



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

25120
121399

INTERNATIONAL DIVISION

RESTRICTED — Not to be released outside the General Accounting Office on the basis of specific approval by the Office of Congressional Relations.

MAY 12, 1983

B-211566

RELEASED



121399

The Honorable James Abdnor
The Honorable Charles H. Percy
United States Senate

Subject: Interagency Structure of Economic and Foreign Policy Decisionmaking (GAO/ID-83-41)

This report reviews the means by which the President receives information on the economic impact of his foreign policy decisions, as you requested. An additional study is being prepared in response to other issues raised by Senator Percy. Enclosure I summarizes information on the administration's interagency policy-making structure for foreign and international economic issues and the operations of its cabinet-level groups. Enclosure II contains information you requested on issues of compensation for export-related actions and enclosure III is a listing of GAO reports on trade adjustment assistance programs.

A number of high level interagency groups has been formed by the administration--seven cabinet councils report to the President and four senior interagency groups operate under the umbrella of the National Security Council (NSC). We were told that these groups are used extensively by this administration as policymaking bodies and to assist in decisionmaking on specific matters; the levels of activity reportedly vary from group to group and depend in large part on the chairman. Although the high-level interagency system does not preclude the preparation of detailed written analysis and communication, it has emphasized an extensive meeting schedule with concomitant oral deliberations. Mid and lower level working groups are generally set up on an ad hoc basis and provide a written basis for deliberations.

Within the high-level system, we have focused on the Senior Interagency Group on International Economic Policy (SIG-IEP)--a group established in July 1982 to develop and coordinate international economic policy issues with foreign policy concerns. It integrates elements of both the NSC and the cabinet council systems. The Secretary of the Treasury, as chairman pro tempore, was given the responsibility for ensuring that the activities of the various entities dealing with international economic policy issues are fully coordinated and for ensuring that those policies, in turn, are consistent with domestic economic policies.

(483374)

525560
121399

For the most part, administration officials state that the system has been successful in eliciting broad interagency debate on issues that require Presidential decision. They further state that good working relationships between senior officials are a key element in the success of interagency forums. We were told by a number of administration officials that the domestic impact of foreign and international economic policy decisions is considered as a matter of course in interagency forums when appropriate. We were also told, however, that formal consideration appeared to occur when pressure from the business community forced the action; for example, this occurred in the cases of the pipeline sanctions and the yen-dollar relationship. No one group has been set up by the administration to ensure that domestic and foreign policies are fully consistent and integrated, and the ability of the SIG-IEP to clarify and coordinate the development of international economic policies is the subject of some disagreement.

We interviewed staff at the White House and officials of the Departments of Treasury, State, Commerce, Defense, and Agriculture; National Security Council; Office of the U.S. Trade Representative; Overseas Private Investment Corporation; and Council of Economic Advisors. We also met with private business groups and surveyed published literature on decisionmaking and the organization used by previous administrations to coordinate economic and foreign policy decisions. We requested comments on our draft report from the administration, and received oral concurrence on the information contained in it.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 3

EXECUTIVE BRANCH ORGANIZATION

Under the Reagan administration, interagency policymaking is formally structured and extensively used. High-level interagency policymaking is carried out through a group of senior interagency groups associated with the NSC, and a number of cabinet councils. Senior interagency groups (SIGs) are set up under the NSC umbrella for foreign affairs, defense policy, intelligence policy, and international economic policy. They are chaired respectively by State, Defense, the Central Intelligence Agency, and Treasury. Interagency groups (IGs) typically focus on limited issues and have varying membership, size, and responsibilities depending on the issues under review. As may be expected, the NSC groups are concerned mostly with international political and military issues.

A series of cabinet councils set up by President Reagan to deliberate administration policies are, on the whole, concerned with domestic issues. Such issues, of course, encompass international economic concerns. To date, seven councils have been established, each chaired by the President with a cabinet-level chairman pro tempore, and each group has an Executive Secretary in the White House Office of Policy Development at the level of Special Assistant to the President or above.

