF aid. A number of factors -- oil price increases, recession and economic stagnation among industrialized nations, high inflation, lower prices for primary goods, and poor economic planning -- had all contributed to a general state of economic deterioration in the developing world. Many economists argued that international aid donors needed to reorient their strategies and provide increasing amounts of fast-disbursing financial transfers to relieve balance-of-payments problems, shortages of foreign exchange, and short-term debt difficulties in the Third World. AID officials believed that these new requirements could not be addressed adequately with development assistance funds largely because of the long-term, poverty focus of the "New Directions" mandate and the accompanying statutory restrictions. ESF, on the other hand, could be distributed quickly as cash, as a commodity import program, or as a source of foreign exchange for a nations' private sector.

Although AID officials regarded ESF as the best, and perhaps the only, aid channel to address these economic challenges, at first they were cautious to "tap" the growing ESF budget. According to some agency officials, AID's image had been damaged by its heavy involvement in Vietnam with SSA money. They believed that the political and security nature of the assistance would undermine the agency's credibility as an institution dedicated to economic development in the Third World. They also perceived other risks. Budget requests and allocation decisions would remain under the control of the State Department. As a result, AID might be told on occasion to program or

re-distribute ESF resources for reasons that could not be justified on economic grounds or in a way that would disrupt on-going programs.

Nevertheless, with economic conditions requiring flexible and fast-disbursing transfers and with no support within the Administration for increasing development assistance, AID administrators turned to the ESF channel as a means of addressing problems they might otherwise not be able to confront. Moreover, like the International Monetary Fund and World Bank, AID saw an opportunity to use ESF resources as a means to influence recipient government's economic policies. Budget support programs, unlike development projects, would address macro-economic concerns, and therefore, could induce change in basic economic strategy. "Policy reform" became a phrase frequently applied to ESF programs. Particularly for African ESF programs, the aid became conditioned on a government's agreement to correct what the agency perceived to be structural economic flaws. Still others looked towards ESF resources as a means of extracting concessions from recipient governments on other issues of concern to the United States -- most notably, production and trafficking of illegal drugs.

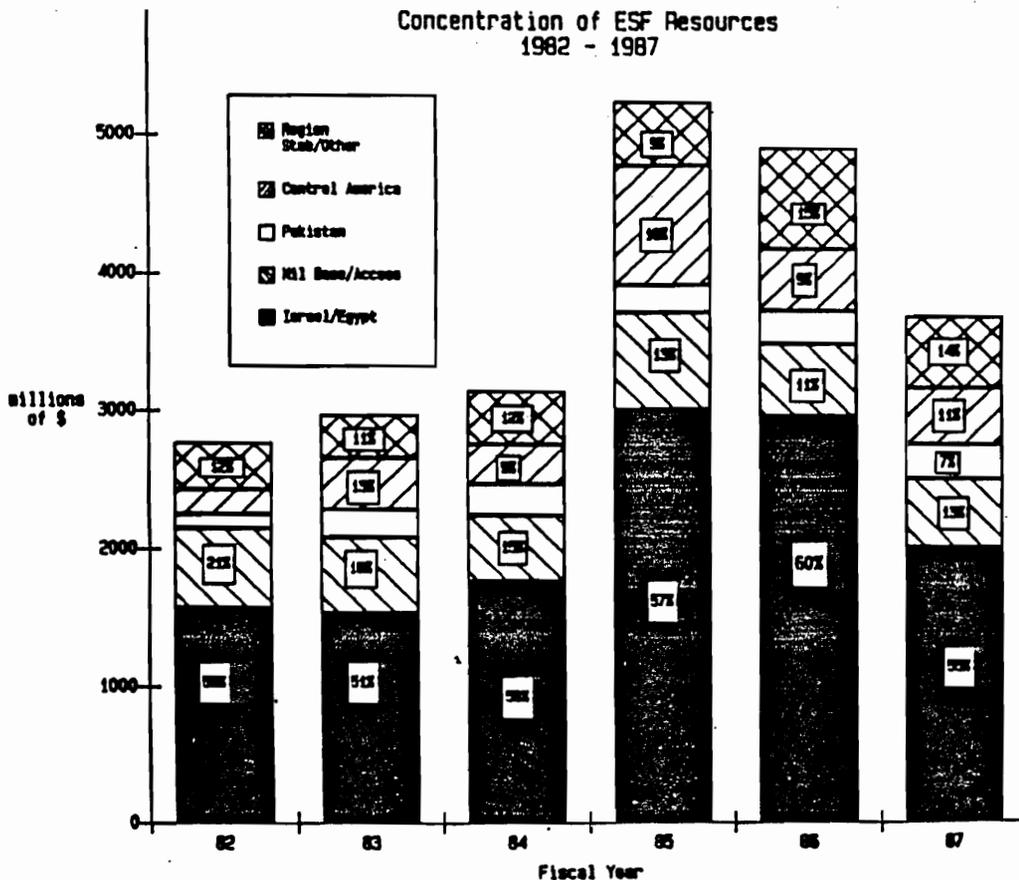
Accordingly, a fourth group of ESF recipients emerged that was quite different from previous benefactors of economic security aid. Assistance was justified primarily on economic grounds, and less directly for political and security reasons. According to the State Department, these countries were to receive ESF funds in order to promote "regional stability." The aid would address problems associated with "endemic poverty and the lack of economic opportunity" in the Third World, factors that "represent a serious security threat to the United States now and in the future." For fiscal 1987, the Administration justified 40 ESF programs for the purpose of promoting regional stability.¹⁵

As a result of these factors -- a foreign aid program that placed greatest emphasis on national security goals, a foreign policy that broadened the number

of America's "strategic" and "highest priority" interests, and a deteriorating international economic environment -- economic security assistance became an enlarged and worldwide foreign policy instrument. Figure 4 shows the allocation of ESF funds between 1982 and 1987 by major purpose. Although the program continues to be highly concentrated in Israel and Egypt -- they received between 50% and 60% of total funds -- the concentration is significantly less than in the previous time period when these two countries accounted for 70% to 80% of ESF money. An expanded network of base rights/access agreements, a growing emphasis on Central America, a five-year security pact with Pakistan, and the initiation of numerous activities to foster "regional stability," resulted in an ESF program that addressed a wide and diversified set of American foreign policy goals.

Figure 4

Concentration of ESF Resources
1982 - 1987



Chapter III

THE SITUATION IN 1987: A FOREIGN POLICY CRISIS

The fact that the ESF program has expanded so dramatically in recent years is not inappropriate in and of itself. Most would agree that nearly every program currently supported with ESF funds can be argued within some sort of broad definition of American security interests. In fact, some foreign aid experts believe that all foreign assistance is important to U.S. national security goals and should be justified and supported on such grounds.¹⁶

But what does seem to be a problem is that the focus and character of an important foreign policy tool like economic security assistance changed significantly without a rational attempt by the Executive branch and the Congress to define the evolving nature of the program, to set limits or boundaries on its application, and to understand potential consequences associated with an open-ended use of ESF resources. Whereas past economic security programs focused primarily on the most important U.S. policy concerns, the current ESF budget supports what could be regarded as third, fourth, and fifth level objectives. Or stated another way, the Administration tends to elevate nearly all foreign policy interests to a status of equal importance for American national security and attempts to justify ESF aid for over 50 countries, each as a high priority matter.

But it is clear that all foreign policy goals supported with ESF funds are not of equal importance. Various circles within the Administration develop their own list of priorities that frequently conflict and compete with one another. Congress, both as an institution and as individual members, maintains other views regarding the significance of American objectives overseas and how economic security assistance should promote those interests. So long as sufficient resources are available to serve all of the varying goals, the level of conflict and competition for funds is low and the problems are minimal. Thus,

a foreign policy strategy that relies heavily on a growing aid instrument like the Economic Support Fund is possible -- for a while. Without budget constraints, after meeting traditional security priorities like fostering peace in the Middle East and ensuring American use of military bases abroad, policymakers can reasonably expect to pursue other interests with ESF resources: \$3 million for Mauritius to stabilize its economy and to enhance U.S. access to naval facilities; \$7 million to encourage agricultural policy reforms in Niger; \$42 million to address debt problems and narcotic control concerns in Peru; and \$20 million for Morocco to foster private sector initiatives and use of certain facilities.¹⁷

When budget shortfalls occur, however, intense competition for limited funds sets in and only the highest congressional and Executive branch priorities can be accommodated -- and even then, at levels below those anticipated. For other initiatives, the results can be devastating. Expectations of potential recipients, including those for whom ESF programs underpin formal and informal American commitments, go unfulfilled. Serious disruptions to important U.S. interests occur. And limited options are available for undertaking new and unforeseen activities. And so instead of having the resources expected to undertake foreign policy initiatives, policymakers are forced to make difficult choices and slash a number of ESF programs in fiscal 1987: Mauritius receives \$1 million; Niger gets \$2 million; Peru's allocation is \$5 million; and Morocco receives \$10 million.¹⁸

When resources no longer match commitments and objectives, the stage is set for a significant U.S. foreign policy crisis, and according to many observers, jeopardizes a number of American interests abroad. Among those most frequently cited in recent months include: stabilization of Central American economies, access to military facilities overseas, help for fragile regimes in the Philippines and Haiti, encouragement of economic reforms by African

governments, strengthened international narcotics control efforts, and reduced economic dependency of southern African states on South Africa. (Appendix II presents a case study of one such initiative -- economic reform programs in sub-Saharan Africa -- that policymakers planned to support with growing amounts of ESF resources, but could not sustain when budget and other problems developed.)

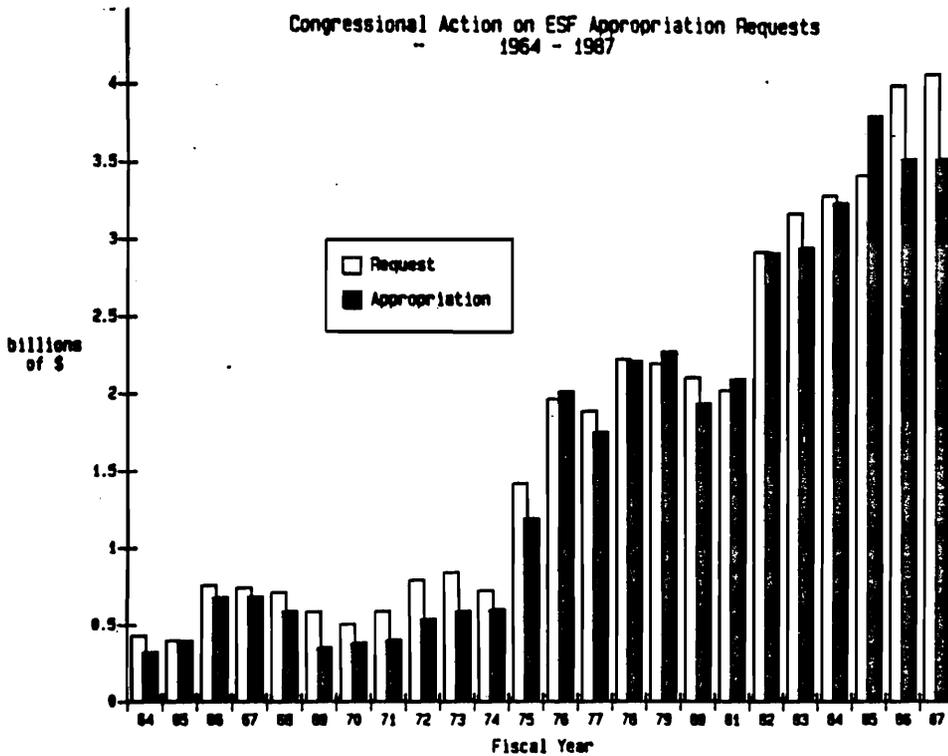
Causes of the Current Crisis

Four factors are primarily responsible for the recent crisis: intense pressures to reduce the Federal deficit; congressional earmarks that protect a few, large recipients of ESF aid from absorbing appropriation shortfalls; Executive branch unwillingness to submit realistic foreign aid budgets, particularly for security assistance programs; and the existence of budget problems and policy constraints in other aid channels that preclude them as substitutes for gaps in ESF resources.

