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Foreign Policy Budget for FY2002

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Foreign Policy Budget for FY2002

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Summary

The Bush Administration seeks a $23.85 billion foreign policy budget for FY2002, representing a nominal increase of 5.3% over FY2001 (2.3% in real terms when the effects of inflation are taken into account). Most of the additional resources are concentrated in a few areas, especially for State Department operations and a new regional Andean counternarcotics initiative. The budget further proposes to cut funding for the Export-Import Bank by 25%. This report analyzes the FY2002 international affairs funding submission, compares it with recently enacted foreign policy budgets, identifies major priorities and recommended reductions, and discusses potential congressional issues. It will be revised as the Administration provides further details in April and May about the FY2002 budget.

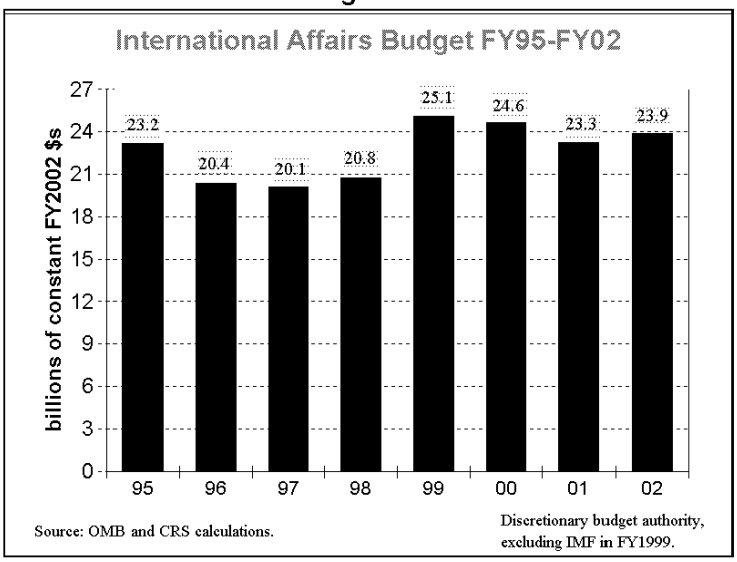
In late February 2001 the Bush Administration issued the broad outlines of its FY2002 budget request, including limited information about resources for foreign policy. (Foreign policy resources are also referred to as the International Affairs budget, or Budget Function 150 within the broader U.S. federal budget.) Subsequently, additional details have been released, including statements made by Secretary of State Colin Powell before congressional committees. More complete information was submitted to Congress on April 9 when the Office of Management and Budget (OMB) formally released the entire FY2002 federal budget. Further details will emerge when the State Department and USAID send Congress their respective budget justifications.

Budget Overview

President Bush seeks $23.85 billion in discretionary budget authority for U.S. foreign policy activities in FY2002, representing a nominal increase of 5.3% over levels enacted for FY2001. Administration officials, including Secretary Powell, have characterized the proposal as a "responsible increase" for international affairs programs within the context of overall budget constraints in which discretionary budget authority for all federal programs will rise by just 4% under the President's plan. They further emphasize that their highest priorities – State Department personnel, security, and technology needs – would grow by 18.6% above current spending.

The proposal has met with a largely favorable reception in Congress. In the FY2002 budget resolution (H.Con.Res. 83), the House approved the full $23.9 billion for international affairs. The Senate added $200 million for HIV/AIDS and $50 million for global climate change programs beyond what President Bush requested. Calls for higher international affairs spending have been fueled in recent years not only by appeals from the Administration, but also by the recommendations of numerous "expert" commissions that have cited inadequate resources and dysfunctional organizational structures as major impediments to the conduct of U.S. foreign policy.[1]

Figure 1



In real terms, taking into account the effects of inflation, international affairs resources proposed for next year are 2.6% more than for FY2001 (Figure 1). While higher than any year between FY1995 and FY1998, the FY2002 proposal would fall 4.8% and 2.8% short of FYs1999 and 2000, respectively.[2]

Although the overall size of foreign policy resources would grow in FY2002, most of the increase is concentrated in the area of State Department operations, with much smaller growth projected for foreign assistance programs and reductions sought for export promotion activities. Congress approves the bulk of international affairs resources in two

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[1] Two of the most recent reports include, *State Department Reform,* a report sponsored by the Council on Foreign Relations and the Center for Strategic and International Studies, chaired by Frank Carlucci, February 2001; and *Road Map for National Security: Imperative for Change,* U.S. Commission on National Security/21st Century, chaired by Gary Hart and Warren Rudman, Feb. 15, 2001.