The Cabinet Councils (and Secretary-rank chairman pro tempore) are: Economic Affairs (Treasury); Commerce and Trade (Commerce); Food and Agriculture (Agriculture); Natural Resources and the Environment (Interior); Human Resources (Health and Human Services); Management and Administration (Counsellor to the President); and Legal Policy (Attorney General).

The Cabinet Council on Economic Affairs has reportedly been the most active of the councils. Although it was initially envisioned as a forum for domestic economic concerns, the council has considered such international issues as the yen-dollar exchange rate and U.S. participation in international financial institutions.

The Cabinet Council on Commerce and Trade, has been a relatively active council. It has operated in tandem with the Trade Policy Committee, an interagency group established in the 1962 legislation setting up the Office of the U.S. Trade Representative (OUSTR). Most trade issues continue to go through the Trade Policy Committee, chaired by the Ambassador-rank Trade Representative. When agreement cannot be reached on an issue through the trade policy structure, however, and Presidential determination is required, the issue will go before the Cabinet Council on Commerce and Trade. This council has also commissioned a study of U.S. competitiveness in high technology industries. The remaining councils are neither as involved in international affairs nor as active overall.

SENIOR INTERAGENCY GROUP ON
INTERNATIONAL ECONOMIC POLICY

To coordinate foreign and international economic policies, a new Senior Interagency Group on International Economic Policy (SIG-IEP) was set up in the summer of 1982. The need for this group was highlighted by differences over such issues as the U.S. embargo of energy-related equipment to the Soviet Union and frictions with the European Common Market over exports of subsidized agricultural products. To ensure that domestic and international economic policies would be fully consistent and integrated, the President's directive named the Secretary of the Treasury as chairman of the SIG-IEP in addition to his role as chairman pro tempore of the Cabinet Council on Economic Affairs.

As originally proposed by the National Security Advisor, the SIG-IEP was to be set up within the NSC system and chaired by the Secretary of State with the Secretary of the Treasury as vice chair. The SIG-IEP was to funnel information on international economic policy issues from other interagency bodies to the NSC, focus government attention on important international economic issues, and monitor the implementation of U.S. policies in international economic affairs.

As finally set up, in a memo from President Reagan to the Cabinet of July 23, 1982, the SIG-IEP took on a somewhat different role. The objectives set out in the President's memo were to

"(1) develop, review, and prepare alternatives and recommendations on international economic policy issues as they relate to foreign policy, (2) develop a comprehensive international economic policy as it relates to foreign policy, and (3) coordinate the preparations for international economic summit conferences."

The latter objectives are much broader and seemingly more substantive than those originally envisioned. In addition, the Secretary of the Treasury was given the chairmanship rather than the Secretary of State, who is the vice chairman. The SIG-IEP was also given the authority to form its own working group instead of using the existing NSC structure, and it established a mid-level interagency support group chaired by the Assistant Secretary of Treasury for International Affairs.

Membership of the SIG-IEP includes the Secretaries of State, Agriculture, Commerce, and Defense; Director of the Office of Management and Budget; U.S. Trade Representative; Chairman of the Council of Economic Advisors; Director of the Central Intelligence Agency; Assistant to the President for National Security Affairs; and Assistant to the President for

Policy Development; as well as the Secretary of the Treasury. Other domestic officials with a seeming interest in foreign and international economic issues, such as the Secretary of Labor, are not members.

In his role as chairman pro tempore of the Cabinet Council on Economic Affairs (CCEA), the Secretary of the Treasury is to provide leadership in the debates on international issues with major economic policy implications and, as chairman of SIG-IEP, to provide leadership in the debates on international economic issues with major foreign policy implications. The CCEA provides Treasury with a vehicle for presenting analysis to the Cabinet, and the SIG-IEP with a mechanism for providing analysis to the NSC.