Intense Budget Constraints

The likelihood and consequences of ESF appropriation reductions in fiscal 1986 and 1987 were not immediately grasped and well understood by Executive branch officials who had been buoyed by remarkable success in expanding ESF programs. In fiscal 1985, Congress approved a regular ESF budget of \$3.86 billion¹⁹ -- the highest amount ever and an 84% increase since fiscal 1981.²⁰ Not only did the budget go up, but Administration officials became accustomed to gaining approval for nearly all of their security aid requests. As Figure 5 shows (next page), in recent years, the President received most, if not more than, requested for ESF funding. Only during the early 1970s, when Congress and the Administration were deeply divided over American policy and spending in Vietnam, has any Administration experienced significant ESF appropriation shortfalls during the past 24 years.

Figure 5



In fiscal 1986, however, faced with a new climate of budget austerity and deficit reduction fervor, Congress reversed a four year trend and cut the President's \$4 billion ESF request to \$3.7 billion. After the further sequestration of funds mandated by the Gramm-Rudman-Hollings Deficit Reduction Act -- a measure solidly endorsed by the White House -- only \$3.5 billion remained for ESF-supported activities in fiscal 1986.²¹

Congress and the Executive branch played out a nearly identical scenario for fiscal 1987. Congress slashed the Administration's \$4.1 billion ESF request to \$3.55 billion. (Because the overall Federal budget approved by Congress met the 1987 deficit target required by the G-R-H Act, sequestration of additional funds was not necessary.) These reductions represent cuts of about 13% for each of the past two years, the largest congressional reductions since 1975. Placed in the context of significant congressional earmarkings (discussed below), the appropriation shortfalls are far more severe than the

percentage reductions might suggest. Even one of the Administration's harshest critics of security assistance spending -- the House Appropriations Subcommittee on Foreign Operations -- admitted that such levels are not sufficient to meet U.S. foreign policy requirements. Commenting on its recommendation for fiscal 1987, the House panel said: "The Committee is fully aware of the consequences of these decisions. It does not like them."²²

Congressional Protection of a Few Recipients

Even more important than appropriation cuts is the impact of provisions in foreign aid authorization and appropriation laws that specify precisely how much the Administration must allocate to particular aid recipients. This factor is not only the most significant, but also one that is frequently overlooked and misunderstood by many budget analysts. Congress is not asked to set country levels; instead, the budget request seeks congressional approval for general program amounts and asks that specific allocations within these programs be left up to the Executive branch. Nevertheless, Congress regularly utilizes a practice, known as earmarking, to protect a few countries from having aid levels reduced by Executive branch allocation decisions. When lawmakers approve most of the overall budget request, these earmarks do not usually represent a significant re-ordering of Executive branch priorities and are only a small irritant. Coupled with substantial budget shortfalls, however, earmarks can represent a major impediment to managing foreign policy and result in consequences not necessarily intended or understood by the Congress.

The impact of ESF budget cuts, coupled with earmarks at or above the President's request for just six of the 54 recipients for fiscal 1987, left the Administration with only a few unattractive options to distribute the discretionary ESF money.²³ To illustrate the extent of this dilemma, Figures 6 and 7 display two possible alternatives available to Executive branch officials

in deciding how to distribute fiscal 1987 ESF funds among five major grouping of recipients.²⁴ The first graphic (next page) assumes that, after honoring congressional earmarks, aid administrators proportionally reduce all other recipients equitably, regardless of the priority placed on any given program. The earmarked countries -- Israel, Egypt, Pakistan, the Philippines, Northern Ireland, and Cyprus -- consume \$2.57 billion, or 72%, of the ESF appropriation, representing an increase of 1% over amounts provided in fiscal 1986. By contrast, under this strategy, the other four categories would be cut significantly from last year's amounts: base rights/access countries by 12%, Central America by 19%, sub-Saharan Africa (excluding the base access countries) by 23%, and all other by 32%. The shortfalls from what the President requested for 1987 also would be severe.

Figure 7 (next page), on the other hand, displays the outcome if the Administration chose a strategy that protected its second and third highest security priorities -- base countries and Central America -- to the maximum extent possible and distributed what remained to less important recipients. Under this scenario, the President could meet his full ESF request for base/access nations and nearly four-fifths of his recommendation for Central America. But the strategy would be costly for other programs -- nothing would remain for sub-Saharan Africa and the rest of the world -- countries that received over \$460 million in 1986.

Clearly, these two strategies represent the extreme positions within which any Administration is likely to assume when faced with the difficult allocation decisions posed this year. After a month-long divisive process and some "blood-letting," as one State Department official characterized it, the Executive branch settled on an allocation scheme that pleased no one. The

Figure 6

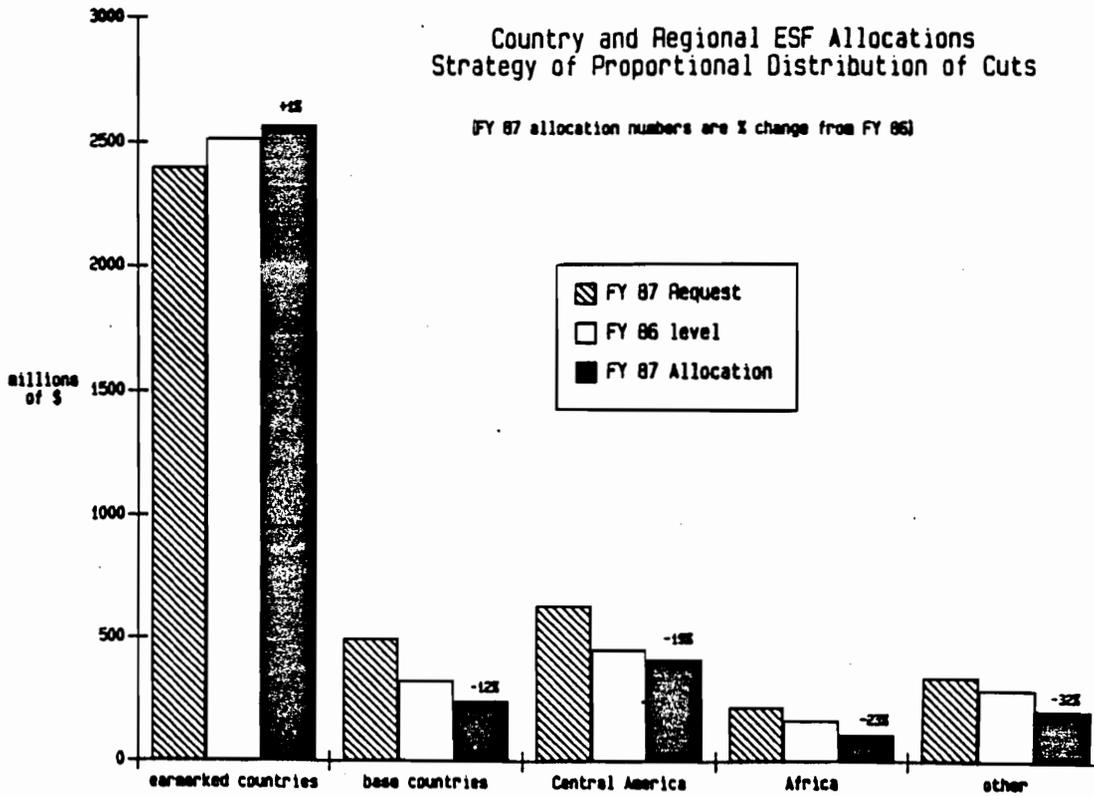
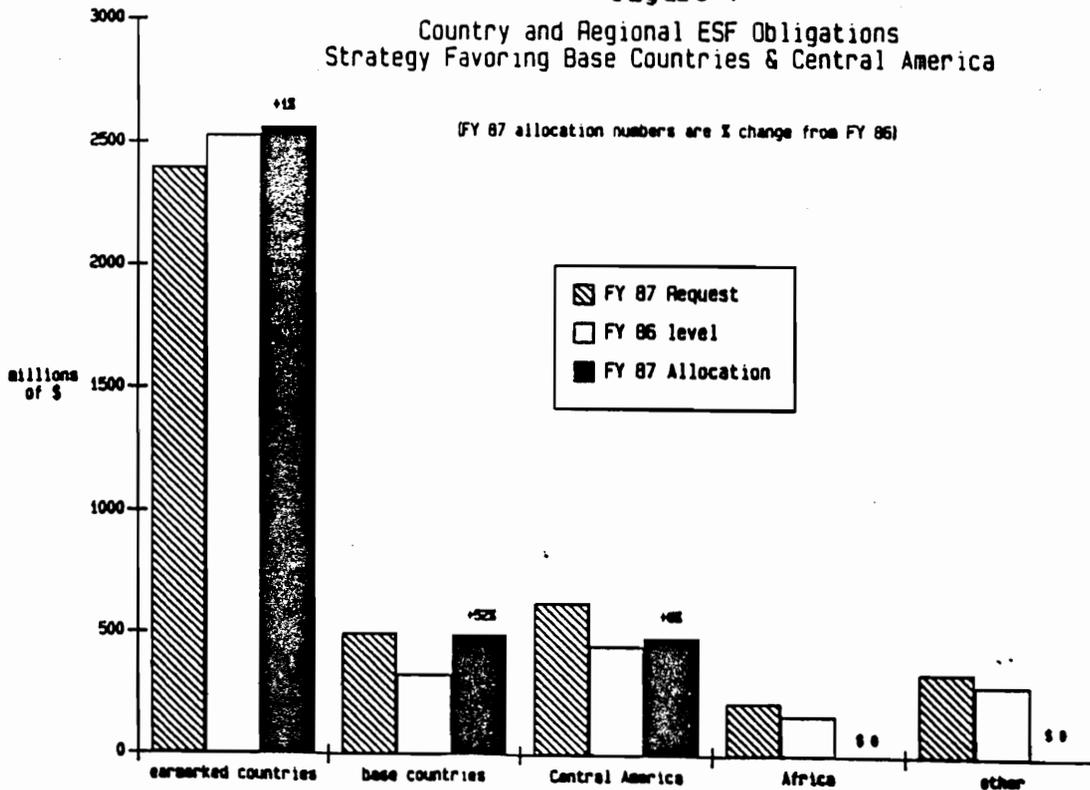
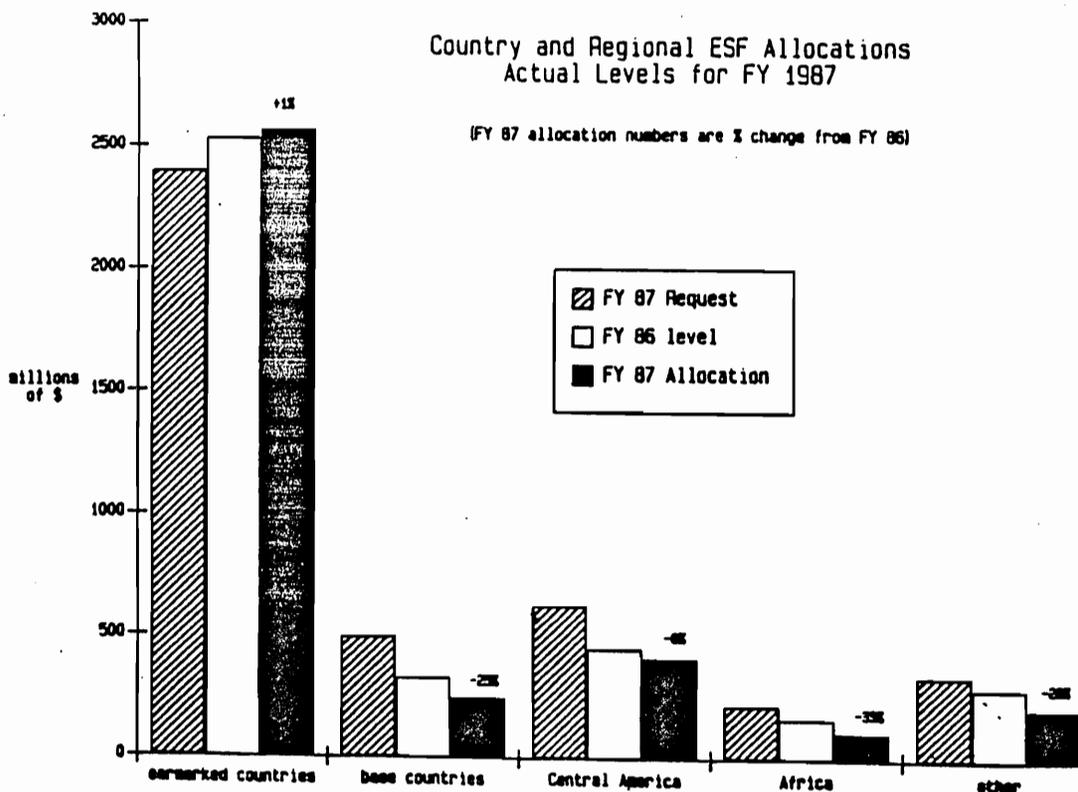


