

EXECUTIVE

FI9
FO4-2
FG
FG11-1

3

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

OFFICE OF
THE DIRECTOR

JUL 14 1966

FILE
A. W. 66
W.H.C.F.
E.S.P.
ew

Hiding the
costs of Viet Nam.
Pg 2 pg. 1 of attachment

L

MEMORANDUM FOR THE PRESIDENT

Subject: The "Gold Budget" - International
Transactions of Federal Agencies

Highlights

The latest gold budget data which we have just reviewed and compiled shows:

- ✓ The net dollar outflow abroad from the Federal Government's regular activities has increased by an estimated \$404 million between fiscal year 1965 and 1966, and is expected to increase by another \$253 million in fiscal 1967.
- X Expanded Defense activities in Southeast Asia account for all of this \$657 million dollar increase, and more.
- The net outflow from all other programs is expected to fall by \$174 million between 1965 and 1967.
- The improved outlook outside Defense results from faster increases in projected receipts than in payments. In the past agencies have been overoptimistic in their forecasts of receipts. Greater effort will be required in the future by the agencies to meet these higher targets.

As long as our Southeast Asia commitments continue, substantial further reductions in agency payments abroad without sacrificing essential U.S. commitments will be difficult. Every effort is underway consistent with such commitments. A more detailed summary of the outlook and of such efforts follows.

Charles L. Schultze

Charles L. Schultze
Director

Attachment

Forum
Spending
Controls
p3

SUMMARY OF RESULTS

The following analysis is based upon agency reports submitted as of March 15:

. The excess of payments over receipts for regular transactions has increased by \$404 million from fiscal 1965 to 1966 and is expected to increase by another \$253 million in 1967. On the assumption that Defense activities will terminate by the end of fiscal 1967 in both Southeast Asia and the Dominican Republic, the excess of payments in 1968 is expected to decline by \$1,130 million, or \$473 million below the 1965 level. ✓

see Jon's ←
summary
of the
tapes.
Schultze is
told to assume
war ends in
1967.

. When special transactions are included, the net excess of payments has increased by \$848 million in 1966, and will decline by \$33 million between 1966 and 1967 and by \$912 million in 1968.

Table 1. SUMMARY OF INTERNATIONAL TRANSACTIONS
OF THE FEDERAL GOVERNMENT

(Fiscal years. In millions)

	<u>1965</u> actual	<u>1966</u> estimate	<u>1967</u> estimate	<u>1968</u> estimate
Payments.....	\$4,238	\$4,909	\$5,388	\$4,420
Regular receipts....	<u>2,012</u>	<u>2,279</u>	<u>2,505</u>	<u>2,667</u>
<u>Excess of payments,</u> <u>regular transactions</u>	2,226	2,630	2,883	1,753
Less: special transactions.....	<u>648</u>	<u>203</u>	<u>489</u>	<u>270</u>
Excess of payments, total.....	\$1,579	\$2,427	\$2,394	\$1,482

. Payments have increased by \$671 million in 1966 and will increase by \$479 million in 1967 and then decline by \$963 million in 1968. Defense, including Vietnam, accounts for most of these changes.

X

. Regular receipts have increased by an estimated \$267 million between 1965 and 1966 and will rise further by \$226 million in 1967 and by \$162 million in 1968. The 1968 figure will be \$655 million or about 33 percent above the 1965 level.

. Net receipts from special transactions are estimated to have declined by \$444 million in 1966, to increase by \$286 million in 1967 and to decline by \$219 million in 1968. No sales of special Treasury securities and no special Export-Import Bank receipts are included in 1967 or 1968 estimates. For this reason, such estimates may be understated in either or both years.

PAYMENTS

The trend from year to year in overseas expenditures is dominated even more than in the past by the sizable changes in Defense outlays abroad. Excluding Defense, payments rose by an estimated \$175 million in fiscal 1966, but are estimated to decline by \$27 million in 1967 and \$62 million in 1968. Payments for (a) pensions and annuities, (b) interest on the public debt held abroad, and (c) U. S. contributions to international organizations will continue to increase in total each year. Contrary to earlier estimates, AID expenditures rose sharply in 1966 but are expected to fall off substantially in both 1967 and 1968. Payments abroad by all other agencies likewise were somewhat higher in total for 1966, but moderate declines are anticipated in 1967 and 1968. (See Table 2).

