SECURITY ASSISTANCE PERSPECTIVES

The Congress and U.S. Military Assistance Part I

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[The following represents a slightly revised version of the first portion of a paper presented on April 9, 1987, at the Midwest Political Science Association Annual Meeting in Chicago, Illinois. This section of the paper provides a description of the evolution of the three military assistance programs, a discussion of the Congressional authorization and appropriations process, and an analysis of Congressional funding from FY 1969 to FY 1987. The second section, to be published in the Fall issue of *The DISAM Journal,* examines legislative control and oversight mechanisms associated with the conduct of U.S. military assistance.

INTRODUCTION

The extensive Congressional debate in mid-1986 over the Reagan Administration's proposed sale of U.S. missiles to Saudi Arabia, together with the revelation and subsequent Congressional investigation of covert U.S. arms sales to Iran, have focused attention on the functional role of Congress in the provision of U.S. military assistance to foreign governments. While the academic literature on Congress and foreign affairs is relatively extensive, the focus of most such studies is only tangentially related to the topic of U.S. military assistance.[1] Conversely, those works which have military assistance and arms sales as their primary theme tend to provide only marginal attention to the Congressional role. For example, in his general examination of worldwide arms sales, Pierre devotes only two pages to the role of Congress.[2] Similarly, Klare's extensive study of U.S. arms sales lacks any cohesive treatment of Congressional involvement.[3] Hildreth provides a useful review and appraisal of legislative and executive perceptions of military assistance, but tends to emphasize executive branch functions in such assistance.[4] Finally, Kramer also examines executive-legislative relations, but confines his analysis to interactions relating to the annual budget for military assistance.[5]

This paper helps fill the void by providing a broad, longitudinal analysis of Congressional involvement in U.S. military assistance activities. The study covers the period FY 1969-FY 1987 and focuses on a wide variety of Congressional functions associated with military assistance legislation, ranging from annual program/budget authorizations and appropriations, to oversight,

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regulatory, and prohibitory enactments. The benchmark year of 1969 was selected as it represents the first year of the application of a new and comprehensive statute, the Foreign Military Sales Act of 1968 (P.L. 90-629), plus the introductory year of a new assistance activity, the Foreign Military Sales Credit Program. The general objective of the study is to identify various concerns and trends in Congressional involvement which have developed over the period and which are reflected in specific legislative actions.

The paper opens with a general description of the principal program elements comprising U.S. military assistance. The statutory basis for these programs and their key features as they have evolved over time are presented, accompanied by a discussion of the annual authorization and appropriations process and general Congressional committee responsibilities for military assistance legislation. The next section of the study examines Congressional budgetary actions on executive branch annual funding requests for military assistance. The analysis reveals Congress to have been relatively supportive over time for such funding, but increasingly inclined to regulate (through earmarks, ceilings, and restrictions) the allocation of such funds. It also highlights a major transformation in military assistance funding, from a predominatly *grant* system to a combination *grant and credit* system characterized by both direct grants and various types of appropriated loans. The final sections [to be published in the next issue of *The DISAM Journal*] explore the growing oversight and regulatory role that Congress has assumed in asserting its legislative authority over executive branch conduct of military assistance activities. A wide spectrum of Congressional controls are examined, ranging from the review (and possible rejection) of major U.S. arms sales abroad, to a discussion of a variety of both generalized and country-specific limitations and prohibitions on the furnishing of military assistance. To these are added an ever-expanding multitude of statutory requirements for executive branch program reports to Congress, and as the study suggests, the oversight function tends to merge into direct Congressional program management. Thus, the overall paper reveals Congress as a major, if cautious and suspicious partner in union with an assertive executive branch in the conduct of U.S. military assistance.

THE THREE MILITARY ASSISTANCE PROGRAMS

To facilitate reader orientation, the following provides summary information regarding the structure and nature of U.S. military assistance activities, together with a general discussion of Congressional responsibilities and political considerations associated with military assistance legislation.

Three separately identifiable programs currently constitute Congressionally-funded U.S. military assistance and they comprise the principal focal points of this paper. They are the aforementioned Foreign Military Sales Credit (FMSCR) Program, plus the Military Assistance Program (MAP), and the International Military Education and Training (IMET) program. These three assistance activities are the military components of the overall U.S. Security Assistance Program which includes such other related Congressionally-funded activities as the Economic Support Fund and Peacekeeping Operations. Also included in the category of security assistance programs are such non-funded military related activities as the Foreign Military Sales (FMS) Program, and the Direct Commercial Sales (DCS) Program through which eligible foreign governments may make cash purchases of defense articles, defense services, and military training from either the U.S. government (FMS) or directly from U.S. defense firms (DCS) under license procedures regulated by the Department of State. Since the latter two programs involve *cash* purchases rather than U.S. funded purchases, they technically are not *assistance* programs, even though they fall under the umbrella terms military/security assistance. Moreover, Congress has instituted elaborate rules for the conduct of FMS and DCS, and consequently this paper will address specific issues relating to these programs as well as to the Congressionally-funded military programs. It should also be noted here that the various regulatory statutes relating to the FMS Program apply equally to the FMSCR Program which is examined at length herein.