The last international economic summit was held prior to the SIG-IEP's creation and as a consequence the SIG-IEP has not prepared for such meetings. In November 1982, responsibility to coordinate preparation for economic summit conferences was given to the Under Secretary of State for Economic Affairs. However, there is to be a substantive role for the SIG-IEP in the administration's preparations for the summit to be held in Williamsburg in May 1983. To date, the SIG-IEP has made no effort to develop "a comprehensive economic policy as it relates to foreign policy," the second objective set out in the President's July memo and, since it has no staff or resources of its own, any future attempts to develop such a policy will likely entail assigning segments to different agencies.

Under its mandate to develop, review, and prepare alternatives and recommendations on international economic policy issues, however, the SIG-IEP's meeting schedule has been extensive. From July 26 to October 15, it met at least 11 times to consider issues including grain sales to the Soviet Union, pipeline sanctions, and U.S.-India relations. More recently, it has met to develop an administration position on renewal of the Export Administration Act. According to the SIG-IEP's executive secretary, the decision to use the SIG-IEP to consider a wide range of issues was made to gain broad participation from a variety of agencies, even though a smaller group may have been more efficient. Over time, however, the range of issues considered has somewhat diminished.

Under the leadership of the Treasury Department, we have been told the SIG-IEP has been used both as an informational forum to bring cabinet members up to date on various issues and as a forum to either reach consensus and report recommendations to the President through the NSC or to surface disagreements and clearly define options.

The perception of the SIG-IEP differed among agency officials with whom we met and even among officials in the same agency. For example, we were told that "SIG-IEP meetings, because of the high level of participating officials, are effective consensus builders" and, conversely, that "the SIG-IEP is just one more in a plethora of interagency coordinating groups whose role is not well defined." There are also differing assessments on the improvement in coordination achieved by Treasury's roles in both the SIG-IEP and the CCEA. Supporters see improved coordination by virtue of the Secretary's overlapping role. However, one high-level official said that the "creation of the SIG-IEP has not resulted in greater coordination between domestic and international issues."

HOW WELL DOES IT WORK?

As may be expected, there is some disagreement on whether the system as presently constituted is an appropriate one. To judge the effectiveness or success of a policymaking structure, one must decide what can be reasonably expected and what is desirable from any such system. The current system was set up to ensure interagency consideration of all issues requiring Presidential action. We were told that it has been successful by this measure and that very few such issues have gone to the President without being debated in at least one cabinet council or SIG. For the most part, participants feel the cabinet council system and the SIG-IEP are useful in focusing attention on issues which need Presidential attention. Some officials feel that overlap of participants in these groups ensures coordinated policies; in many areas where overlap exists, "understandings" have been reached on who would take the lead in handling the issue.

Officials in the White House have characterized the system as inclusive rather than exclusive in that "those who want to participate and have a legitimate interest in an issue have the opportunity to contribute to the development of policy." According to White House officials, weekly meetings of the White House staff representing the cabinet councils review upcoming agendas of each council in an attempt to identify and eliminate duplication and ensure that issues meriting high-level interagency discussion receive it.

We have been told, however, that some cabinet secretaries prefer direct contacts with the President and are more comfortable using individual relationships rather than council forums. Some agencies have been reluctant to address issues in interagency forums; for example, issues for which there is a strong domestic constituency. Department of Agriculture officials for example, see little improvement in policymaking as a result of coordinating efforts or attention to domestic impact and have attempted, in at least one instance, to coordinate trade policies with the OUSTR in lieu of the cabinet council/SIG system.

The major route for consideration of trade issues remains the Trade Policy Committee system chaired by the Trade Representative. Most trade issues continue to be deliberated in the Trade Policy Committee and its established interagency working group support system. As a statutory agency, it remains independent of administrative reorganizations. In an effort to clarify responsibility, however, it was decided that issues on which there is disagreement are to be referred to the Cabinet Council on Commerce and Trade for deliberation.