RECEIPTS

The steady rise estimated in regular receipts totals \$654 million for the three-year period. It stems mainly from (a) higher levels of repayments on earlier loans, primarily by the Export-Import Bank in 1967 and 1968, (b) increasing sales of agricultural commodities and repayments of previous sales credit throughout the period reported by Agriculture, (c) larger interest receipts anticipated by these and other lending agencies, and (d) higher sales of military equipment by Defense in 1966 and 1967.

Receipts from special transactions customarily fluctuate over a wide range from estimate to estimate and from year to year. The current estimates show a sharp bulge in 1967, primarily because receipts previously expected from Germany

in 1966 on military exports are now anticipated in 1967 along with the normal 1967 installments. This telescoping of payments for military exports will be offset in part by unusually high net redemptions of special Treasury securities issued in earlier years. (See Table 3).

GOLD BUDGET ACTIONS AND ISSUES

The following actions have been taken or are under active discussion as a result of the review of the March 15 reports from the various departments and agencies:

1. Revisions in expenditure targets

(a) AID. The original estimates submitted for the fiscal years 1967 and 1968 can be further reduced by increased use of special letters of credit. Expenditure targets have been lowered by \$28 million and \$44 million respectively.

(b) HEW-NIH. The overall expenditure targets for the National Institutes of Health for 1967 and 1968 were approved, but the agency was requested to hold expenditures in Western Europe, Canada and Japan in both years to the 1966 level.

2. U.S. support of foreign research

Six agencies supporting research and scientific activities abroad (Agriculture, Defense, HEW, AEC, NASA and NSF) have been requested (a) to review their procedures to assure that the guidelines in Budget Circular A-58 are rigorously applied on a continuing basis, and (b) to submit by August 15, 1966, specific data regarding costs and numbers of U. S. personnel and scientific offices abroad. This information will be reviewed to determine the need for these offices and the possibilities of consolidation.

3. Possible revisions in DOD policies

Staff are now studying possible balance of payments benefits and costs from (a) increased efforts to use excess and near-excess currencies to pay for overseas travel; (b) reductions in use of Defense flights for non-Government

travel abroad, and (c) changes in policies on overseas POL procurement. Legislation sponsored by Defense is before the Congress to encourage savings by servicemen overseas by authorizing payment of higher interest rates on their deposits.

4. Possible revisions in Treasury policies

Treasury has been asked to explore (a) the feasibility of meeting some of our foreign currency requirements by purchasing such currencies from U. S. firms having difficulty repatriating profits and (b) the results of recent campaigns to sell savings bonds to civilian employees abroad, including the possible desirability of providing easier redemption abroad, and of increased efforts to sell to local employees.

5. Export promotion

We are exploring the effectiveness of existing export promotion efforts from both budgetary and balance of payment standpoints.

6. Contributions to international organizations.

As a basis for possible revision of the gold budget treatment of U. S. dollar contributions to international organizations, AID, State and Treasury have been asked to provide estimates of the amount of their contributions to such agencies that is actually spent in the U. S.

Table 2. INTERNATIONAL PAYMENTS BY AGENCY
(Fiscal years. In millions)