Figure 7



final distribution, however, did represent a series of compromises that decision-makers felt did the least amount of damage to U.S. security interests. Figure 8 illustrates that plan. As it shows, military base/access, African, and "other" recipients took cuts of between one-fourth and one-third from 1986 levels. (It should be noted, however, that the shortfall for base/access countries is somewhat overstated. To a large extent, the cut stems from the elimination of an ESF program in the Sudan for fiscal 1987. Political and economic problems had already endangered the status of ESF aid for Khartoum in recent years. But according to one senior State Department official, the facility access arrangement may soon end, thereby reducing the Sudan's importance to U.S. security interests.) Central America was hurt less -- cut 8% -- but received a far smaller amount than recommended for fiscal 1987.

Figure 8



Unrealistic Budget Requests

A third factor that was particularly important during last year's foreign aid debate was the Executive branch decision to seek large increases: 16% more for ESF and 12% more for all foreign assistance. Many observers, both in Congress and within the Executive branch, regarded a request for such hefty increases only weeks after both branches had agreed to a sweeping deficit reduction plan as totally inappropriate and politically unfeasible. In an early January 1986 closed session with members of the Senate Foreign Relations Committee, lawmakers warned senior State Department and OMB officials that the President's request had no chance on Capitol Hill and that they should alter the budget recommendation before its formal presentation in February. At his first budget hearing for fiscal 1987, House Foreign Operations Subcommittee chairman David Obey told Secretary of State Shultz:

Mr. Secretary, I can't pass a foreign aid bill...so long as Members of the House see that we are increasing foreign aid and we are paying for that increase by gutting cancer research, gutting educational opportunities, and things of that nature...I think that the budget you are presenting today indicates that the Administration has not done something that is required of every program manager on the domestic side. It hasn't made choices.²⁵

A number of those interviewed agreed that the Administration's decision to press for large increases for fiscal 1987 was unwise and perhaps counter-productive. Some argue that the Executive branch might have encountered less resistance and, in the end, received higher appropriations, particularly in security accounts, if it had submitted a more responsible budget that clearly defined and justified the highest foreign policy requirements -- if the President, as Mr. Obey suggested, had "made choices."

Constraints on Alternative Channels of Aid

A final factor that makes ESF cuts so damaging is the continuation of budget and policy constraints on other major assistance channels -- military aid, food transfers, and development projects -- that might, under other

circumstances, fill gaps created by ESF resource shortfalls. By utilizing these other instruments, aid officials might be able to offer substitutes for ESF reductions and limit political damage to American foreign policy interests.

Although ESF is strictly designed to meet non-military requirements, one can argue that the flexible nature of cash and budget-support ESF transfers are simply an indirect means for countries to purchase weapons they might not otherwise afford; that ESF shortfalls could, in some cases, be met by increased levels of military assistance. As noted earlier, however, budget reductions and earmarks in the military accounts were also substantial in 1986 and 1987, making this category ineffective as an alternative to ESF.

Food assistance, although a much smaller channel at about \$1.4 billion for fiscal 1987, might also substitute for countries which purchase food abroad and had expected ESF aid to shore up their foreign exchange shortages.²⁶ Significant limitations exist, however, in pursuing this strategy. Over one-third of the food aid program is targeted only for emergency relief activities managed, for the most part, by U.N. and private agencies. Moreover, the United States and other aid donors are conditioning economic assistance on government promises to implement programs designed to increase domestic food production. In many cases, therefore, low-cost external food transfers are regarded as inappropriate and counter-productive to these other initiatives.

Finally, development programs, through which the United States delivers about \$1.5 billion annually, are still encumbered with extensive conditions and restrictions remaining from the "New Directions" policy. The poverty focus, small project scheme, and slow dispersal of funds makes this channel a poor substitute, in most cases, for ESF objectives. Moreover, because most recipients do not view development assistance as a political or security benefit, such aid is not likely to extract the quid-pro-quo that might be anticipated with an ESF program.

Chapter IV
ALTERNATIVES AND OPTIONS

Currently, a number of foreign aid analysts are asking the question: what can be done to restore economic security assistance and other foreign aid programs -- tools that American policymakers have relied upon heavily in the post World War II era -- as valid and reliable instruments in support of important U.S. foreign policy goals? There seems to be no disagreement that changes are necessary. Many strategies are suggested; but a consensus on precisely which would be most appropriate has yet to emerge. Six frequently discussed issues are examined below as possible areas where change might improve the effectiveness of economic security assistance as a foreign policy tool: 1) the definition of economic security aid and when and how it should be applied; 2) the budget formulation and Executive/Legislative debate; 3) the merger of economic security aid with other economic assistance programs; 4) modifications to military and development aid channels to relieve pressure on ESF funding; 5) use of non-appropriated resources to substitute for security aid shortfalls; and 6) use of Defense Department funds to support U.S. access to military bases and facilities overseas.

Economic Security Assistance Re-defined

It seems that economic security aid has never been defined in very precise terms. A former U.S. Ambassador observed in 1958 that,

One of the least understood categories of United States aid under the Mutual Security Act and the one capable of creating the most confusion is "defense support." In fact, one wonders whether this was not perhaps one motive in coining the phrase and establishing the category.²⁷

Putting these thoughts in more positive terms, a more recent U.S. policymaker argued, "We should keep some ambiguity in the way we allocate economic support

funds...so that recipient countries will not take these funds for granted and feel free to ignore the advice we give."²⁸

But in keeping recipients off-balance and confused, it seems that U.S. aid officials, members of Congress, and other close observers of American foreign aid are equally unclear about how economic security assistance supports U.S. foreign policy. During a period of fundamental changes in ESF programming, policymakers made little attempt to explain such change and to define precisely the new goals and purposes which ESF supports. Instead, it just seemed to happen. Within an Administration that was shifting emphasis from development to security assistance, aid programmers realized that more money would be available for countries regarded as a security asset to the United States. And as the White House viewed international events increasingly in East-West terms, virtually any country became a security asset if policymakers could show that the ESF program would exert pressure on Soviet or Soviet-client interests, or that it would bring the recipient into a closer relationship with the West. Accordingly, Executive branch presentation documents began to describe nearly every recipient of American aid as important to the "security" concerns of the United States, therefore making them eligible candidates for ESF assistance.

Left unanswered, however, are the precise terms of these U.S. "security" interests that ESF aid should support. Four issues were cited by the State Department in arguing its fiscal 1987 security assistance budget: 1) to promote peace in the Middle East; 2) to enhance cooperative defense and security arrangements; 3) to deter and combat aggression; and 4) to promote regional stability.²⁹ The first three could certainly be classified as traditional security objectives and consistent with past applications of economic security aid. Yet even here, the interpretation of defense and cooperative "arrangements" and situations of aggression seems vague at times and has certainly widened the scope for applying ESF funds. It is within the fourth

category, however, under which 40 of the 54 recipients are justified, that the link with significant U.S. security interests weakens, and thus departs from prior use of the instrument. New ESF programs for such countries as Guinea, Madagascar, Malawi, Mali, Niger, Rwanda, Senegal, Togo, the Dominican Republic, and Uruguay seem to reflect changes in the international economic scene and the need for flexible, quick-impact type assistance. But these programs are still argued within a security context. Other recent ESF initiatives for Bolivia, Ecuador, and Peru appear to address these same economic difficulties as well as increased U.S. interest in dealing with international narcotics trafficking; these programs are also pursued under the security banner.

This is not to argue that economic stability and efforts to curb illegal drug transfers are not legitimate foreign policy goals of the United States and closely associated with security interests. Nevertheless, they do not represent the highest American security concerns, as currently defined; and unless they are elevated to a more important status, these objectives cannot hope to compete for limited resources equally with the other high priority requirements. AID administrators, for example, who turned to a growing and more flexible ESF channel to promote economic policy reforms and private sector initiatives have suffered severe setbacks in program implementation. (See Appendix II.) These are high priority goals within an economic context but not within a security framework. Moreover, they do not represent traditional objectives of economic security assistance dating back over 30 years.

A re-examination of the scope, purpose, and definition of ESF aid would provide a number of advantages. It would require American policymakers to decide in a conscious and direct fashion whether ESF should support a broad-range of foreign policy goals worldwide or return to being a highly concentrated instrument that primarily assisted countries confronted with external threats or with whom the United States had a close military

relationship. Should officials decide to focus on the first alternative, they might consider, as some have suggested, integrating all economic programs within a security rationale and assuming a more "enlightened conception of national security."³⁰ Once policymakers agreed upon a clear and focused definition, they would be better prepared to argue their case both within the Executive branch and with the Congress. If they continued with the broad use of ESF assistance, participants in the budget debate would have a better understanding of the risks associated with alterations or reductions to the planned program.

A return to a more concentrated application of ESF, on the other hand, would have the advantage of presenting a request that clearly represented the Administration's highest foreign policy priorities and might carry more credibility in the Congress. It would also move other initiatives out of the competition for security aid resources and into a position where funding decisions might be made directly and consciously based on the merits of the specific proposal. In any case, a renewed effort to define ESF goals would end the rather "ad hoc" fashion with which the program has grown and expanded overall, but shrunk in specific cases, during the past six years.

Improve the Decision-Making Process for
Economic Security Assistance Budgets

Administration decisions to submit a significantly larger ESF and overall foreign aid budget for fiscal 1987 represented a major tactical error that contributed to funding cuts made by Congress. Requests were not taken seriously since they did not reflect the greatly enhanced pressures to reduce the deficit. Lawmakers perceived that Executive branch officials had simply re-cycled the previous year's budget and had not undertaken a responsible and legitimate effort to re-evaluate priorities and make tough, but necessary,

decisions. Moreover, when told of the probable outcome, officials ignored the warnings.

State Department officials responsible for building a comprehensive ESF budget acknowledge that the Administration used an ill-conceived strategy in dealing with Congress. But they note that AID and State Department policymakers responsible for individual countries or programs are unwilling to accept this view. They demand, instead, that the budget request include what they consider to be necessary resources to conduct effective policy, regardless of how much that might be; they do not recognize that fewer funds will likely be available after Congress slashes what it regards as an irresponsible request.

An ESF budget that is sensitive to the mood of Congress is not only more likely to receive favorable action, but may also open up opportunities for asking Congress to refrain from earmarking a substantial portion of the program. As was shown above, earmarks within the ESF account seriously undermine the President's flexibility in utilizing aid resources to match foreign policy requirements. The practice of earmarking often stems from a congressional mistrust of Executive branch allocation decisions. A positive view of Administration efforts to construct a responsible budget proposal may convince lawmakers that the President deserves more latitude in managing the distribution of funds.