The system as currently constituted has set out another goal--to ensure that domestic and international economic policies are fully consistent and integrated. There is wide disagreement on the system's success in meeting this criterion. No one interagency group has been specifically given this responsibility. In most cases we were told that domestic impact is a natural and integral part of any cabinet-level discussion, even though there is no perceived need for the written economic impact statements that were popular in the Carter administration. One administration official told us that lifting the pipeline sanctions can be taken as one measure of the SIG-IEP's success in this regard.

The business community, on the other hand, generally is not satisfied with the apparent lack of weight given to the domestic economic impact of foreign policy decisions, and at least one group has considered recommending legislative changes to force greater attention to these issues. In our interviews with the business community regarding the analyses conducted on the economic impact of export controls we were told that (1) administration officials disagree on their responsibilities as to the timing and content of required analyses, (2) any analyses that have been done are macroeconomic and do not take all relevant factors, such as probable future impact on orders, into account, and (3) no cost-benefit analysis has been conducted by this or previous administrations on the domestic impact of foreign policy-related export controls. Conversely, some administration officials told us that domestic economic and political impact has at times been given too much attention at the expense of foreign policy considerations.

The operations of the cabinet councils and SIGs as a whole are characterized by their extensive meeting schedules and consequent emphasis on oral deliberations. One high-level official told us that this method of operation, in part, obviates the need for extensive research papers. In fact, we saw no evidence of such documents from groups at the secretary level. We reviewed a limited number of documents which had been prepared at the working group interagency level, however, which include more extensive written analyses. A member of the White House staff told us that, for at least one cabinet council, documents are carefully prepared and consistently circulated in advance of meetings for

all agenda items and that, in fact, there have been comments on how much there is to read, rather than about any lack of written material.

In most cases, 48 hours advance notice is given for cabinet council and SIG meetings. This is considered sufficient time to digest and/or prepare agenda-related information by some officials and inadequate by others.

A "traffic controller," in the White House Office of Cabinet Affairs for cabinet council meetings, and in the National Security Council for the SIGs, is responsible for collecting and distributing any background papers which have been prepared and the minutes of meetings.

According to participating officials, a further measure of effectiveness of the administration's policymaking structure is its ability to clarify responsibilities for international economic issues. By this measure, success is less clear. Some officials said that too many issues are taken up in too many forums and too many issues are going to the White House for resolution. In addition, there appears to be a great deal of latitude in adding issues to one group's agenda in lieu of another's. Conversely, other officials applaud interagency attention to what were once considered single interest issues, such as the impact of agriculture issues on steel negotiations, import restrictions on base rights agreements, and international treaties on domestic resources. And one official told us that this type of competition in the policy review process is healthy and of little cost.

Given the foregoing information on the Reagan administration's structure for foreign and economic policy making, it is also evident from our interviews that a system is not always an accurate indication of the way decisions are made. Rather, most of the credit for smooth operations of the system goes to the principals involved. The SIG-IEP, for example, would not be an effective force in international policy deliberations without the cooperative participation of concerned agencies, particularly the State Department, with respect to Treasury's role. In many of our interviews with administration officials we were told that the economic and business background of several cabinet level officials ensures consideration of economic consequences in interagency deliberations of foreign policy issues.

Similar outcomes occurred under the formally different policymaking structures of former administrations. For example, President Carter's decision to take economic reprisals against the Soviet Union after the invasion of Afghanistan was subject to much the same criticism as President Reagan's decision to place sanctions on the export of oil and gas equipment to the Soviet

Union. The critics were the farm community in the former case and the business community in the latter. The Carter administration generally placed much more emphasis on written impact statements, but the grain embargo was made with very little prior consultation inside and outside the government. It seems evident that the effectiveness of any system depends on the people involved, and the decisions by an administration reflect only partially the organization of the government for making policies.