	1965 <u>actual</u>	1966 <u>estimate</u>	1967 <u>estimate</u>	1968 <u>estimate</u>
Defense.....	\$2,603.7	\$3,100.2	\$3,606.5	\$2,700.5
AID.....	411.2	480.4	371.6	302.5
Subtotal.....	<u>\$3,014.9</u>	<u>\$3,580.6</u>	<u>\$3,978.1</u>	<u>\$3,003.0</u>
<u>Uncontrollable items:</u>				
Treasury special & financial..	\$ 552.7	\$ 622.5	\$ 682.6	\$ 682.6
Pensions & annuities (exc. DOD).	222.8	246.7	252.5	261.1
Foreign Claims Settlement Comm.	33.3	0.1	*	----
Subtotal.....	<u>808.8</u>	<u>869.3</u>	<u>935.1</u>	<u>943.6</u>
<u>Export promotion agencies:</u>				
Agriculture.....	\$ 14.6	\$ 20.7	\$ 26.1	\$ 26.8
Commerce.....	8.6	12.1	15.5	11.0
Subtotal.....	<u>23.2</u>	<u>32.8</u>	<u>41.6</u>	<u>37.8</u>
<u>Other agencies (excluding uncontrollables):</u>				
State.....	\$ 228.1	\$ 253.9	\$ 250.7	\$ 269.6
AEC.....	89.0	56.4	27.9	5.2
USIA.....	46.0	46.9	46.5	49.5
Panama Canal.....	34.4	36.7	41.8	42.8
Post Office.....	17.9	18.0	18.6	18.6
NASA.....	14.5	17.9	29.6	31.7
Peace Corps.....	11.7	15.8	14.9	16.7
HEW.....	11.2	5.2	4.8	4.6
Treasury <u>1/</u>	9.1	13.4	14.5	11.8
Interior.....	7.3	30.0	21.7	10.5
TVA.....	4.4	17.0	9.1	3.1
Corps of Engineers.....	3.7	2.2	2.1	0.5
NSF.....	3.2	3.9	3.9	3.7
FAA.....	2.2	3.7	2.2	1.7
Justice.....	1.8	2.2	2.3	2.3
VA.....	1.6	1.1	1.1	1.1
ABMC.....	1.5	1.6	1.6	1.6
GSA.....	0.2	0.5	0.1	0.1
Subtotal.....	<u>487.5</u>	<u>526.4</u>	<u>493.4</u>	<u>476.6</u>
Total.....	<u>\$4,334.7</u>	<u>\$5,009.3</u>	<u>\$5,448.2</u>	<u>\$4,459.5</u>
Less: payments in previously reserved currencies.....	<u>97.4</u>	<u>100.0</u>	<u>60.0</u>	<u>40.0</u>
Total payments.....	<u>\$4,237.7</u>	<u>\$4,909.3</u>	<u>\$5,388.2</u>	<u>\$4,420.2</u>

*Less than \$50,000

1/ Excludes \$60 million payment to Interhandel in 1965 and \$20 million in 1967.

Table 3. INTERNATIONAL RECEIPTS, BY AGENCY

(Fiscal years. In millions)

	<u>1965</u> <u>actual</u>	<u>1966</u> <u>estimate</u>	<u>1967</u> <u>estimate</u>	<u>1968</u> <u>estimate</u>
<u>Regular receipts</u>				
Defense.....	\$ 996.7	\$1,081.1	\$1,168.7	\$1,064.5
Export-Import Bank.....	476.2	479.6	565.4	771.1
AID.....	172.8	177.7	193.8	212.1
Treasury.....	165.9	153.4	279.8	262.4
Agriculture.....	159.4	217.5	271.8	347.1
Panama Canal.....	70.7	74.4	77.8	81.2
Post Office.....	20.9	20.0	21.0	21.0
AEC.....	16.2	37.3	15.0	28.4
State.....	12.1	20.3	17.7	17.7
Other.....	21.5	26.4	23.7	28.3
Less: Duplication in agency reporting.....	100.5	8.4 ^{1/}	129.3	167.2
Total, regular receipts.....	\$2,011.9	\$2,279.3	\$2,505.4	\$2,666.6
<u>Special transactions:</u>				
Advances on military exports	\$ 323.0	\$ -40.0	\$ 600.0	\$ 300.0
Treasury sales of medium term, non-marketable securities, net.....	232.2	53.6	-110.9	-30.0
Export-Import Bank loan pre- payments and participation sales.....	92.4	189.1	-----	-----
Total, special transactions.	\$ 647.6	\$ 202.7	\$ 489.1	\$ 270.0
Total, receipts.....	\$2,659.5	\$2,482.0	\$2,994.5	\$2,936.6

^{1/} This estimate was reduced by \$96.6 million to account for Export-Import Bank's repayment of a U.K. advance to DOD that is included in DOD's receipts.