[2] Total international affairs spending for FY1999 and FY2000, however, increased significantly due to emergency needs and one-time initiatives – including those for embassy security, Hurricane Mitch relief, Plan Colombia, Wye River/Middle East Peace aid package, and Kosovo emergencies – that were approved largely through supplemental funding bills.

appropriation bills: Foreign Operations, which includes foreign aid and export programs, and Commerce, Justice, State Departments, which finances diplomatic, international organization payments, and educational exchange activities.[3] As seen in Table 1, Foreign Operations would receive an increase of 1.9%, in nominal terms, while State Department programs, funded in the Departments of Commerce, Justice, and State appropriations, would grow by about 14%.

Table 1. Foreign Policy Budget by Major Appropriation Components
(discretionary budget authority in millions of dollars)

	FY2000 enacted	FY2001 enacted	FY2002 request	FY2002 +/- FY2001 (%)
Foreign Operations	**$16,543**	**$14,884**	**$15,168**	**1.9%**
Export promotion	$790	$760	$486	-36.1%
Development aid	$1,934	$2,263	$2,336	3.2%
Counternarcotics[a]	$1,323	$324	$948	192.6%
E Europe/former Soviet	$1,419	$1,482	$1,418	-4.3%
Military aid	$4,988	$3,753	$3,889	3.6%
Other	$6,089	$6,302	$6,091	-3.3%
State Dept & Related Agencies (CJS)	**$6,160**	**$6,914**	**$7,830**	**13.2%**
Diplomatic & Consular	$2,824	$3,167	$3,705	17.0%
Technology	$80	$97	$210	116.5%
Embassy security	$739	$1,078	$1,291	19.8%
Intl Orgs contributions	$1,730	$1,713	$1,723	0.6%
Broadcasting Board	$420	$450	$470	4.4%
Ed & Cultural exchange	$204	$232	$242	4.3%
Other	$163	$177	$189	6.8%
Agriculture - Food Aid	**$800**	**$835**	**$835**	**0.0%**
Labor/H-US Peace Inst.	**$13**	**$15**	**$15**	**0.0%**
FOREIGN POLICY TOTAL	**$23,516**	**$22,648**	**$23,848**	**5.3%**

[a] FY2000 includes $1 billion for Plan Colombia counternarcotics initiative.
Source: Department of State.

[3] Smaller amounts of foreign policy resources are included in the Agriculture spending bill for food assistance and in the Labor/HHS appropriation for the U.S. Institute for Peace.

Export Promotion Funding Issues

Two trade promotion programs – the Export-Import Bank and the Overseas Private Investment Corporation (OPIC) – are scheduled for reductions in FY2002, representing the only policy-based budget cut within the International Affairs account. The 25% reduced appropriation for the Export-Import Bank is the result of lower lending risks assumed for FY2002 plus an effort to concentrate Bank support on American exporters who cannot access private financing. OPIC, according to Administration estimates, will have sufficient unspent resources from prior years to continue operations at current levels without the need for new appropriations in FY2002. Both Eximbank and OPIC have been the target in recent years of some congressional critics who believe that these export promotion activities generally benefit only a few, wealthy businesses and represent the equivalent of "corporate welfare." Pro-business activists, however, are likely to challenge the budget recommendation, arguing that export subsidies are necessary for American firms to compete with foreign-backed trade subsidies.[4]

Foreign Aid Funding Issues

Funding for nearly all foreign aid programs are included in annual Foreign Operations spending bills for which the Bush Administration seeks a 4% nominal increase (after adjusting for export promotion programs). Major programs and potential issues for Congress contained in this sector of the foreign policy budget include:

- **Multilateral Development Bank (MDB) contributions.** The FY2002 budget proposes $1.21 billion for U.S. payments to the World Bank and other regional MDBs, a 5.8% increase over current levels. This amount will fully fund all U.S. scheduled contributions for next year, but it will not include resources to clear any of the approximate $450 million American arrears owed to the Global Environment Fund, the Inter-American Development Bank's Multilateral Investment Fund, the Asian Development Fund, and other institutions.

- **Bilateral development assistance.** Congress funds development aid activities, aimed at reducing poverty, improving health care and education, protecting the environment, and promoting good governance in developing nations, through two primary Foreign Operations accounts: Child Survival and Diseases and Development Assistance. Combined, these accounts would grow by $73 million, or 3.2% in nominal terms. But over two-thirds of the increase will fund two priorities: HIV/AIDS (+$30 million) and basic education (+$20 million) The request for HIV/AIDS, an area where resources doubled in FY2001, increases resources by 10% to $330 million in FY2002. Most other development aid program sectors will remain at approximate current levels. Population aid will receive the same $425 million allocation as in FY2001, but remains a highly controversial issue due to President Bush's decision to

[4] For more information about the Export-Import Bank, see CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues.*

re-impose restrictions on international family planning.[5] The Bush Administration is also proposing to reorient U.S. development aid strategies around three "spheres of emphasis" – Global Health, Economic Growth and Agriculture, and Conflict Prevention and Development Relief. USAID will also introduce a Global Development Alliance, an initiative designed to forge a public/private partnership, with about $160 million in USAID resources, to promote a leverage sound development programs.

