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FM THE SITUATION ROOM TOHAK 138

TO AMEMBASSY MADRID

C O N F I D E N T I A L [REDACTED] WH37701 TOHAK 138.

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DECEMBER 18, 1973

TO: HENRY A. KISSINGER

FROM: BRENT SCOWCROFT

LARRY HAS EXPLAINED YOUR REACTION TO TOSSEC 277 (WHICH WE DID NOT SEE BEFORE IT WENT OUT, NOR YOUR TWO LETTERS TO ROY ASH ON ECONOMIC AID). BEFORE WE GO IN HARD TO ASH, HOWEVER, I THINK IT WOULD BE USEFUL FOR YOU TO AT LEAST READ THE FOLLOWING COMMENTS FROM CHUCK COOPER, WHO MET WITH THE OMB PEOPLE ON THE ECONOMIC ASSISTANCE BUDGET.

QUOTE:

1. I HAVE SEEN STATE'S MESSAGE OBJECTING TO OMB'S \$251 MILLION REDUCTION IN THE FY-75 AID BUDGET REQUEST.

2. IN OUR BUDGET REVIEW WITH OMB WE ATTEMPTED TO PROTECT PROGRAMS ESSENTIAL FOR OUR FOREIGN POLICY. WITH A TWO-YEAR AUTHORIZATION FOR DEVELOPMENT ASSISTANCE ALREADY PASSED BY CONGRESS COVERING FY-75 AT LEVELS WELL BELOW THE OMB MARKS, WITH RECENT CONGRESSIONAL CUTS OF APPROPRIATIONS EVEN BELOW THIS LEVEL, WITH THE MAJOR BUDGET PRESSURES BECAUSE OF INCREASES IN MILITARY ASSISTANCE FOR ISRAEL AND CAMBODIA, WITH OUR SERIOUS PROBLEMS ON OMB'S MILITARY ASSISTANCE MARKS (AND WITH SOME OF STATE'S LEVELS), AND WITH STRONG PRESIDENTIAL GUIDANCE TO RESTRAIN THE BUDGET, WE DID NOT ARGUE THAT THIS WAS THE YEAR FOR MAJOR NEW INITIATIVES IN AID. AT ANY RATE, AID DID NOT PRESENT A NEW PROGRAM WHICH WOULD MAKE HIGHER MONEY LEVELS DEFENSIBLE. AS A RESULT OF OUR INTERVENTION, OMB RAISED ITS OVERALL AID RECOMMENDATION BY NEARLY \$200 MILLION. ALSO OMB AGREED TO AN ADDITIONAL \$70 MILLION IN PL 480 FOR CHILE.

3. THE MAIN DIFFERENCES BETWEEN THE OMB/NSC MARK AND THE STATE REQUEST ARE:

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ON-FILE NSC  
RELEASE  
INSTRUCTIONS  
APPLY

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A. DEVELOPMENT LOANS, CUT \$152 MILLION:

-- INDIA - MARK \$75 MILLION LESS THAN STATE/AID REQUEST. THERE IS GENERAL AGREEMENT THAT ANY NEW AID PROGRAM WOULD ONLY GET UNDERWAY THE MIDDLE OF THE FISCAL YEAR, AND \$75 MILLION WOULD FUND A \$150 MILLION PROGRAM. CONGRESS IS PARTICULARLY PRONE TO CUT INDIA AID. LAST YEAR'S REQUEST WAS \$75 MILLION.

-- PAKISTAN - MARK \$15 MILLION LESS--THIS HOLDS THE LEVEL AT LAST YEAR'S REQUEST MARK.

-- INDONESIA - MARK \$12 MILLION LESS BUT WITH PL-480 MEETS THE HIGHER LEVEL YOU OFFERED SUHARTO.

THERE WERE ALSO SMALL CUTS FOR TURKEY, BANGLADESH, AND OTHER COUNTRIES.

B. SUPPORTING ASSISTANCE:

-- ISRAEL - MARK OF ZERO, \$50 MILLION LESS, AS YOU INSTRUCTED.

-- JORDAN - MARK OF \$45 MILLION IS \$20 MILLION LESS THAN REQUESTED. WE ARGUED HARD FOR THIS BUT ASH WAS ONLY WILLING TO SPLIT BETWEEN THE OMB \$25 MILLION AND OUR \$65 MILLION.

-- INDOCHINA - MARK INCREASED BY \$70 MILLION IN LIGHT OF MAJOR NEW REQUIREMENTS IN CAMBODIA AND SOUTH VIETNAM SINCE STATE REQUEST PREPARED.

C. TECHNICAL ASSISTANCE AND OVERHEADS:

-- REQUEST REDUCED BY OMB BY ABOUT \$30 MILLION--THIS WILL REQUIRE SOME MINOR REDUCTION IN BLOATED AID STAFF AND OVERHEAD.

