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E.O. 12356, Sec. 3.4
NLJ 93-318
By kp, NARA, Date 5-16-95

W.W.R.

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~~Long~~
2. Pres file

Monday, July 31, 1967, 1:00 p.m.

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Mr. President:

At Tab A is the paper you requested outlining the effects of a $2.5 billion foreign aid appropriation (compared with a $3.3 billion request). Gaud has tried to hold the argument to a minimum; the facts speak quite eloquently for themselves. The paper has been approved by Secretaries Rusk and McNamara.

We don't know precisely how the Congress would get down to $2.5 billion. The memorandum reflects Gaud's best guess of how they would distribute the misery -- not how he would like to see it distributed. The major effects of an $800 million cut, each of which is discussed briefly in the memorandum, are as follows:

1. Even if Latin America does better than the rest -- which is likely -- we could not provide the $100 million increase you discussed at Punta del Este.

2. Even a small cut in Supporting Assistance would rule out any increase in AID programs in Vietnam.

3. The bulk of the cut would have to come in Development Loans. (We would estimate a 44% cut in our D.L. request.) This would mean:

   -- a 40% cutback in India. Much of this would come out of program loans for fertilizer. At a time when new IDA money is not in sight and the Europeans are ~~not~~ in a stingy mood, the cut in our contribution could well shake the whole consortium framework.

   -- a 30% cut in Pakistan.

   -- a 40% cut in planned aid to Turkey, probably forcing a delay in Turkey's "graduation" from AID loans, now scheduled for 1973.

   -- a 30% cut in loans for Korea.

   -- a cutback of over 50% in loans to Africa, reinforcing charges that the Korry Report was a smokescreen for American withdrawal.

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-- no more than $20 million for Indonesia.

4. Military Assistance would also be sharply cut back -- probably on the order of 35% of our request. This would end credit sales altogether and require cuts of up to 30% in such countries as Greece, Turkey, Taiwan, and Iran.

5. Technical Assistance would probably be cut about 20%, eliminating the planned expansion of programs in health, agriculture, education and family planning.

These estimates reflect a careful judgment as to what we would have to do to live with cuts of this size. I think your priorities have been faithfully observed. The simple fact is a $2.5 billion appropriation would, for the first time in AID history, make it literally impossible for us to move forward with planned programs in our major client countries. In other years, greater concentration and windfalls created by world events (e.g., the Indo-Pak war) have allowed us to squeeze out enough for the critical programs even though appropriations had been cut. This year is different.

I don't mean to say the world would end if we got $2.5 billion. As realists, Gaud and the rest of us are aware that a cut of $800 million is not unlikely. If the axe falls, we will push on as best we can. But it is certainly worth every effort we can manage to minimize the cut.

W. W. Rostow

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Mr. W. Rostow

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

OFFICE OF
THE ADMINISTRATOR

July 29, 1967

DECLASSIFIED
E.O. 12356, Sec. 3.4
NLJ 93-316
By lip, NARA, Date 8-20-93

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

SUBJECT: The Consequences of a \$2.5 Billion Foreign Aid Appropriation

This memorandum is submitted in response to your request for information on the consequences of a \$2.5 billion foreign aid appropriation (covering both economic and military aid) for FY 1968.

The President's budget request was originally \$3.126 billion. After Punta del Este it was increased \$100 million to \$3.226 billion. Recently, both the Senate Foreign Relations Committee and the House Foreign Affairs Committee imposed on the Foreign Assistance Act the burden of financing the \$84 million U.S. share of NATO infrastructure and certain international military headquarters - items which the President had included in the DOD budget. The effect of this is to increase the over-all requirement to \$3.310 billion.

To reduce this to \$2.5 billion means a cut of \$810 million - just under 25%. Last year's budget request of \$3.386 billion was cut by \$451 million to \$2.935 billion, a 13% cut.

Roughly \$250 million of the total budget request represents relatively small items which will remain about the same regardless of the size of the total appropriation. Cuts will come in six fund categories. Our present rough guess as to how the Congress would apportion a cut of \$810 million among those fund categories in order to arrive at an over-all figure of \$2.5 billion is as follows:

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	(in millions of dollars)		
	Budget Request	"Estimated" Cut	Resulting Appropriations
Alliance for Progress	643	-103	540
Development Loans	774	-344	430
Supporting Assistance - Vietnam	550	- 60	490
Supporting Assistance- Other	170	- 40	130
Technical Assistance	243	- 43	200
Military Assistance	680	-220	460

The $540 million figure for the Alliance for Progress would constitute a 16% cut from the post-Punta del Este budget request of $643 million. While it is $32 million above the FY 1967 appropriation, it does not provide the extra Punta del Este $100 million. Even so, this is a much lighter cut than the much more severe Development Loan cuts contemplated for Asia and Africa.