ISSUES IN COMPENSATION

The idea of compensating private companies, their employees, and the communities in which they are located for costs incurred as a result of export controls received renewed interest after President Reagan imposed sanctions against the Soviet Union as a result of the imposition of martial law in Poland. Such assistance has long been provided to those groups adversely affected by imports, and recent agricultural legislation contains provisions to protect against and compensate for agricultural embargos. The administration's recent proposal to reauthorize the Export Administration Act provides some protection to exporters of non-agricultural products when export controls are imposed for foreign policy reasons. This appendix summarizes earlier experiences of groups requesting compensation for import and export-related reasons and discusses insurance programs used by major U.S. trading partners.

AGRICULTURAL SECTOR

Following the Soviet invasion of Afghanistan in January 1980, President Carter suspended the shipment of about 18 million metric tons of agricultural commodities to the Soviet Union for foreign policy and national security reasons under the authority of the Export Administration Act of 1979. Under the direction of the President, the Department of Agriculture took a number of actions, which included direct government purchases of grain and grain contracts to offset the impact of such a suspension.¹ It was the first time the Federal Government had done this.

Partly as a result of the suspension, the Congress adopted legislation that provides protection to the agricultural sector from losses arising from future foreign policy actions. In the Agriculture and Food Act of 1981, passed in December of that year, the Secretary of Agriculture is required to compensate farmers under certain conditions for losses due to national security or foreign policy embargoes through direct payments and/or loans. President Reagan lifted the embargo on April 24, some 7 months before the law was passed.

Additional legislation was passed in the last Congress that attempts to minimize damage to the agricultural sector as a result of export controls. The Futures Trading Act of 1982, enacted in January 1983, states, in part, that the "President

¹For a critical discussion of Agriculture's actions and the resulting cost to the Government see GAO's report "Lessons to be Learned from Offsetting the Impact of the Soviet Grain Sales Suspension," July 27, 1981 (CED-81-110).

shall not prohibit or curtail the export of any agricultural commodity or the products thereof under an export sales contract entered into before the President announces an action that would otherwise prohibit or curtail the export of the commodity or products."

NON-AGRICULTURAL PRODUCTS

According to Commerce Department officials, Commerce is not required to compensate firms whose products are subject to export controls. In the wake of the Afghanistan sanctions, however, several actions were taken. The Conference Report on appropriations for the Departments of State, Commerce, and Justice and related agencies in April 1980 authorized the Small Business Administration to provide up to \$4 million in disaster loans to small businesses that had suffered substantial economic injury. A group of travel agencies that had been adversely affected by the U.S. boycott of the 1980 Moscow Olympics petitioned the Small Business Administration for redress. The President vetoed the appropriations bill before any settlement was made.

Also as a result of the invasion of Afghanistan, the Department of Commerce curtailed and subsequently banned U.S. phosphate exports to the Soviet Union in February 1981. The administration concluded that domestic producers had sustained losses and that jobs had been lost as a direct result of the controls. There was some discussion of Government compensation at that time, but no action was taken.

ADJUSTMENT ASSISTANCE

Compensation for import-related injury has been provided under the Trade Act of 1974.² Approximately \$3.87 billion was paid to workers and \$329.2 million in direct and guaranteed loans to firms since the program's inception. The amount of assistance has been declining and the President, in his fiscal year 1984 budget submission, recommended that adjustment allowances be discontinued.

During the last session of Congress a bill was introduced to provide similar assistance to workers and firms that suffer economic injury because of the imposition of certain export controls. Provision was made for retraining and relocation allowances for workers and loans or guarantees to firms. In its end of the year report last year, the President's Export Council

²Enclosure III contains a list of GAO reports to Congress on problems encountered under these programs.

unanimously endorsed a resolution calling for compensation for firms and workers who lose their jobs as a result of certain controls on exports.