By no means is Congress without guilt in the mis-management of the ESF budget decision-making process. The most fundamental problem is the practice of earmarking, and more specifically, the protection of Israel and Egypt within the ESF account. Although many agree that the size of these two programs (particularly in the case of Israel) is out of proportion relative to the security and economic needs of the recipients, it is almost certain that Congress will continue to shield these two countries from aid shortfalls. It

also appears that the Administration has given up on arguing with Congress that the protection for Israel and Egypt is done at the expense of other countries. State Department officials agree that they do not challenge Congress because they fear an even worse outcome. They point out that annual aid levels are carefully negotiated with Israel, and if these levels are not supported by the Administration, Israeli lobbying efforts in Congress might send amounts higher than the original figures.³¹

Instead of ignoring the issue, Administration officials should step up their efforts to limit earmarks and voice their objection if they believe the protection of the Israeli/Egyptian ESF programs is detrimental to other foreign policy interests. Officials confirmed that in late 1986, the Administration considered a reduction in the initial ESF allocations for Israel and Egypt in order to free up additional funds for other needs. The plan also called for restoring the Israeli and Egyptian money in the fiscal 1987 supplemental request. Ultimately, the Administration abandoned this risky and, perhaps, unwise strategy. But unless the Executive branch consistently demonstrates to Congress that it regards the aid levels for Israel and Egypt beyond what is appropriate given the current budget environment, it will lack a credible foundation on which to argue future shifts from these accounts to address a serious foreign policy crisis.

Congress has also contributed to ESF policy formulation and decision-making difficulties by avoiding open and comprehensive foreign aid debates in recent years. Since 1981, lawmakers have enacted only one regular foreign assistance authorization and appropriation act. Instead, the foreign aid program has operated in most years by "continuing resolution," a mechanism by which lawmakers can avoid casting unpopular votes on specific foreign assistance issues and where only a few individuals formulate the budget in closed sessions. Floor debates, discussion of legislative amendments, and

in-put by the House Foreign Affairs and Senate Foreign Relations Committees would provide an opportunity for Congress to responsibly examine changes in the composition of ESF spending and make informed decisions on the security merits of ESF budget allocations.³²

Merging the Major Economic Assistance Programs

During the past few years, a debate has grown up over whether a merger of the two major economic aid channels -- development assistance (DA) and ESF -- would enhance the effectiveness of economic assistance as an instrument for both Third World development and U.S. foreign policy. Proponents of the idea claim that it would break down the artificial distinction between these two economic aid programs and afford U.S. administrators greater flexibility in planning appropriate economic strategies. A larger resource base might also allow planners to better cope with funding shortfalls. Eliot Morss, a prominent development expert, argues that a merger would eliminate "patchwork legislation, lobbying, and restrictions." He also views the practice whereby AID manages both DA and ESF assistance as detrimental to the Agency's credibility as an institution strictly concerned with economic, rather than political or security goals. He suggests that AID program only the funds it can justify on purely economic grounds, and allow the remainder to be disbursed through a different channel not controlled by AID.³³

Those who support the idea of combining DA and ESF resources, however, do not agree on which objective this should benefit most -- security or economic development. Some, like Richard Hough, believe that DA should be justified and allocated within a security context.³⁴ Others, such as John Sewell, President of the Overseas Development Council, argue that the combination of DA and ESF programs should be accompanied by a de-linkage of economic assistance from security objectives.³⁵ A project jointly sponsored by his organization on future aid to Africa recommended that "Congress should amalgamate security and

development aid for Africa into a single account clearly designated for development purposes in order to demonstrate that our assistance is geared to African development performance."³⁶

There also exists strong opposition to the idea of merging DA and ESF programs. A 1983 Presidential task force to study the future direction of U.S. foreign assistance programs -- the so-called Carlucci Commission -- concluded that ESF should remain a separate, distinct, and highly flexible economic aid tool that first and foremost supports U.S. security and political interests.³⁷

Interestingly, much criticism of a DA/ESF merger plan comes from within the Agency for International Development. This stems primarily from a prevalent AID view that the political nature of ESF programs affords the State Department the opportunity to intervene in the planning and programming of the assistance in ways that are sometimes counterproductive to strictly economic objectives. This, AID officials contend, is particularly disruptive in efforts to leverage economic policy reforms among recipients. Moreover, because the State Department sets ESF allocation levels, ESF accounts are sometimes "raided" to divert funds for a higher foreign policy requirement. In arguing against a DA/ESF merger, AID Administrator Peter McPherson recently told a Senate Committee:

The DA account...has had enormous advantages, really. It has been encumbered by the functional accounts. But everybody saw it as clearly a little less political, as having a more international purpose...That long-term development effort will, almost by necessity, not have the sort of short-term immediate foreign policy implications to it. If we change how we operate our accounts, I would be very anxious that we keep that squarely in mind. I would not like to have everything be like ESF, as it is popularly conceived.³⁸

Modifying Development and Military Assistance Programs

While disagreements over a DA/ESF merger plan make this a relatively unattractive option, a more promising strategy might be to examine other major foreign aid channels and find ways to make them more effective. Administrators of development and military aid programs frequently argue that policy

restrictions or resource limitations seriously interfere in effective program management. A fundamental factor in the current ESF budget crisis is that when confronted with such a situation, these officials have turned increasingly to the ESF channel as a means of circumventing other constraints. The rapid growth and "fungible" nature of ESF resources attracted frustrated aid administrators to utilize this option. As budget pressures mounted and competition among multiple program objectives rose, ESF resources began to decline, jeopardizing these new purposes as well as the more traditional goals supported with economic security assistance.

Except for a small but powerful group in Congress, nearly all close observers of U.S. economic assistance advocate the relaxation of many policy restrictions associated with development aid programs. The criteria associated with the "New Directions" mandate of 1973, they contend, is not in step with changes in the international economic environment. While still valid in some situations, the small project, poverty focus of "New Directions" does not provide sufficient flexibility to respond to present-day development strategies such as debt relief management, structural reform programs and economic growth initiatives. If development assistance could be programmed with fewer limitations, aid administrators focusing on Third World economic difficulties would not be tempted to use a security assistance channel to support their objectives.

The Administration's new Development Fund for Africa initiative (see Appendix II) signals a fresh attempt to instill greater flexibility in economic aid programming and to divorce the pursuit of what are largely non-security related objectives from the ESF channel. It permits both policymakers and lawmakers to direct their attention squarely on the needs of sub-Saharan Africa and to make clear and conscious decisions on how the United States will respond to those needs. Although the Fund will compete with other foreign aid programs

for scarce resources, the choices for decision-makers will be clear, a factor that should reduce the likelihood of unintended or misunderstood consequences of budget reductions. If successful, it could serve as a model for creating other regional or goal-focused initiatives. This would further relieve pressures on the ESF channel and permit that program to concentrate more directly on the most important U.S. security and political interests.

Further progress in this direction, however, is likely to be slow. Many congressional Members and staff who initiated and refined the "New Directions" policy remain in influential positions and would resist the relaxation of restrictions. They continue to believe that theirs is the appropriate development strategy to address human suffering and the poor's inadequate access to basic needs in the Third World. While admitting that a good case for a macro-economic development strategy can be made in some situations, fear that the Executive branch would over-emphasize this approach at the expense of a poverty focused strategy seriously inhibits progress to loosen conditions placed on development programming. Administration officials, for example, expect Congress to modify the Development Fund for Africa proposal by establishing minimum amounts that must be allocated for such purposes as child survival, protection of the environment, and increasing the role of women in development -- all components of the "New Directions" policy. They will oppose such attempts, but regard the outcome as almost inevitable.

Policymakers could also turn towards military programs to relieve pressure on over-committed ESF resources. Many argue that one of the most cost-effective and successful aid efforts is the International Military Education and Training (IMET) program. With a current budget of \$56 million, IMET is a low cost activity that trains over 6000 senior military officials in about 100 countries. Through the IMET program, the United States establishes many close relationships with foreign military officers and demonstrates a

continued support for important allies and friends. In instances where ESF transfers are intended primarily to serve a political purpose -- a symbol of American appreciation for a government's help on some matter -- officials might consider a marginal increase in IMET aid in lieu of some or all of the ESF level. This would not necessarily represent a totally satisfactory alternative, but it would still send a political "signal" at a far lower cost.

Relief for debt plagued countries from repaying high-interest U.S. military aid loans is another option being developed by Executive branch officials. Many Third World nations received loans under the Foreign Military Sales (FMS) Program in the late 1970s and early 1980s when interest rates were unusually high. A plan announced by the Administration in December 1986 would permit countries that maintain loans exceeding current interest rate levels to either pre-pay the loans without penalty or to reduce the interest charge, capitalize the difference between the old and new rate, and defer repayment on the capitalized amounts until the end of the loan's maturity.³⁹ The program will have no budgetary impact and will therefore, not require additional foreign aid appropriations. Since many ESF programs help recipient governments contend with debt burden problems, this new FMS loan restructuring initiative could be viewed as a means to offset ESF shortfalls. Although the Administration vigorously opposes viewing the initiative in these terms, it states that it is "keenly aware of the potential budgetary impact of the FMS options and will consider that impact in our budget planning."⁴⁰ A realistic view of today's security assistance budget environment, however, should convince Executive branch officials to utilize this tool as effectively as possible, including a way in which to compensate for shortfalls in ESF debt relief programs.

Utilization of Non-Appropriated Resources to Fill ESF Gaps

Another option to relieve the consequences of a declining ESF budget is to explore the use of instruments available to American policymakers that do not require appropriations. An obvious possibility would be to offer trade concessions as a substitute for lower ESF amounts, particularly in cases where ESF programs were designed to promote the export sector of a recipient's economy. Concern over the future of American exporters and the current mood in favor of trade protectionism, however, probably exclude trade from being a viable strategy at the present.

More promising, however, are options to permit aid recipients to gain greater economic benefits from U.S. arms transfers and increased access to American technology. Already the United States permits some military aid recipients to produce and assemble portions of the weapons in their own countries. This practice creates jobs, produces more highly skilled workers, and generally acts to stimulate the overall economy -- results that are frequently goals of ESF programs in these countries.

When ESF resources are not adequate, therefore, policymakers could, where appropriate, consider expanding these options that do not require congressional appropriations. Such strategies seem particularly well-suited for countries with whom the United States has military base agreements and for more advanced aid recipients, such as Israel. For base rights countries, the United States should wean recipients away from the notion that base payments must be in the form of ESF cash or military credits. Instead, during the next round of negotiations over base extension agreements, American officials could build into the compensation package such items as co-production arrangements, military base maintenance contracts, and access to bidding on U.S. military jobs.⁴¹ Negotiators could argue that while budget constraints and congressional modifications to requested programs have resulted in ESF and

military aid levels below those expected by recipients, non-appropriated concessions are controlled more directly by the Executive branch, and are therefore, a more reliable source of assistance.

Some governments have already expressed interest in expanding these types of opportunities. According to State Department officials, Turkey seeks trade concessions and co-production arrangements in lieu of declining ESF and FMS transfers. In a similar fashion, Spain would accept "graduating" from the U.S. aid program in exchange for American government help in promoting private investment. One report suggests that Morocco might consider the sale of its fruits, vegetables, and textiles to U.S. forces stationed in Europe as compensation for declining security assistance levels.⁴² Israel, already a major benefactor of many of these enhancement tools, would like to receive more. In this case, it becomes of matter of convincing Israeli officials that additional concessions would be in exchange for reduced ESF and military aid levels -- not an easy task, but one worth pursuing.

Shift Military Base/Facility Aid to the Defense Budget

For a number of years, some close observers of the foreign assistance program have suggested that the Defense Department's budget should assume the costs of supporting American access to overseas military bases and facilities. Because such facilities directly benefit the mission and presence of U.S. military forces around the world, they argue, arrangements for these bases should be placed on a "lease" status and paid out of DOD funds. It would be easier, they say, to "find" the necessary funds to pay the rent within the huge defense budget. Moreover, these advocates charge that because of the importance placed by the Executive branch on base rights programs, other foreign policy interests are "squeezed."