The $430 million Development Loan figure represents a severe cut of 44% from our budget request of $774 million. The appropriation for FY 1967 was $500 million. But it is misleading to compare that figure with the $430 million figure. Due to the suspension of aid to India and Pakistan following the outbreak of war in the fall of 1965, $320 million of FY 1966 Development Loan funds were obligated for loans to India and Pakistan late that fiscal year to meet FY 1967 requirements. So that the $430 million for FY 1968 is actually more comparable to $820 million for FY 1967.

We carried over no Development Loan funds from FY 1967. But we estimate loan repayments, refunds and deobligations during FY 1968 at $88 million. This plus $430 million would give us a total of $518 million of Development Loan funds for FY 1968. The following table shows our present plans and the levels we would have to go to at $518 million:

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(in millions of dollars)

	Presently Planned Program	Cuts	Reduced Program
India	400	-152	248
Pakistan	165	- 50	115
Turkey	100	- 40	60
Africa	90	- 50	40
Korea	50	- 15	35
Indonesia	20	0	20
Philippines	16	- 16	0
Others	21	- 21	0
TOTALS	862	-344	518

The World Bank has estimated India's requirements at $900 million of non-project aid and $300 million of project aid. These requirements have been accepted by the consortium. The U.S. has regularly supplied 40% of India's requirements for non-project aid and has financed some projects. A level of $248 million would eliminate all project aid and would come nowhere near enabling us to supply 40% ($360 million) of the non-project aid. Such a drastic reduction in our support is likely to lead to cuts by others - this in a year in which India will get nothing from IDA because of the delay in IDA replenishment. As your PSAC Report pointed out, India is the most critical battleground for the War on Hunger. India is introducing miracle seeds and with a return to average monsoons is in a position to make a real agricultural breakthrough if she gets the fertilizer our program loans would provide.

A $115 million aid level for Pakistan is less than our normal share of the consortium non-project loan requirement. It allows nothing for project lending. If aid continues at its present levels Pakistan has a good chance to be self-sufficient in food grains by 1970. Our failure to help Pakistan which has been following good self-help policies with

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good results would deprive us of a stunning example of a U.S. aid success story within the next decade.

A $60 million program for Turkey compares with $135 million in aid provided during FY 1967. Such a deep cut would undermine the consortium and reduce contributions from other countries. This would have to mean abandoning the economic reform package on which Turkey had been making outstanding progress and delaying Turkey's "graduation" from aid, now anticipated in 1973.

A cut in development loans for Korea coupled with a cut in supporting assistance would come at a time when we are committed to continuing economic assistance as part of the bargain for obtaining Korean troops in Vietnam. It would cast a pall over the international consultative group on which we are counting for contributions from other countries to Korea's remarkable economic development.

The program for Indonesia had already been recognized as too small to meet our share of the stabilization support in 1968. A $20 million A.I.D. loan level compares with an expected foreign aid requirement of about $250 - $300 million in 1968.

Inasmuch as our development loans for Africa aggregated $98 million in FY 1967, a $40 million program for FY 1968 would give the Africans real reason to wonder whether our new Korry Report-based aid policy for Africa calling for emphasis on regionalism and multilateralism isn't just a fancy word for pull-out.

The $100 million cut in Supporting Assistance consists of $60 million from Vietnam and $40 million from other programs. For Vietnam this means holding the line on major expansions of pacification/revolutionary development programs that the new U.S. team may propose, and postponing some development projects that could mean a great deal to the new Vietnamese Government. The $40 million cut in other programs would have to come from Korea, Jordan, the Dominican Republic, Panama and the Congo - programs which are already very closely budgeted. Furthermore, these cuts would leave us with even less flexibility than we now have to meet new political and security problems in Southeast Asia and elsewhere. This is particularly true in view of the fact that we are requesting an appropriation of only $31 million for the Contingency Fund.

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Technical Assistance already badly cut last year is heavily mortgaged to on-going activities. A reduction from $243 million to $200 million in these funds will prevent us from carrying on increased programs in agricultural development, education, health and family planning. These are the highest priority items in our economic aid program.

On Military Assistance, a cut of approximately $220 million - 35% of our original request and about the same as the $205 million cut of the Senate Foreign Relations Committee last week - would, as explained in my memorandum on the SFRC actions, hit very hard both the grant and sales programs. In sum, $60 million for sales would be out. Grant programs for such forward defense countries as Taiwan, Greece, Turkey and Iran would have to absorb cuts of up to 30%. Modernization of the equipment of these countries would be virtually wiped out. And there would be serious political problems created by cuts in such smaller programs as the Philippines and Latin America.

Conclusion:

This analysis shows that

- an appropriation of $2.5 billion is clearly not enough to do the job;
- it would have severe political and economic consequences and substantially weaken U.S. influence in the less developed world;
- it would cause others to do less as well and thus have a cumulative effect on the development business;
- it would make it impossible for us to reward good self-help performance and to sustain the momentum generated by past investment in foreign assistance;
- it would gut our War on Hunger effort.

We must do all we can to keep the appropriation at a level as close as possible to our budget request.

WSG

William S. Gaud

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