4. PRIVATELY AID TELLS US THAT THE DIFFERENCES BETWEEN THE OMB MARKS AND THEIR REQUEST ARE EXPLAINED BY THREE FACTORS--AID'S ALLOWANCE FOR DIVERSION OF DEVELOPMENT LOAN FUNDS TO INDOCHINA AND CHILE, INSURANCE AGAINST CONGRESSIONAL CUTS, AND A GREATER REQUIREMENT FOR DISASTER RELIEF.

5. ADDITIONAL INDOCHINA AND CHILE REQUIREMENTS--MINIMUM OF OVER \$100 MILLION. WE HAVE COVERED CHILE THROUGH THE PL-480 PROGRAM AND WE BELIEVE THAT AFTER USING LARGE AMOUNTS OF DEVELOPMENT LOAN FUNDS FOR SOUTH VIETNAM THIS YEAR WE MAY LOSE THIS FLEXIBILITY NEXT YEAR. AT A MINIMUM CONGRESS IS ALERT TO FINDING AND CUTTING THESE BURIED FUNDS. IN SHORT, WE BELIEVE WE SHOULD ASK CONGRESS FOR AID FOR INDOCHINA RECONSTRUCTION IN A STRAIGHT FORWARD WAY AND DEFEND IT THAT WAY--NOT BURY IT IN FUNDS EARMARKED FOR OTHER COUNTRIES. OMB AGREES AND HAS UPPED ITS INDOCHINA RECONSTRUCTION LEVEL ACCORDINGLY.

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6. CUT-INSURANCE. WE BELIEVE WE HAVE RESTORED SOME CUT INSURANCE. WITH THE TWO-YEAR AUTHORIZATION AND CONGRESS' NEGATIVE STANCE ON THE CURRENT ASSISTANCE PROGRAM, WE DOUBT THAT IT IS WORTH PUTTING PRESSURES ON THE PRESIDENT'S BUDGET TOTAL FOR MORE. YOU COULD BE EMBARRASSED ON THE HILL DEFENDING A PROGRAM WITH POORLY DISGUISED CUT INSURANCE.

7. DISASTER RELIEF. THE STATE/AID REQUEST WAS PUT TOGETHER ON THE ASSUMPTION LITTLE FY-74 FUNDING WOULD BE FORTHCOMING. OMB CUT THEIR REQUEST BY ABOUT 50 PERCENT AND RECOMMENDED NOT SHOWING THE NECESSARY FUNDS AS A LINE ITEM IN THE BUDGET. WE INITIALLY AGREED WITH OMB'S CUT ON THE ASSUMPTION CONGRESS WOULD VOTE SUBSTANTIAL FUNDS FOR THIS PURPOSE THIS YEAR. THE SENATE HAS NOW REFUSED TO DO SO. OMB HAS AGREED TO REOPEN THE DISASTER RELIEF SECTION IF THE CONFERENCE THIS WEEK DOES NOT PROVIDE DISASTER FUNDS IN FY-74 FOR THE SAHEL, NICARAGUA, AND PAKISTAN. WE BELIEVE OMB WILL INCREASE THE FY-75 REQUEST FOR THESE PURPOSES IF WE DO NOT GET FY-75 FUNDS.

8. WITH SOME POSSIBLE ADJUSTMENT FOR DISASTER RELIEF, THE FUNDS IN THE OMB MARK ARE SUFFICIENT FOR FY-75. NSC COUNTRY STAFF HAVE ALL BEEN CANVASSED AND BELIEVE THE REVISED OMB MARKS ARE SUFFICIENT TO MEET ALL HIGH PRIORITY REQUIREMENTS. BY FY-76, WHEN YOU HAVE A REAL OPPORTUNITY TO PUT YOUR MARK ON THE ASSISTANCE PROGRAM, WE SHOULD WORK FOR NOT ONLY MORE GENEROUS FUNDING BUT ALSO A SOUNDER AND MORE DEFENSIBLE PROGRAM, PERHAPS EVOLVING FROM YOUR CONTACTS DURING THE NEXT SEVERAL MONTHS WITH VARIOUS GROUPS OF DEVELOPING COUNTRIES.

9. THE BUDGET WILL NOT BE ABSOLUTELY FIRM FOR ANOTHER TEN DAYS. WE WILL INFORM OMB YOU WILL PERSONALLY REVIEW BUDGET MARK IMMEDIATELY AFTER YOUR RETURN. WE DO NOT RECOMMEND GENERAL RECLAMA ALONG LINE PROPOSED IN STATE/AID MESSAGE TO YOU. UNQUOTE.  
WARM REGARDS.

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