For the most part, however, policymakers oppose this proposal on grounds that military access agreements should be negotiated within a context of mutual

security between the United States and the host country. They contend that it is important to demonstrate that the relationship benefits the defense capabilities of each party and that it is in the interests of both governments to continue the arrangement. These officials also fear that if overseas bases became rental property, the "landlord," or host, could withdraw or break the lease more easily. One Administration insider also contends that it is a matter of turf -- within both the Executive and Legislative branches. The State Department wants to retain control of the funds for purposes of applying political leverage among aid recipients -- leverage it would lose if DOD held the money. In Congress, the Senate Foreign Relations and House Foreign Affairs Committees would likely resist changes that would shift jurisdiction of base country programs to the Armed Services Committees.

Although economic security aid has traditionally supported U.S. access to military bases abroad, the transfer of this requirement to the defense budget would relieve pressure on a fiscally constrained ESF budget. In fiscal 1987, nearly \$500 million, or 14%, of ESF resources were allocated to countries providing U.S. bases or access to military facilities. (The savings for military assistance accounts would be greater -- about 22% of the program in fiscal 1987.) By contrast, \$500 million would represent about 0.2% of the DOD budget. The ability to deliver on payments, either promised or implied, would certainly avoid disruptions in American access to these facilities, a matter that some believe is currently jeopardized by a 25% shortfall in ESF assistance to base rights countries in fiscal 1987 (see Figure 7). One author argued in 1983 that "failure of the United States to allocate funds at the level the ally perceives as being our 'best effort' would probably lead to abrogation of the agreement or at least restrictions on previously agreed-upon U.S. rights."³ State Department officials particularly worry about how cuts in funds intended to compensate host countries will effect the next round of negotiations for

extension of the arrangement. Upcoming discussions with Spain will provide the first test. The agency also is reportedly arguing against a new facility agreement with Zaire "because of concern that the Administration will make a commitment to Zairian President Mobutu Sese Seko that it cannot fulfill because of budget constraints."⁴⁴

It might be expected that most countries would prefer a more reliable source of funding so that financial considerations would more closely match their expectations and blunt internal criticism for permitting an American presence. Moreover, it is unrealistic to assume that host governments would be more likely to terminate a "lease" agreement than a "mutual security" arrangement -- bases and facilities are an important source of revenue and jobs for the local economy and decisions to foreclose American access would be based on a series of complex factors. For those governments which do not want a formal and visible military relationship with the United States, it would still be appropriate to offer ESF assistance, but linked only in a vague and distant manner with access rights. Furthermore, State Department control of compensation funds for political leverage becomes a liability when expectations are not met -- and diplomats would probably rather lose "credit" for the financial rewards than be the bearer of bad news when money was not forthcoming.

Policy Recommendations

Based on the foregoing discussion of options and alternatives, the following represents a summary of recommendations for Executive branch policymakers to restore economic security assistance as a reliable and effective tool of American foreign policy and to avert a deepening budget crisis:

- * formulate a clear and concise definition of economic security assistance objectives.

- * limit the scope of ESF activities so that even in a time of budgetary uncertainty, the highest security and political objectives can be supported.
- * use the African Development Fund as a model for other initiatives -- such as Latin American debt relief programs and international narcotics cooperation efforts -- that are currently supported with ESF resources but could be justified more appropriately outside a vague security context and debated in clear and well-defined terms.
- * present Congress with realistic ESF and foreign aid budgets that protect American foreign policy interests within the limitations of the current fiscal environment.
- * urge Congress to curtail the practice of earmarking, especially when lawmakers significantly reduce overall funding levels.
- * challenge congressional earmarks and invoke, when appropriate, special Presidential waiver authorities in cases where critical interests are in jeopardy.
- * seek modifications in development assistance authorities that broaden program flexibility and provide a viable alternative to ESF programming for purely economic initiatives.
- * employ other instruments, such as IMET and tools that do not require appropriations, to substitute for ESF funding shortfalls.
- * draw upon Defense Department funds to support U.S. access of military bases and facilities in selected countries.

Chapter 5

PROSPECTS AND CONCLUSIONS

As the Administration enters a new round of budget battles with Congress, there are few indications that the Executive branch has embarked on a radically new strategy to overcome damaging shortfalls in economic security and other foreign assistance programs. Instead, the President submitted a \$1 billion foreign aid supplemental -- including \$300 million for economic security assistance -- largely to make up for reductions incurred in the regular appropriation process. This is a time-worn option that is viewed with increasing disfavor by the Congress. In most instances, the Administration is unable to prove the existence of a new and compelling emergency that will reverse congressional decisions made only a few months before. There is little chance Congress will approve the request, suggesting that this is not an answer to the foreign policy budget crisis.

The Administration may have damaged its credibility with the Congress again this year by submitting a foreign aid budget for fiscal 1988 that is 12.6% higher than for 1987. A budget request that would freeze 1988 expenditures at today's level might be received in a more positive light. For ESF, the 1988 recommendation of \$3.6 billion is, at first glance, only \$45 million, or 1.3%, more than in 1987. However, after adjusting for the shift of most African ESF resources to the special Development Fund, the request is nearly identical to last year's recommendation. That budget, as has been shown, did not survive congressional budget knives and earmarks. Moreover, Executive branch officials will soon present Congress with a \$4 billion, six-year follow-on aid package for Pakistan, adding further burdens for budget decisionmakers.

Despite this generally pessimistic outlook, two aspects of the new budget are worth noting -- factors that signal advances in how the Administration

views the foreign policy dilemma and how it is willing to address the problem. First, the Development Fund for Africa initiative is an appropriate first step in restoring direction and reliability of U.S. efforts to assist African nations combat extraordinary economic and social challenges. It also signals that aid officials understand the risks, and probable failure, of trying to support a primarily economic-oriented objective with an aid tool traditionally utilized to focus on high priority security goals. It is a limited recognition, perhaps, that economic security assistance should be a more focused aid instrument that can only be a reliable political and security tool when it is concentrated on fewer and more critical national objectives. Subsequent Administration decisions and actions will demonstrate more clearly the extent to which policymakers view matters in these terms.

A second promising factor is the intention of Secretary Shultz and other senior officials to become actively involved at an early stage to convince Congress and the American people of the importance of the foreign policy budget. State Department sources say that the Administration plans a very visible public relations campaign to defend all aspects of the requested programs.⁴⁵ Such efforts would be in sharp contrast to last year when Mr. Shultz only became aggressively involved in late May after the House Budget Committee had seriously reduced funding for foreign affairs programs and set the tone for subsequent action.

Aside from these factors, however, the stage appears set for acrimonious debate between Congress and the President, for continued accusations, and for a heightening of the foreign policy crisis brought on by ESF and other foreign assistance budget fights. It seems long overdue for representatives of both branches of government to step back, realistically assess the reasons for the crisis, and to discuss their differences over foreign assistance policy and budget matters in a more rational and responsible manner.

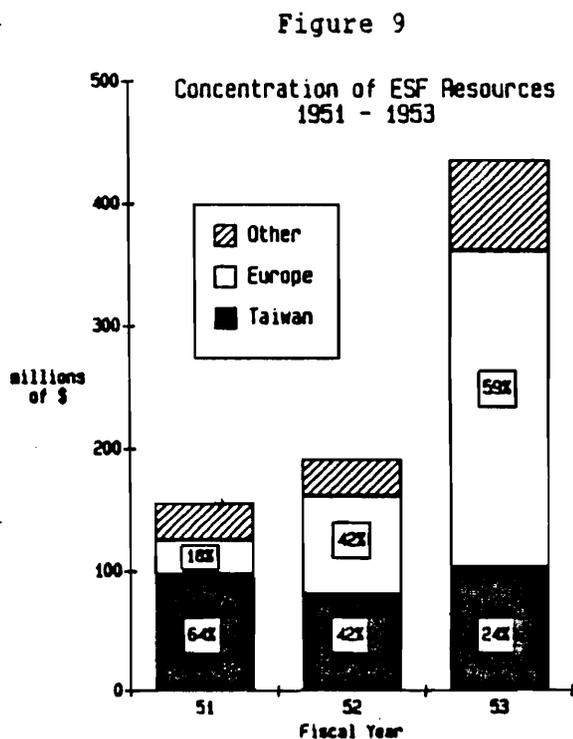
APPENDIX I

THE EVOLUTION OF ECONOMIC SECURITY ASSISTANCE: 1951-1981

Economic security assistance became a formal channel American aid in 1951, only two years after the United States instituted what is regarded as the modern-day foreign assistance program. An analysis of the trends and characteristics of economic security aid during this 31 year time-frame reveals five distinct periods.

Focus on Europe and Taiwan: 1951-1953

The first applications of economic security assistance -- or Defense Support, as it was called at that time -- targeted two primary foreign policy goals: to re-establish an adequate defense mobilization base in Western Europe, and to counter communist threats to the Chiang Kai-shek government on Formosa. As Figure 9 shows, the United States distributed over 80% of all Defense Support in these two areas. The Mutual Security Act of 1951 and successive authorization bills directed Defense Support assistance to close friends that

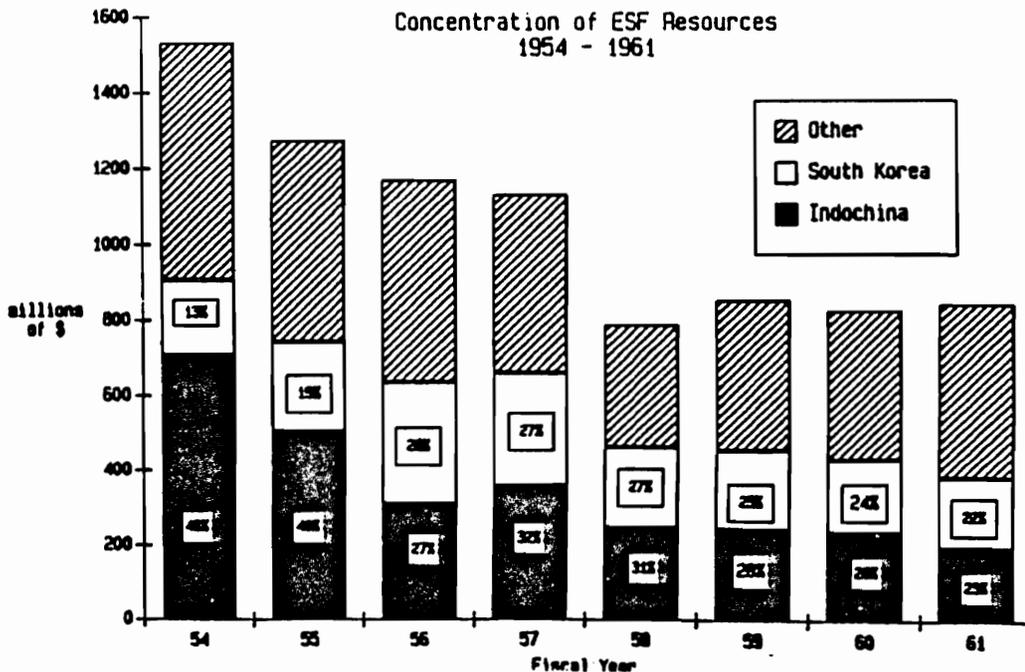


maintained unusually costly defense requirements -- in short, it was a budget support program that reduced the economic consequences of large defense expenditures.