Prior to FY 1969, the FMSCR Program was incorporated as an element of the Military Assistance Program. Since FY 1969, it has been conducted as an independent program, and since FY 1976, it consistently has been the largest of the three military assistance activities in terms of annual program appropriations.[6] The FMSCR program currently provides a variety of U.S. government loans to enable selected allied and friendly foreign governments to acquire U.S. defense articles, services, and military training. As such, it offers a credit financing supplement to both the cash FMS and DCS programs noted above.

Loans furnished under the FMSCR Program prior to FY 1985 comprised a combination of appropriated monies and "off-budget" lending. These latter loans included private commercial lending (which was discontinued in FY 1974) and loans funded by monies raised by the Department of the Treasury's Federal Financing Bank and guaranteed by the Department of Defense through a special Guaranty Reserve Fund appropriated by Congress. Although Congress controlled the annual dollar value of all off-budget loans, these loans tended to mask the overall financial impact of the FMSCR Program. In 1984, the Senate Committee on Appropriations (SAC) recommended that all future FMSCR loans be placed on-budget, as direct appropriated funds.[7] The SAC recommendation was subsequently enacted, and since FY 1985 all FMSCR loans have been provided through the appropriations process.[8]

At present, three types of loans are authorized: *treasury rate* loans furnished at an annual rate of interest equal to the cost of money to the U.S. government; *concessional rate* loans provided at an annual interest rate of 50 percent of the treasury rate loans, but not lower than five percent; and so-called "forgiven loans" for which the only two currently authorized recipients, Israel and Egypt, are fully released from their contractual liability to repay.[9] Loan repayments for other countries (both principal and interest) generally must be completed within twelve years; however, in recent years Congress has authorized a thirty-year repayment program for selected recipients of treasury rate loans.[10] In FY 1987, for the first time, only forgiven credits and concessional rate loans were employed, as permitted under the FY 1987 continuing appropriations resolution (P.L. 99-591). The Reagan Administration has proposed limiting the FY 1988 FMSCR Program also to these two types of loans, although statutory authority remains for issuing treasury rate loans.

Substantial growth in the FMSCR Program occurred during the period under study, and corresponds to the increasing level of annual U.S. military sales and the decreasing provision of grant assistance. Thus, in FY 1969, Congress provided $296 million in overall FMSCR budget authority, whereas by FY 1986, the high point in FMSCR funding, $5,190 million was appropriated for the program for 19 countries (of which only $4,966.83 million could be obligated due to the budget sequestration of that year).[11] Faced with the continuing budget deficit pressures of P.L. 99-117 (Gramm-Rudman-Hollings), Congress appropriated only $4,040 million for the FY 1987 program. This reduction (28 percent below the Administration's request for $5,611 million) was offset somewhat by an increase in the MAP appropriation (see discussion below), but has presented a severe challenge to FY 1987 program management.[12]

The second program, MAP, has been a fully grant-funded military assistance activity since its inception in the *Greek-Turkey Aid Act of 1947*. From 1947 until FY 1982, the U.S. helped arm allied and friendly foreign governments with direct grants of military equipment and services valued in excess of $54 billion. This equipment largely represented surplus defense articles from World War II and the Korean War which had become excess to U.S. military requirements. As the stocks of such items were reduced over the years, foreign governments increasingly turned toward FMS and commercial purchases of U.S. defense equipment. Appropriations for MAP, which totaled $5,744 million in FY 1952, fell to $375 million by FY 1969. By FY 1979, with the appropriation down to $83.38 million, the Administration advised Congress that after FY 1981, MAP appropriations for country programs would only be requested on an exceptional basis. Accordingly, the FY 1982 budget request contained no requests for country funding. In place of

MAP grants, the Administration proposed the establishment of a concessional (or reduced interest rate) FMSCR loan program for FY 1982. Congress, however, rejected that request, although it later approved such a concessional loan program which began in FY 1985 and is discussed above. For FY 1982, however, Congress resurrected MAP by appropriating $171.41 million in grant funds for 14 countries which would be used as an additional source of funding the FMS purchase of defense articles (from new procurement or existing service stocks) as well as the purchase of defense services and training. Continuous annual MAP appropriation increases after FY 1982 brought the program level to $900 million in FY 1987, with funding available for 38 country and regional programs. Thus, since FY 1982, both a credit program (FMSCR) and a grant program (MAP), have been funded by Congress to provide a supplement to the FMS cash purchases of U.S. military equipment, services, and training.

