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International Affairs

Budget function 150 covers all spending on international programs by various departments and agencies. The category includes spending by the Department of State to conduct foreign policy and exchange programs, funds controlled directly by the President to give other nations economic and military aid, and U.S. contributions to international organizations such as the United Nations, multilateral development banks, and the International Monetary Fund. Function 150 also includes financing for exports through the Export-Import Bank. CBO estimates that discretionary outlays for the function will total $22.7 billion in 2001 after hovering around the $20 billion level throughout the 1990s. Repayments of loans and interest income in the Exchange Stabilization Fund account for the negative balances in mandatory spending for this function.

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)[a]	20.0	21.3	20.9	21.2	20.9	20.2	18.1	18.2	19.0	23.3	23.5	22.6
Outlays												
Discretionary	19.1	19.7	19.2	21.6	20.8	20.1	18.3	19.0	18.1	19.5	21.3	22.7
Mandatory	-5.2	-3.8	-3.1	-4.3	-3.7	-3.7	-4.8	-3.8	-5.0	-4.3	-4.1	-3.6
Total	13.9	15.9	16.1	17.2	17.1	16.4	13.5	15.2	13.1	15.2	17.2	19.1
Memorandum:												
Annual Percentage Change in Discretionary Outlays		3.4	-2.7	12.6	-3.5	-3.3	-8.8	3.5	-4.6	7.8	9.0	6.6

a. Discretionary budget authority excludes appropriations of $12.1 billion in 1993 and $18.2 billion in 1999 for the International Monetary Fund. Those appropriations do not affect discretionary outlays.

150-01 Eliminate Overseas Broadcasting by the U.S. Government

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	290	363
2003	303	342
2004	361	355
2005	436	377
2006	451	412
2002-2006	1,841	1,849
2002-2011	4,096	4,084
Relative to Inflated Appropriations		
2002	306	378
2003	334	370
2004	405	393
2005	495	433
2006	525	484
2002-2006	2,065	2,058
2002-2011	4,923	4,877

SPENDING CATEGORY:

Discretionary

Several entities provide U.S. overseas broadcasting. Radio Free Asia (RFA), Radio Free Europe (RFE), and Radio Liberty (RL) broadcast country-specific news to Asia, Eastern Europe, and the former Soviet Union, respectively. The Voice of America (VOA) oversees radio broadcasts that provide news and U.S.-related information to audiences worldwide. The International Broadcasting Bureau oversees television broadcasting services similar to VOA's radio broadcasts and also manages a broadcasting service to Cuba. Appropriations for VOA, RFA, RFE/RL, and television and film services are consolidated into a single account. Funding for radio and television broadcasting to Cuba and for construction of broadcast facilities is provided in separate appropriations.

This option would eliminate VOA, RFA, and RFE/RL and end broadcasting services to Cuba, all overseas construction of broadcast facilities, and U.S. overseas television broadcasting. Compared with the funding level in 2001, those cuts would save $4.1 billion over 10 years. Compared with the 2001 funding level adjusted for inflation, savings would total $4.9 billion over 10 years. (Those savings are net of the near-term costs of termination, such as severance pay for employees.)

Proponents of ending overseas broadcasting by the U.S. government say that RFE/RL and VOA are Cold War relics that are no longer necessary. RFE and RL continue to broadcast to former Communist countries in Europe even though those countries now have ready access to world news. With the advent of satellite television broadcasting, most nations can receive news about the United States and the world from private broadcasters, such as the Cable News Network (CNN). Some proponents of termination also argue that the primary technology used by VOA, RFA, and RFE/RL—shortwave radio—limits the audiences and thus the effectiveness of U.S. overseas broadcasting. In addition, proponents maintain that foreigners may distrust the accuracy of broadcasts sponsored by the U.S. government.

Critics of this option would argue that the current level of broadcasting should continue or even increase. The process of change in Eastern Europe and the former Soviet Union needs nurturing, they say, and U.S. broadcasting can help in that process. In addition, many countries in other parts of the world remain closed to outside information. Supporters of VOA, RFA, and RFE/RL argue that shortwave radio is the best way to reach audiences in closed countries because very few people there own satellite dishes, which are needed to receive television broadcasts such as those of CNN. Moreover, they note, VOA and RFE/RL are broadcasting more programs over AM and FM frequencies. Supporters of U.S. government broadcasting also argue that it should be sharply increased to some countries, such as China and North Korea. Further, they maintain that television is a powerful communications tool and that private television networks cannot adequately communicate U.S. policy and viewpoints.