Attention on Problems in East and Southeast Asia: 1954-1961

For the next seven years, the United States directed economic security aid largely at South Korea and Indochina where sizable defense expenditures strained these struggling economies. While Seoul and Southeast Asian governments tried to recover from recent wars and to maintain a credible deterrence against external aggression, American assistance financed the import of essential non-military goods, constructed a number of major infrastructure projects, and, to a lesser extent, supported long-term development projects. As Figure 10 indicates, South Korea and the countries of Indochina accounted for between 50 and 60% of Defense Support expenditures during this period. Even though the proportion of security aid allocated for South Korea and Indochina dipped below 50% in 1961, there was no significant change in the

Figure 10

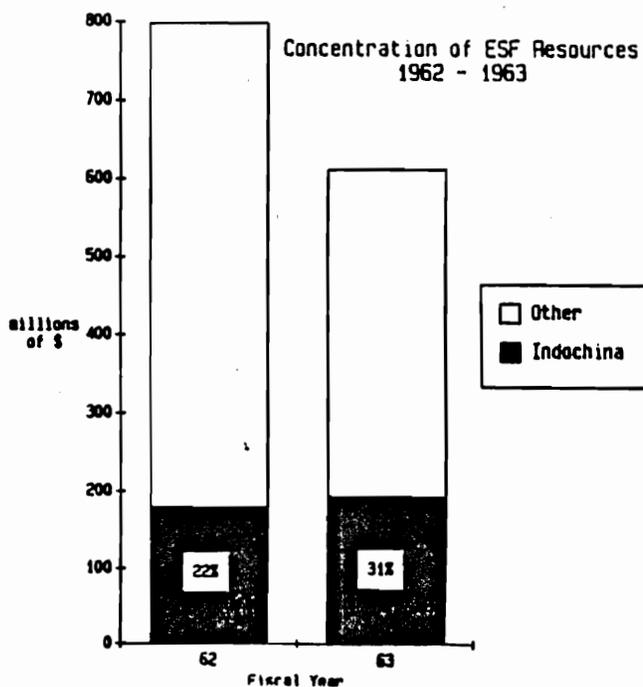


number of other Defense Support recipients. The United States continued to apply such aid in only a few selected countries -- between 1955 and 1961, besides the two primary target areas, only 10 other countries, mostly in Europe and East Asia, received Defense Support.

A Program in Transition: 1962-1963

A number of factors emerged in the early 1960s that changed for a brief time the focus of economic security assistance. For a two year period, aid administrators expanded the program and disbursed the aid in over 30 countries to address a wide-range of American foreign policy concerns. As Figure 11 shows, only the states of Indochina received a sizeable proportion of the assistance -- about 25% in each year. Levels for major security assistance recipients in previous years fell sharply -- South Korea's aid was halved; Taiwan and Yugoslavia "graduated" as recipients; and Turkey received a third less than in 1960. On the other hand, the United States initiated numerous small economic security aid programs around the world, especially in the Middle

Figure 11



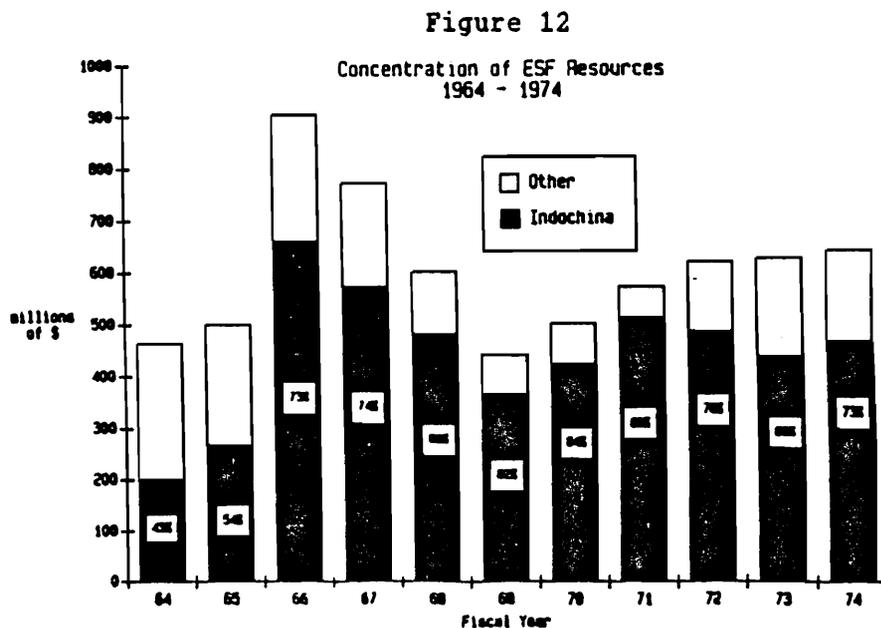
East and Latin America. Egypt, Jordan, Libya, Morocco, Tunisia, the Yemen Arab Republic, Columbia, the Dominican Republic, Ecuador, Panama, Peru, Trinidad and Tobago all became first-time participants in American economic security assistance programs.

One factor responsible for the shift was the congressional reorganization in 1961 of legislation authorizing foreign assistance. Lawmakers consolidated most of the existing foreign aid statutes into the Foreign Assistance Act of 1961, the basic law that directs U.S. foreign aid policy today. The 1961 Act not only changed the name of Defense Support to Supporting Assistance, but also dropped the explicit rationale for economic security assistance as economic support to sustain military capability. Instead, Congress granted more general authority to provide friendly nations with assistance to "support or promote economic or political stability." Congressional committees noted that Supporting Assistance should be used to support three basic objectives: to sustain and increase military efforts of key U.S. partners; to facilitate U.S. access to military bases overseas; and to help maintain the internal stability of American friends.⁴⁶ Although the new authority continued to emphasize the security and political importance of the program, it expanded the interpretation sufficiently so that the President could justify the application of Supporting Assistance in broader terms.

A second factor related to the program's brief change in 1962 and 1963 was the election of a new President. The Kennedy Administration's first budget, fiscal 1962, reflected a number of foreign policy initiatives. New attention focused on Latin America and the Alliance for Progress, as well as on states in North Africa and the Middle East. Due to its flexible and fast-disbursing nature, Supporting Assistance was an ideal tool to address these new concerns rapidly.

Focus on Indochina: 1964-1974

By fiscal 1964, Supporting Assistance once again returned to its status as a focused tool of American foreign policy. It appears that pressures within the Executive branch, as well as from the Congress, drove policymakers to re-think the broader utilization of economic security aid in the early 1960s. Instead, they came to view such assistance more as a temporary instrument that served only the most immediate U.S. political and security objectives. Congress, in particular, argued for maintaining Supporting Assistance as a short-term, temporary tool.⁴⁷ The Agency for International Development (AID), on the other hand, argued for reductions in Supporting Assistance so that the Agency could "place increasing emphasis on development loans and grants." AID believed that this would be the strategy for the future, although it recognized that new situations, such as those in South Vietnam and the Congo, would require transfers from time to time of flexible, security-oriented economic assistance.⁴⁸ The number of Supporting Assistance recipients in fiscal 1964 declined from 29 to 21, and the proportion of resources going to Indochina increased from 31% to 43%. This pattern, as illustrated in Figure 12,



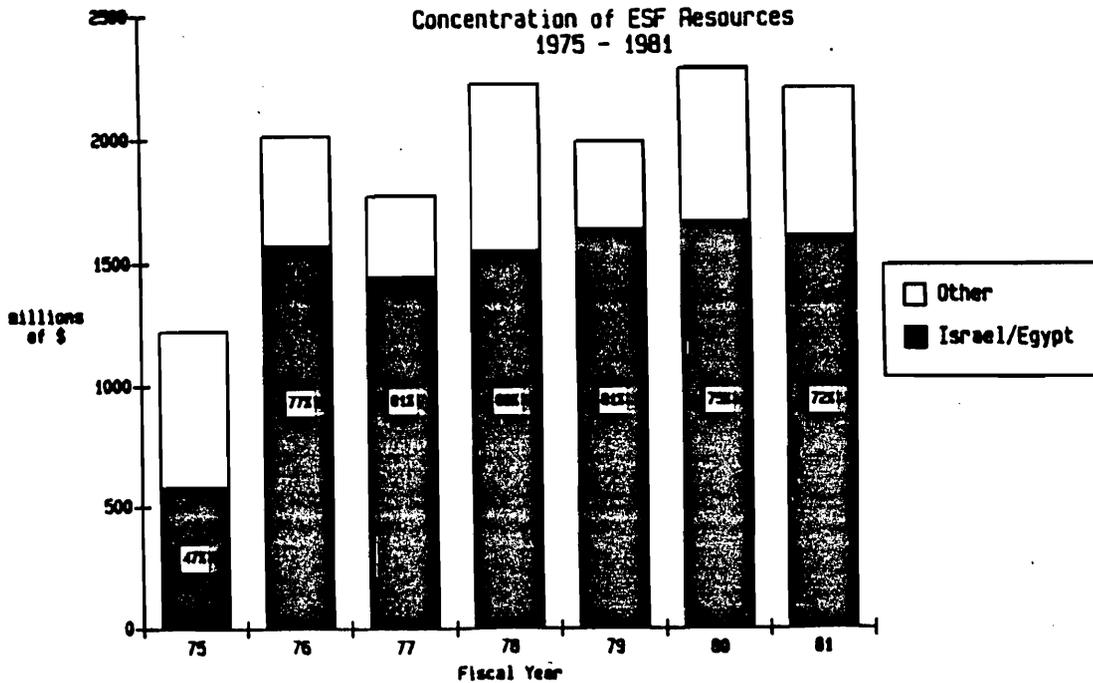
continued over the next ten years as the program became almost exclusively dedi- cated to the transfer of economic assistance to South Vietnam, Cambodia, Laos, and Thailand. Congress began to impose limits on the number of countries that could receive Supporting Assistance in any given year⁴⁹ and to decrease the budget; consequently, the Administration chose to concentrate what assistance remained on Southeast Asia. By 1971, only nine countries received economic security aid and nearly 90% of the \$573 million budget fell in Indochina.⁵⁰

The Search for Peace in the Middle East: 1975-1981

As the United States withdrew from Southeast Asia, the focus of Security Supporting Assistance (SSA), as it was now labeled, shifted to a new U.S. foreign policy objective: resolving the Arab/Israeli dispute. Following the Yom Kippur War of 1973, the United States began to channel small amounts of SSA in a number of Middle East countries in an effort to stabilize the war-torn economies of the region, to promote a dialogue that might eventually lead to peaceful settlement, and to reduce reliance among the Arab states on Soviet aid. Four countries -- Israel, Egypt, Jordan, and Syria -- went from receiving \$103 million, or less than 10% of the SSA budget in fiscal 1974 to \$753 million, or 61% of the allocations in fiscal 1975. In 1976, these figures jumped to \$1.8 billion and 89%, respectively. During the entire seven year period, Israel and Egypt alone received nearly \$10 billion, or three-fourths of all SSA disbursements. Figure 13 (next page) illustrates this trend.

Concentration of SSA in the Middle East did not permit a large investment of resources in other areas of the world. Nevertheless, towards the end of the period, the United States began to address emerging American security interests abroad with increasing amounts of economic security assistance. Costs associated with the maintenance of U.S. bases in the Philippines, Turkey, Spain, and Portugal began to rise as American diplomats negotiated new

Figure 13



agreements with the host countries. In addition, as part of U.S. efforts to promote a peaceful transition to majority rule in southern Africa, a new security aid program for the region began in fiscal 1978. Finally, following the removal of President Somoza in 1979, President Carter launched a \$75 million ESF initiative to bolster the struggling Nicaraguan economy. Perhaps more importantly, the aid program supported efforts to improve relations with Managua and to counterbalance Soviet/Cuban influence in the country. As such, the ESF budget climbed to over \$2 billion annually and the number of recipients grew to 22 by fiscal 1981.

During this period, another change took place within the broader context of U.S. bilateral economic assistance that would have a direct impact on SSA programming in later years. Dissatisfied with the general focus of American development assistance, Congress comprehensively modified existing programs and enacted in 1973 what became known as the "New Directions" mandate. This policy emphasized a poverty orientation for U.S. development programs in which aid

administrators disbursed funds primarily through small, narrowly defined projects that focused on the poorest populations in developing countries. Moreover, the legislation imposed numerous conditions and restrictions on how the development funds could be programmed -- requirements that the Executive branch argues undermines the necessary flexibility to conduct appropriate and effective development programs.