EXISTING INSURANCE PROGRAMS

The Export-Import Bank Act of 1945, as amended, authorized Eximbank to insure against losses on export contracts due to political risk. This authority has been delegated to the Foreign Credit Insurance Association, a group of private companies, which has focused on losses due to political risks in the country of destination. Insurance against U.S. export control action prior to shipment is available but requires the purchase of a preshipment rider which specifically insures against the risk of loss due to political factors between the time of contract and the time of shipment. The preshipment policy requires payment of an additional premium and is generally purchased when the exporter expects a significant delay between contract and shipment. Preshipment policies are not generally purchased for sales of inventory items but for capital goods that are being manufactured to the buyer's specifications and for which there is no readily available alternative buyer. This coverage has been rarely used, however, and claims have been infrequent.

Many OECD countries have programs which are analogous, in that separate policies to cover risks between time of contract and time of delivery must be purchased. Government involvement in such schemes varies. The Government of Japan underwrites insurance policies to cover losses related to export controls as part of an overall export insurance law, but has not paid any claims. The Italian Government offers coverage, if it has been specifically applied for, against government actions in general. A private Dutch firm underwrites most political insurance risk in the Netherlands, and the West German system also depends almost solely on the private sector.

CURRENT INITIATIVES RELATED TO EXPORT CONTROL

A number of current initiatives deal with Government compensation and insurance for export controls and restrictions on the effects of their use. The sanctity of contracts is addressed in a bill to amend the Export Administration Act of 1979 which has been introduced in the current legislative session. As was provided for agricultural goods, this bill states in part that export controls imposed shall not apply to exports contracted for prior to the imposition of controls. Another recently introduced bill authorizes the Overseas Private Investment Corporation to issue insurance against losses incurred from the imposition of export controls.

Wide debate continues over the impact of adopting such legislation. According to administration officials, requiring the U.S. Government to reimburse manufacturers/exporters who suffer losses as a result of foreign policy-based export controls would force the Government to quantify the cost of using such controls. This in turn could either (1) liberalize the use of foreign policy sanctions because businesses would not be left "holding the bag" or (2) make foreign policy sanctions more costly and therefore less attractive to use.

ADJUSTMENT ASSISTANCE

Under Section 280 of the Trade Act of 1974, GAO was directed to evaluate the worker, firm, and community adjustment program. Accordingly, it has issued the following reports.

"Assistance to Nonrubber Shoe Firms" (CED-77-51, Mar. 4, 1977)

"Certifying Workers for Adjustment Assistance--The First Year Under the Trade Act" (ID-77-28, May 31, 1977)

Letter Report to Congressman Charles A. Vanik, Chairman, Subcommittee on Trade, House Committee on Ways and Means, on the need to improve coordination of Trade Adjustment Assistance programs for workers, firms, and communities (ID-78-5, Dec. 6, 1977)

"Worker Adjustment Assistance Under the Trade Act of 1974--Problems in Assisting Auto Workers" (HRD-77-152, Jan. 11, 1978)

"Adjustment Assistance Under the Trade Act of 1974 to Pennsylvania Apparel Workers Often Has Been Untimely and Inaccurate" (HRD-78-53, May 9, 1978)

"Worker Adjustment Assistance Under the Trade Act of 1974 to New England Workers Has Been Primarily Income Maintenance" (HRD-78-153, Oct. 31, 1978)

"Adjustment Assistance to Firms Under the Trade Act of 1974--Income Maintenance or Successful Adjustment?" (ID-78-53, Dec. 21, 1978)

"Considerations for Adjustment Under the 1974 Trade Act: A Summary of Techniques Used in Other Countries" (ID-78-43, Jan. 18, 1979)

"More Can Be Done to Identify and Help Communities Adjust to Economic Problems Caused by Increased Imports" (CED-79-42, May 15, 1979)

"Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find a Job Can Save Millions" (HRD-80-11, Jan. 15, 1982)

"Management of Trade Adjustment Assistance Program Shows Progress" (CED-82-58, April 2, 1982)