150-02 Eliminate the Export-Import Bank, Overseas Private Investment Corporation, and Trade and Development Agency

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	937	210
2003	950	586
2004	956	737
2005	963	838
2006	957	874
2002-2006	4,763	3,245
2002-2011	9,486	7,701
Relative to Inflated Appropriations		
2002	958	215
2003	991	605
2004	1,018	773
2005	1,049	894
2006	1,064	949
2002-2006	5,080	3,434
2002-2011	10,670	8,575

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

350-02, 350-08, 350-06, 350-08, 350-09, and 370-02

RELATED CBO PUBLICATIONS:

The Domestic Costs of Sanctions on Foreign Commerce (Study), March 1999.

The Role of Foreign Aid in Development (Study), May 1997.

The Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA) promote U.S. exports and overseas investment by providing a range of services to U.S. companies wishing to do business abroad. Eximbank offers subsidized direct loans, guarantees of private lending, and export credit insurance; OPIC provides investment financing and insurance against political risks; and TDA funds feasibility studies, orientation visits, training grants, and other forms of technical assistance. Appropriations in 2001 for Eximbank, OPIC, and TDA are $927 million, $62 million, and $50 million, respectively.

This option would eliminate TDA and the subsidy appropriations for Eximbank and OPIC. The latter two agencies could not conduct any new financing or issue new insurance but would continue to service their existing portfolios. Those changes would save $210 million in outlays in 2002 and $7.7 billion over 10 years compared with the current funding level. Compared with that funding level adjusted for inflation, savings would total $8.6 billion over 10 years.

Supporters of promoting exports argue that the three agencies play an important role in helping U.S. businesses, especially small businesses, understand and penetrate overseas markets. Those agencies level the playing field for U.S. exporters by offsetting the subsidies that foreign governments provide to their exporters, thereby creating U.S. jobs and promoting sales of U.S. goods. By encouraging U.S. investment in areas such as Russia and the states of the former Soviet Union, those agencies may also serve a foreign policy objective.

Critics dispute the contribution that those agencies make to the economy. The value of exports supported by the agencies' programs is small—less than 2 percent of total U.S. exports. Moreover, many economists disagree with the claim that promoting exports creates U.S. jobs. They assert that by subsidizing exports, the government distorts business decisions that are best left to occur in free markets. OPIC and Eximbank finance programs that have trouble raising funds on their own merit. Similarly, those agencies' insurance programs may encourage companies to invest in riskier projects than they would if more of their own funds were at stake. Finally, critics argue, those agencies encourage highly risky projects in vulnerable areas. Although emerging economies such as Russia's and Indonesia's may be important markets for U.S. exports, they can also be dangerous: firms operating there may face considerable political, currency, and business risks.

150-03-A Reduce Aid to Israel and Egypt

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	340	303
2003	500	438
2004	660	583
2005	820	734
2006	980	889
2002-2006	3,300	2,947
2002-2011	9,640	8,971
Relative to Inflated Appropriations		
2002	417	366
2003	647	563
2004	878	774
2005	1,108	992
2006	1,343	1,219
2002-2006	4,393	3,914
2002-2011	13,675	12,698

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-03-B and 350-08

RELATED CBO PUBLICATIONS:

The Role of Foreign Aid in Development (Study), May 1997.

Enhancing U.S. Security Through Foreign Aid (Study), April 1994.

Limiting Conventional Arms Exports to the Middle East (Study), September 1992.

As part of the 1979 Camp David peace accords, the United States agreed to provide substantial amounts of aid to Israel and Egypt to promote economic, political, and military security. That aid, which is paid through the Economic Support Fund (ESF) and the Foreign Military Financing (FMF) program, for years totaled $5.1 billion for the two countries. Of that total, Israel received $3 billion ($1.2 billion in ESF payments and $1.8 billion from the FMF program), and Egypt received $2.1 billion ($815 million from the ESF and $1.3 billion from the FMF program).