The effect of changes in development programming on security assistance became evident in a few years when some lawmakers sought to de-emphasize the fast-disbursing, budget support aspects of SSA in favor of a more project approach required by the "New Directions" policy. They were successful only to the extent that a 1978 amendment to the Foreign Assistance Act of 1961 required the President to program economic security assistance consistent with the conditions for development aid "to the maximum extent possible." Hence, security aid became linked with the "New Directions" guidelines, but only in a vague sense that allowed the program to retain its most prominent features -- flexibility and immediate impact.⁵¹ Regardless, Congress did change the name of the program to the Economic Support Fund in order to "more accurately reflect the actual purpose of these funds."⁵² Efforts to "projectize" ESF aid have continued to the present. Congress has added requirements in recent years to utilize secondary, or "spin-off," features of ESF, such as the generation of local currencies, for poverty-focused activities in Africa.⁵³ Nevertheless, the Administration successfully blocked congressional attempts to impose more stringent requirements to program ESF resources directly for development purposes.

APPENDIX II

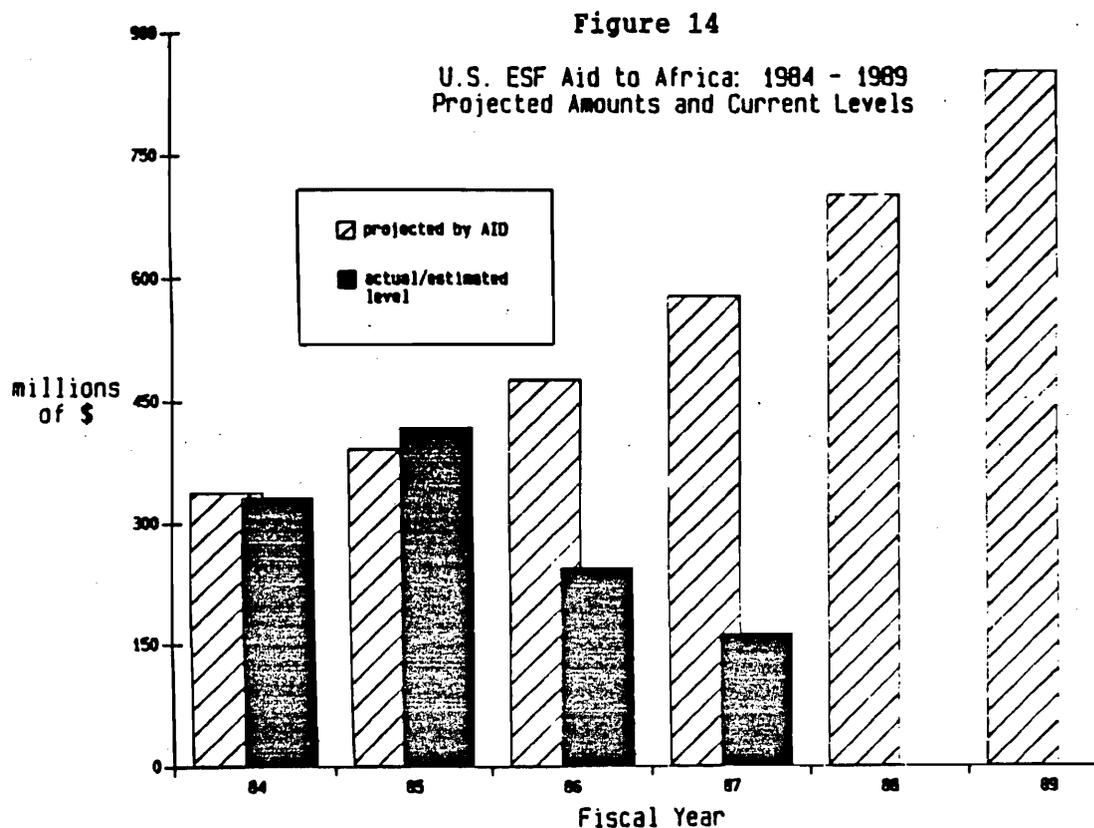
AN EVALUATION OF THE CRISIS: THE CASE OF SUB-SAHARAN AFRICA AND POLICY REFORM INITIATIVES

ESF policy and budget difficulties in recent years posed serious problems for a number of U.S. foreign policy goals. Perhaps the initiative that suffered the most severe set-back was the proposed program for economic policy reform and economic growth in sub-Saharan Africa. The following case study represents a good example of how U.S. aid administrators broadened the scope and purpose of economic security assistance in the early 1980s to support new activities that did not necessarily conform with the historical application of ESF. And in the end, after ESF proved to be an unreliable channel with which to pursue these efforts, policymakers devised an alternative strategy that appears to have a better chance for success.

In 1984, a strategy paper prepared by AID's Africa Bureau concluded that in order to implement U.S. aid objectives in the region, total resources should rise to about \$2 billion by fiscal 1989, representing an annual growth rate of 15%. The strategy statement further noted the need to increase funds for non-project activities, including ESF grants, in order to provide "a means in certain key countries to discuss and implement policy changes identified through dialogue among Africans, IMF/IBRD and other donors." The paper stated that AID would increase emphasis in future years on ESF programming to achieve these goals and rely less on food and development aid resources.⁵⁴ As an indication of the importance placed on these objectives, AID launched in 1985 a new special effort within the ESF budget, originally called the Economic Policy Initiative for Africa (EPI), to promote economic reform programs in selected African nations which indicated a commitment to policy reform. The program called for \$75 million in fiscal 1985 and \$500 million over a five-year period.

Figure 14, which compares AID projections of ESF requirements under the 1984 strategic plan with actual ESF allocations, shows that for fiscal 1984 and

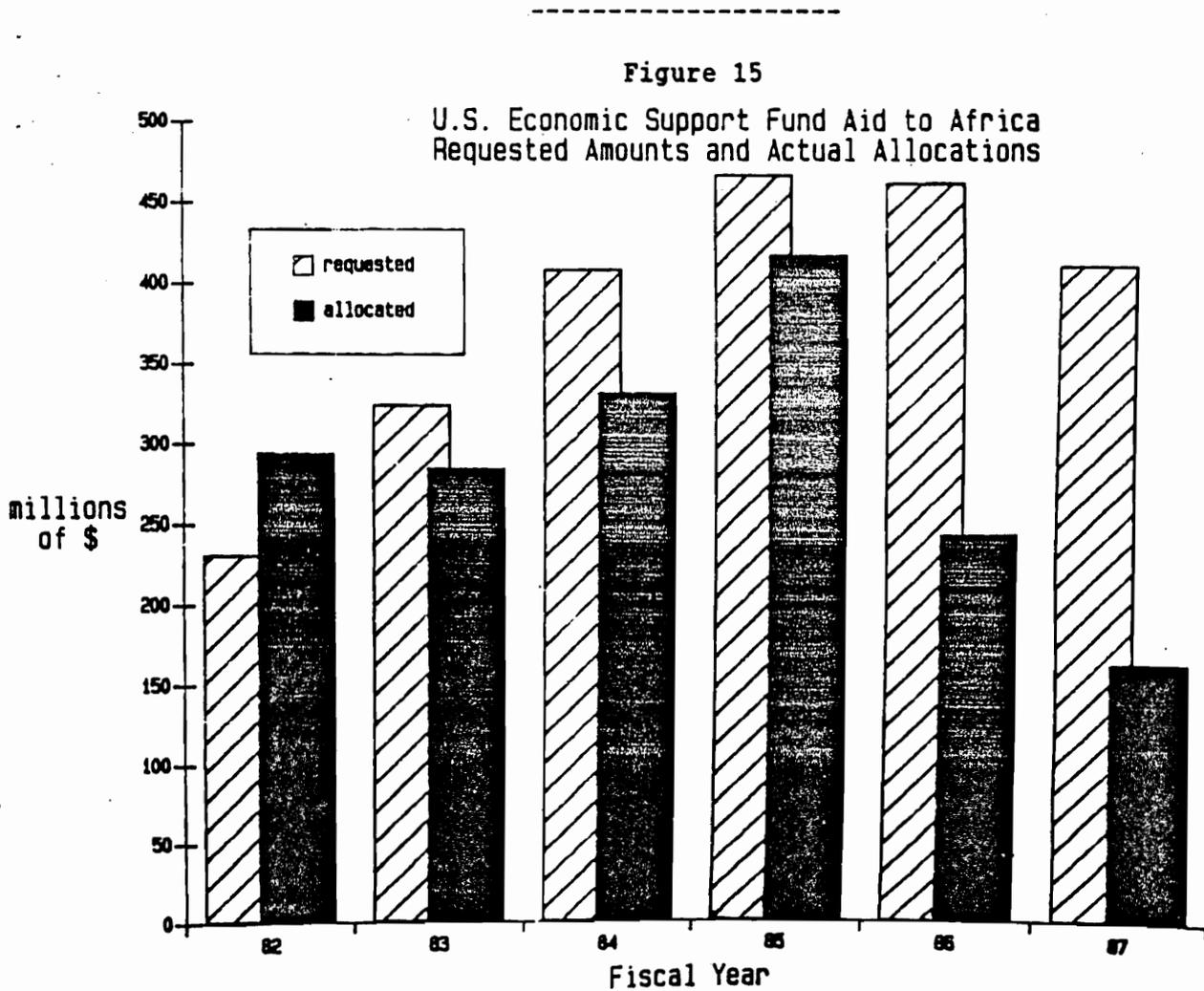
1985, resources kept pace. The results of 1986 and 1987, however, place ESF levels far below what AID's Africa Bureau regard as necessary to support effective policy reform and stabilization programs. Projections for fiscal 1988 and 1989 -- over \$700 million -- appear to be totally out of reach. Moreover, after receiving the \$75 million in 1985, the EPI program disbursed only \$47 million in 1986 and is scheduled for only \$27 million this year.



One of the underlying problems seems to be the Administration's reluctance to distinguish between the program proposed for Africa and that which it could realistically expect to implement. As recently as April 1986, AID officials spoke in rather optimistic terms regarding both their recognition of problems associated with previous development programs in Africa and their assessment of the current Administration strategy of emphasizing a scheme that hinged on a consistent and growing flow of ESF resources.

Africa's lack of development progress cannot be attributed to a failure of U.S. aid, but if anything to the absence of a sustained commitment to Africa's development in terms of resource allocations and continuous aid relationship with the countries of Africa. This is changing today because of 1) the crisis Africa faces, 2) the priority this Administration is according to African aid, and 3) the more realistic approach AID is following.⁵⁵

AID officials, however, should have recognized at an early stage that prospects for sustaining an economic growth strategy for Africa based on increasing support from security assistance resources were dim. Figure 15 compares ESF amounts requested and actually allocated for sub-Saharan Africa between 1982 and 1987. Except for fiscal 1982, money available to support these programs has been significantly less than contained in the budget request.