- **Debt reduction and the Heavily Indebted Poor Country (HIPC) initiative.** Although the FY2002 request cuts by nearly half – to $224 million – FY2001 spending on HIPC debt reduction, the proposal will fulfill all current U.S. commitments to the multi-year HIPC initiative. Nevertheless, some debt relief proponents continue to press the United States and other major creditors to enhance and accelerate HIPC terms, actions which would require additional resources.

- **Counternarcotics activities.** The largest foreign aid increase sought by the Bush Administration would supplement and broaden the $1 billion Colombia counternarcotics program funded in FY2000 with a new $731 million Andean regional initiative. The objective is to address drug production and trafficking problems that may have migrated from Colombia to surrounding states. It further differs from the FY2000 initiative by providing more funding for alternative development programs.

- **Security assistance.** Strategic-oriented economic assistance, provided through the Economic Support Fund (ESF), non-proliferation, and military assistance accounts are heavily concentrated in the Middle East, a situation that will continue in FY2002. Military aid for Israel will grow by $60 million, but overall security assistance to Egypt and Israel will decline by $100 million as part of a ten-year plan to reduce aid to these two countries. Nevertheless, Israel and Egypt will remain the largest recipients of American aid, with amounts totaling about $2.76 billion and $1.96 billion, respectively. Due to the net aid cuts for Israel and Egypt, plus a small increase overall for security assistance, ESF and military aid would gain about $230 million in FY2002 that could be allocated for new members of NATO and selected recipients in Latin America and Asia.

State Department Funding Issues

Secretary of State Colin Powell told the House International Relations Committee on March 15, "If we think it's important for our fighting men in the Pentagon to go into battle with the best weapons and equipment and tools we can give them, then we owe the same thing to the wonderful men and women of the Foreign Service, the Civil Service, and the Foreign Service Nationals, who are in the front line of combat in this new world." The

[5] For more on this issue, see CRS Report RL30830, *International Family Planning: The "Mexico City" Policy.*

FY2002 budget places special emphasis on four aspects of State Department operations.

- **Personnel.** The FY2002 budget request would provide a 17% increase in State's Diplomatic and Consular Affairs account which provides for salaries and expenses of the Department's personnel. This increase is intended to"reinvigorate" a Foreign and Civil Service that has failed to attract or retain the "best and the brightest" in recent years. State Department officials assert that the agency currently has a shortfall of about 1,100 people. The Administration is proposing a multi-year program (for which the FY2002 budget request would provide an initial tranche) to fill the current gap in personnel, enhance retention and training, and provide for a float allowing personnel to take leaves of absence for training, without leaving a position empty. Initially, the State Department seeks to hire 360 personnel (both in Foreign and Civil Service), 186 security professionals, and some FSN replacements. This hiring, according to State Department budget officials, would be separate from filling positions due to attrition.

- **Information technology.** In recent years, State Department technology acquisition has not kept pace with its needs and with technology advancements. This condition was exacerbated by the October 1999 merger of the U.S. Information Agency (USIA)–an agency whose mission includes providing information and outreach to foreign publics–into the Department of State where classified communication and information is required. The Capital Investment Fund (CIF), established by the Foreign Relations Authorization Act of FY1994/95 (P.L. 103-236), provides funding for the Department's information technology and capital equipment. As recently as FY1997 the CIF appropriation was $24.6 million but grew by FY2000 to $96 million. The Bush Administration is requesting $250 million to connect State Department offices worldwide with classified local area network (LAN) capabilities as well as providing every desktop with unclassified internet capabilities.

- **Security.** Since the August 1998 bombing of two U.S. embassies in Africa, State has made personnel and information security a top priority. The Administration is requesting $1.3 billion, an increase of 22% over the FY2001 enacted $1.07 billion. Of the total security request, $665 million would be for construction of secure embassies, $211 million for the continuation of perimeter security program, and $424 million for an ongoing security readiness program. State is requesting security funding within the Diplomatic and Consular Programs account, as well as the Embassy Security Construction and Maintenance account.

- **Embassy Infrastructure.** The Bush Administration's FY2002 budget includes $60 million for overseas infrastructure needs, such as replacing obsolete equipment, aging motor vehicles, and improving maintenance around the embassies. State Department officials say these needs have been underfunded and have accumulated over the years.

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