In January 1998, Israel proposed phasing out its $1.2 billion a year in ESF payments while increasing its FMF assistance by $600 million a year. The conference report for the 1999 Foreign Operations Appropriations Act endorsed that proposal with a 10-year phase-in. As a result, it cut ESF aid to Israel by $120 million and increased FMF aid by $60 million. The conference report also reduced economic assistance to Egypt from $815 million in 1998 to $775 million in 1999—and proposed cutting it to $415 million by 2008—while keeping military aid constant.

Since 1999, however, those proposed funding levels have not been followed. Although economic aid has been reduced, FMF assistance to Israel has increased sharply, with extraordinary funding of $1.2 billion provided in 2000 for implementing the Wye peace accords and an additional $450 million requested for 2001. Egypt's FMF aid has also grown, though by smaller amounts.

This option would forgo the proposed increase in military funding for Israel, maintaining that aid at its 1998 level. The option would also continue to cut economic assistance to both Israel and Egypt each year through 2008. The reductions in aid to Isreal would save $300 million in 2002 and a total of almost $7.7 billion over 10 years compared with this year's funding level. Adding in the cuts to Egyptian aid would bring total savings in outlays to $303 million in 2002 and $9.0 billion over 10 years compared with current funding. Compared with that funding level adjusted for inflation, savings over 10 years would be $10.9 billion from reducing aid to Israel and $12.7 billion from cutting aid to both countries.

The 1999 foreign operations conference report asserted that increased aid to Israel was necessary, saying "the [country's] security situation, particularly with respect to weapons of mass destruction, has worsened." But despite reports of weapons technology being transferred to Iran, critics could argue that some aspects of Israel's security situation have improved. Iraq's arsenal of weapons of mass destruction has been reduced, though not eliminated, by U.N. inspections, and Israel has concluded a peace treaty with Jordan. In addition to those developments, Israel's per capita income (in excess of $18,000) approaches that of the United States' European allies, who have long been prodded by the Congress to assume greater responsibility for their own defense.

As for Egypt, some analysts say U.S. assistance to that country is not being spent wisely or efficiently. Critics note that high levels of appropriations have exceeded Egypt's ability to spend the funds, leading to the accumulation of large undisbursed balances, inefficient use of aid, and delays in making the reforms needed to foster self-sustaining growth. Furthermore, many other countries and organizations contribute substantial amounts of money to Egypt, which could make reducing U.S. assistance more feasible.

150-03-B Redirect Aid from High-Income Countries to Poverty-Reduction Programs in Poor Countries

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	440	812
2003	440	688
2004	440	588
2005	440	528
2006	440	496
2002-2006	2,200	3,112
2002-2011	4,400	5,410
Relative to Inflated Appropriations		
2002	450	830
2003	458	719
2004	467	631
2005	476	581
2006	485	560
2002-2006	2,337	3,322
2002-2011	4,905	6,092

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-03-A and 350-08

RELATED CBO PUBLICATIONS:

The Role of Foreign Aid in Development (Study), May 1997.

Enhancing U.S. Security Through Foreign Aid (Study), April 1994.

World leaders have called for a renewed effort to raise living standards in the world's poorest countries by 2015. But the United States gives a large share of its economic assistance to countries with relatively high per capita income—in particular, Israel, Northern Ireland, and Cyprus—to encourage the peaceful resolution of conflicts there. In 2001, the Congress earmarked $880 million, or 8 percent of its appropriations for economic aid, for those three countries.

This option would eliminate U.S. economic assistance to Israel, Northern Ireland, and Cyprus and redirect half of the savings to increasing aid to poor countries. That change would save $812 million in outlays in 2002 and $5.4 billion over 10 years relative to current funding. Compared with the current funding level adjusted for inflation, savings would total $6.1 billion over 10 years.

Advocates of this option would argue that economic assistance to those three countries has done little to promote peace. To the contrary, they might say, such aid subsidizes the cost of maintaining the status quo. The United States has provided assistance to those nations for decades regardless of their progress toward peaceful resolution of their conflicts; although the prospects for peace have waxed and waned, nominal levels of aid have barely changed. Critics of such aid maintain that it is often taken for granted and fails to influence behavior in the recipient countries in a way that furthers U.S. interests.