As already noted, competing priorities within the ESF account result in Congress and the Administration assigning a relatively low position to African ESF activities. The consequences are numerous: it makes initiatives such as those outlined in the strategic plan and the EPI unreachable; it fosters unrealistic expectations among African recipients, particularly for those governments that have implemented painful and perhaps politically dangerous austerity programs in anticipation of continuing U.S. aid; it undermines U.S. relations with other bilateral aid donors and multilateral agencies that may have designed programs believing American assistance would also be available; and it forecloses the prospect of advancing new initiatives, such as that suggested by President Reagan for decreasing economic reliance on South Africa of the states in southern Africa.⁵⁶

In short, it is a foreign policy disaster that has finally led the Administration in the fiscal 1988 budget submission to abandon the use of economic security assistance to achieve what are principally economic objectives in sub-Saharan Africa. The initiative would create a "Presidential Fund for Growth and Investment" in Africa, focusing American aid on economic policy reform and private sector development -- objectives similar to those pursued with ESF funds in recent years. But the Fund will not draw on ESF or development channels per-se for support; instead, the Fund will combine all types of economic resources -- project and non-project aid -- into a single pot and program the assistance in accordance with a special authorization drafted specifically for the needs in sub-Saharan Africa. In short, it will contain the general policy guidance of existing development programs and the flexible programming methods of ESF assistance. The \$500 million budget for fiscal 1988 is less than amounts sought by State and AID officials and is well below the \$750 million combined development/ESF request for fiscal 1987.⁵² Nevertheless, it is larger than the current allotment for Africa, it is sensitive to the

present budget environment, and, thus, has a more realistic chance of receiving congressional support. Lawmakers will also be able to focus attention (vote) specifically on the merits of the African aid issue. Unlike past years, earmarks for Israel, Northern Ireland, and others will not shortchange Africa in an unintended fashion. Interestingly, the President's ESF budget retains \$100 million for selected African nations, such as Kenya, Somalia, and Liberia, where the security and political relationship is more obvious.

NOTES

1. John Felton, "Shultz Comes Up Short in Bid for Foreign Aid," Congressional Quarterly, 17 May 1986, p. 1101.
2. Bill Kritzberg, "Budget Resolutions Would Cut Aid to Longtime U.S. Friends," The Washington Times, 29 May 1986, p. 7A.
3. Commission on Security and Economic Assistance, Report of the ESF Task Force, 1 September 1983, p. 2.
4. Some will argue that budget constraints are at least as serious in other aid categories -- military assistance, food transfers, long-term development programs, and contributions to multilateral development agencies also suffered large cuts and a reordering of priorities at the hands of a deficit conscious Congress. A key point to note, however, is that directly or indirectly, ESF transfers can support all of the objectives sustained with these other aid programs -- ESF cash transfers and general budget support enable countries to import goods, including military equipment and agricultural commodities; about one-third of ESF consists of development projects targeted at the alleviation of poverty and disease among the world's poorest populations; and in selected cases, such as the Economic Policy Initiative for Africa, ESF programs have been developed in lieu of U.S. participation in multilateral activities. Thus, gaps in any of these other programs could be filled conceivably with ESF aid if sufficient dollars were available. As will be shown later, the reverse -- filling ESF shortfalls with other resources -- is more difficult.
5. Elliot Berg, "The Effectiveness of Economic Assistance," John Wilhelm and Gerry Feinstein, eds., U.S. Foreign Assistance: Investment of Folly? (New York: Praeger, 1984), p. 211.
6. U.S. Department of State, Department of Defense, and International Cooperation Administration, The Mutual Security Program Fiscal Year 1957: A Summary Presentation (Washington DC: 1956), p. 23.
7. U.S. Agency for International Development and Department of Defense, Proposed Mutual Defense and Assistance Programs FY 1964 (Washington DC: 1963), p. 62.
8. For a detailed discussion of the "New Directions" policy and its implications for economic security assistance, see Appendix I, page 45.
9. U.S. Agency for International Development, Congressional Presentation Fiscal Year 1981, Main Volume (Washington DC: 1980), p. 65.
10. U.S. Department of State, Congressional Presentation for Security Assistance Programs Fiscal Year 1988, Advance Copy (Washington DC: 1987); and U.S. Agency for International Development, Congressional Presentation Fiscal Year 1988, Main Volume (Washington DC: 1987), p. 110.
11. U.S. Agency for International Development, Congressional Presentation Fiscal Year 1982, Main Volume (Washington DC: 1981), p. 101.

12. See, for example, a speech delivered by Allan Wallis, Under Secretary of State for Economic Affairs, on March 3, 1983. (U.S. Department of State, "Economics and Politics, the Quandary of Foreign Aid," (Washington DC: 1983), Current Policy No. 461.)

13. U.S. Department of State, Congressional Presentation for Security Assistance Programs: Fiscal Year 1987, v. 1 (Washington DC: n.d.), p. 34.

14. Ibid., p. 39.

15. Ibid., p. 42.

16. See, for example, Richard Hough, Economic Assistance and Security: Rethinking US Policy (Washington DC: National Defense University, 1982), p. 73.

17. Ibid., pp. 104-112.

18. Current U.S.-Moroccan relations provide an excellent example of the type of diplomatic and political problems created by such shortfalls. Reportedly, King Hassan and his advisors are upset that, after taking difficult and risky actions to abrogate Morocco's treaty with Libya and to host Israeli Prime Minister Peres, the United States has not been as forthcoming as expected with additional financial and military assistance. In fact, American aid in 1987 (\$106 million) is down from fiscal 1986 (\$120 million); and compared with levels sought by the President for fiscal 1987 -- levels undoubtedly known to and anticipated by Morocco -- ESF and military aid is about 50% less. (Jonathan Randal, "Morocco Seeks More U.S. Help," Washington Post, 12 January 1987, p. A18.)

19. Actual appropriations for fiscal 1985 totalled \$6.1 billion, including a special, one-time \$2.25 billion measure for Israel, Egypt, and Jordan. For purposes of comparison, that amount is excluded.

20. A number of analysts incorrectly attribute this growth to congressional add-ons for Israel and Egypt. In fact, during the same period, while worldwide ESF appropriations grew by 84%, funds for Israel and Egypt (excluding the special 1985 supplemental) rose by only 31%.

21. Near the end of the fiscal year, Congress voted an additional emergency \$100 million in ESF aid for the Philippines, raising the total 1986 appropriation to \$3.6 billion.

22. U.S. Congress, House, Committee on Appropriations, Foreign Assistance and Related Programs Appropriation Bill, 1987, report to accompany H.R. 5339 (Washington DC: U.S. Govt. Print Off., 1986), report no. 99-747, p. 12. The Committee further argued that without an "institutionally agreed upon way to deal with the problem presented by Gramm-Rudman, Members had no choice but to recommend this kind of bill to the House." Moreover, the House panel reminded that Executive branch officials had been warned adequately during committee hearings of likely budget reductions.

23. Actually, a series of foreign aid bills governing the fiscal 1987 program contained earmarks for 13 ESF recipients. Many of these, however, set funding levels below the President's request. The six earmarks cited in this

analysis are those that equal or exceed the Executive's recommendation. Because the President cannot easily reduce levels for these six recipients, the earmarks represent particularly serious obstacles to proportionally distribute the impact of overall budget shortfalls.

24. The selection of these particular recipient groups is based on what the Administration views as its list of priorities in distributing security assistance. In a closed-door session in January 1986, senior Executive branch officials told the Senate Foreign Relations Committee that its order of priorities for fiscal 1987 consisted of 1) Egypt and Israel, 2) countries with which the U.S. had military base agreements and access rights, 3) Central America, and 4) sub-Saharan Africa.

25. U.S. Congress, House, Committee on Appropriations, Subcommittee on Foreign Operations and Related Agencies, Foreign Assistance and Related Programs Appropriations for 1987, Hearings, (Washington, DC: U.S. Govt. Print Off., 1986), pt. 3, pp. 4-5.

26. One analyst notes how the Administration successfully appeared to substitute food aid for a planned ESF program in Guatemala when Congress limited security assistance to that country between 1983 and 1985. See: Jonathan Sanford, Major Trends in U.S. Foreign Assistance to Central America, 86-95 F, (Washington, DC: Congressional Research Service, 1986), p. 30.

27. James W. Wiggins and Helmut Schoeck, Foreign Aid Reexamined: A Critical Appraisal (Washington, DC: Public Affairs Press, 1958), p. 31.

28. Wallis, "Economics and Politics, the Quandary of Foreign Aid," p. 3.

29. U.S. Department of State, Congressional Presentation for Security Assistance Programs: Fiscal Year 1987, v. 1, p. 31.

30. Hough, p. 1.

31. Nevertheless, when confronted with a pressing security requirement late in fiscal 1981, the Administration shifted \$42 million from the Israel and Egypt ESF accounts. This action did not, however, result in a serious Executive-Legislative confrontation. Congress did restore the \$42 million in the fiscal 1982 budget.

32. For a detailed discussion of this issue, see: Larry Nowels, "Foreign Aid: The Changing Legislative Process," in U.S. Congress, House, Committee on Foreign Affairs, Congress and Foreign Policy 1984 (Washington DC: U.S. Govt. Print Off., 1985).

33. U.S. Congress, Senate, Committee on Foreign Relations, A.I.D. Oversight, Hearings (Washington, DC: U.S. Govt. Print Off., 1986), p. 62.

34. Hough, p. 127.

35. John Sewell, "Future Directions for U.S. Assistance," John Wilhelm and Gerry Feinstein, eds., U.S. Foreign Assistance: Investment or Folly? (New York: Praeger, 1984), p. 230.

36. Committee on African Development Strategies, Compact for African Development (Washington, DC: Overseas Development Council and New York: Council on Foreign Relations, n.d.), p. 20.
37. Commission on Security and Economic Assistance, p. 4.
38. A.I.D. Oversight, pp. 172-173.
39. President's Decision on Restructuring Loans Under the FMS Program (Washington, DC: The White House, 1986), p. 2.
40. Ibid., p. 16.
41. See Lt. Col. Thomas Suter, "Base Rights Agreements," Air University Review, July/August 1983, p. 40.
42. "Morocco Seeks More U.S. Help."
43. Suter, "Base Rights Agreements," p. 38.
44. David Ottaway, "Defense Dept. Seeks to Renovate Base in Zaire," Washington Post, 21 February 1987, p. A12.
45. See, for example, Joanne Omang, "State Dept. In Search of its Constituency," Washington Post, 7 January 1987, p. A19.
46. U.S. Congress, House, Committee on Foreign Affairs, The Mutual Security Act of 1961, report to accompany H.R. 8400 (Washington, DC: U.S. Govt. Print Off., 1961), report no. 87-851, p. 45.
47. Ibid., p. 47. U.S. Congress, Senate, Committee on Foreign Relations, Foreign Assistance Act of 1961, report to accompany S. 1983 (Washington DC: U.S. Govt. Print Off., 1961), report no. 87-612, p. 22.
48. U.S. Agency for International Development and Department of Defense, Proposed Mutual Defense and Assistance Programs FY 1964: Summary Presentation to the Congress, (Washington DC: 1963), p. 62.
49. For example, in fiscal 1966 Congress set a limit of 13 recipients for Supporting Assistance. Lawmakers restricted the number at 12 for the following year.
50. It should also be noted that in 1971, Congress changed the name of the program from Supporting Assistance to Security Supporting Assistance (SSA) and moved its legislative authority from the economic part to the military part of the Foreign Assistance Act of 1961. Although the intent was to draw a sharper distinction between SSA and development activities carried out under other foreign aid programs, the general purpose of economic security assistance appeared to undergo no significant change.
51. One author, however, argues that the 1978 amendment "perhaps" shifted emphasis of the ESF program from political and security objectives to economic considerations -- a change that in his view, might become counter-productive to the flexible nature of the aid channel. Berg, p. 204.

52. U.S. Congress, House, Committee on Foreign Affairs, International Security and Development Assistance Act of 1978; conference report to accompany S. 3075 (Washington DC: U.S. Govt. Print Off., 1978), report no. 95-1546, p. 44.

53. See section 801 of the International Security and Development Assistance Act of 1985 (99 Stat. 190).

54. U.S. Agency for International Development, Africa Bureau Strategic Plan (Washington, DC: 19 May 1984), p. 23.

55. U.S. Agency for International Development, Office of Development Planning, Africa Bureau, The Evolution of Assistance to Africa 1962-1985 (Washington, DC: 1986), p. 1.

56. Reductions in economic assistance and limited prospects for any major increases appears to have been a particularly sensitive matter during Secretary Shultz's recent six nation African tour. See, David Ottaway, "Shultz Arrives in Africa," Washington Post, 9 January 1987, p. A25.

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