Furthermore, proponents of this option might argue that such U.S. assistance could be used more effectively to encourage economic growth in low-income countries, thus aligning U.S. aid policy with multilateral efforts. Analysts have concluded that aid has a positive effect on growth in countries whose governments are committed to sound fiscal policies, open trade, the rule of law, and regulations that do not impose undue burdens on commerce. During the past decade, many poor countries have implemented such policies, thereby providing opportunities for the effective use of aid. This option would free resources for additional assistance to countries that offer an environment conducive to economic growth and poverty reduction.

Opponents of cutting aid to high-income countries point out that such aid is tied to U.S. foreign policy interests—peace in the Middle East, Northern Ireland, and Cyprus. Any reduction of aid could be construed as a diminution of U.S. commitment to those regions. In the view of such opponents, focusing foreign aid exclusively on poverty reduction would make it difficult to conduct diplomacy and thus would ultimately make the world more dangerous. Moreover, they could argue that this option would be self-defeating. Israel, Ireland, and (to a lesser extent) Cyprus have strong constituencies in the United States, so cutting aid to those countries could weaken support for foreign aid programs in general—and therefore might not increase U.S. assistance to poorer countries.

150-04 Eliminate Contributions to the HIPC Debt-Relief Fund

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	360	90
2003	360	216
2004	360	342
2005	360	360
2006	360	360
2002-2006	1,800	1,368
2002-2011	3,600	3,168
Relative to Inflated Appropriations		
2002	368	92
2003	375	223
2004	382	356
2005	390	381
2006	397	388
2002-2006	1,912	1,439
2002-2011	4,013	3,494

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

350-08

RELATED CBO PUBLICATION:

The Role of Foreign Aid in Development (Study), May 1997.

In 1996, the International Monetary Fund (IMF) and the World Bank created the Heavily Indebted Poor Countries (HIPC) Trust Fund to reduce the debt burden on 42 of the world's poorest countries. Creditor nations pay into the fund, which reimburses multilateral development banks for the cost of forgiving some of the debt owed by the poorest countries. Those countries collectively owe more than $200 billion to various creditors: 30 percent to multilateral development banks and the IMF, 60 percent to other governments, and the balance to commercial creditors. The United States pledged in 1999 to contribute $600 million to the fund.

This option would forgo further U.S. contributions to the HIPC trust fund and thus force the multilateral development banks to bear the full cost of debt relief. Doing that would save $90 million in outlays in 2002 and an estimated $3.2 billion though 2011 compared with current appropriations. Compared with the current level of appropriations adjusted for inflation, savings would total $3.5 billion through 2011.

Supporters of this option would argue that the HIPC trust fund does not address the underlying problem responsible for the debt burden of poor countries: those countries borrowed large sums in the past and failed to invest them productively. Development analysts conclude that the most important factors for economic growth and poverty reduction in the developing world are the economic policies of national governments. Countries whose governments are committed to the rule of law, open trade, and regulations that do not impose undue burdens on commerce are able to attract capital and tend to experience economic growth and a reduction in poverty. Badly governed countries, however, tend to stagnate, and debt relief may even reduce their ability to attract private capital, leaving them dependent on international assistance.

Even if the countries in question have growth-oriented economic policies, the fund may do little to reduce their debt-service burden. Much of the HIPC funding is being used to pay debts that are not being serviced; for those countries, the HIPC funds are really a transfer from the contributing creditor nations to multilateral banks. Thus, they reimburse those banks for the consequences of their poor lending practices.

Opponents of this option would argue that the trust fund will elevate social spending and living standards in some of the most poverty-stricken parts of the world. Many of the recipient countries spend more on servicing their debt than on education and health care combined. If funds now used for debt service were redirected toward social programs, those countries could reduce the most extreme manifestations of poverty among their people.

In addition, opponents of cutting off U.S. contributions to the fund would argue that holding many current governments responsible for their nation's debt may be unfair. In some cases, the debt was incurred by prior regimes, which may have squandered borrowed funds on luxury goods or wasted them through corrupt practices. Countries struggling to emerge from such a legacy have a double burden of constructing democratic institutions while paying for the greed or incompetence of previous regimes.