The final program, IMET, is also wholly grant-funded. IMET enables recipient countries to obtain professional military education and technical training for their military personnel at U.S. military installations. Although a country's IMET funding allocation may be employed to cover all tuition, transportation, and temporary duty living allowance costs, the U.S. encourages IMET recipient governments to absorb the latter two costs, thereby permitting an increase in the overall number of students who may receive training. Direct benefits to the U.S. accruing from IMET include the gaining of allied experiences in U.S. doctrine and tactics as well as in the use of U.S. military equipment. Indirect but no less valued benefits are said to include the exposure of foreign students to American values and institutions, the enhancement of military-to-military relations, and U.S. access to future foreign leaders.[13] The IMET Program had been an element of MAP until FY 1976 when it became an independently funded program. In terms of annual appropriations, IMET has remained the smallest of the three funded military assistance programs, while at the same time having the largest impact in terms of numbers of recipient countries: the FY 1987 IMET appropriation was just $56 million, but was allocated among 105 countries.

These three appropriated programs are all thoroughly rooted in U.S. public law: the grant MAP and IMET programs are authorized and regulated in the Foreign Assistance Act (FAA) of 1961, as amended; and the FMSCR Program as well as the cash FMS and DCS Programs, have their legal base in the Arms Export Control Act (AECA) of 1976, as amended, which replaced the Foreign Military Sales Act of 1968. In addition to these fundamental statutes, annual authorization and appropriation acts provide required annual program authorities, policy and procedural changes, and the necessary funding for U.S. military assistance.[14]

THE LEGISLATIVE PROCESS

There are no particularly unique institutional features that distinguish the enactment of military assistance authorizations/appropriations legislation from similar legislation for other U.S. government-funded activities. The process begins early in the calendar year with the submission to Congress of the Administration's proposed authorization and appropriation bills and program justification document (i.e., the *Congressional Presentation for Security Assistance Programs, Fiscal Year 19XX*). In addition to requests for program funding, these submissions also generally include various requests for legislative amendments proposed by the Administration to effect desired program/procedural changes/additions.

Military assistance programs are joined with other U.S. assistance programs (e.g., developmental assistance, migration and refugee assistance, contributions to multilateral development banks and to international organizations, etc.) for consideration as a total foreign assistance package. This coupling of all such assistance programs means that military assistance is funded through the international affairs budget function (150) rather than the national defense function (050). Thus, the House Foreign Affairs and Senate Foreign Relations Committees (rather than the respective Armed Services Committees) have cognizant responsibility for military assistance

authorization legislation. These two committees, together with the House and Senate Appropriations Committees (particularly their respective subcommittees on foreign operations) are the principal legislative actors determining the regulatory and funding characteristics of U.S. military assistance programs.[15]

Upon receipt of the Administration's proposals, Congressional committee staff personnel perform their respective analyses of the proposals, with some limited consultation with their staff counterparts in the executive branch. The usual formal hearings are conducted in the early spring by the authorization and appropriations committees and their respective subcommittees. Extensive testimony is obtained in these hearings from key administration officials (e.g., the Secretary of State; the Under Secretary of State for Security Assistance, Science and Technology; the Chairman, Joint Chiefs of Staff; the Director, Defense Security Assistance Agency; and others). Additionally, representatives from various ethnic organizations, defense firms, academia, and so on will usually provide testimony to attempt to elicit Congressional support for their special interests. Then, armed with staff recommendations and the accumulated testimony from the hearings, plus their own individual preferences, the committee members proceed to mark up the bills and report them out to the full House and Senate for passage. These bills, of course, are subject to the usual amendatory efforts on the floor of each house and generally must be reconciled in a joint conference committee before final passage. However, as has been the case for several other government-funded programs, the legislative process frequently stalls and the draft legislation fails to be fully acted upon, either in committee or on the floor. Thus, in many years, Congress has failed to produce a specific authorization or appropriations act, or both, for foreign assistance. For example, no separate authorization act for either FY 1984 or FY 1985 emerged from Congress. Similarly, no regular appropriations act has been passed since 1981. In the absence of this latter legislation, funding since FY 1982 for all foreign assistance activities, including military assistance, has been dependent on a series of annual Joint House Continuing Appropriations Resolutions, as has also been true for the funding of several other major government programs.[16] The dependence on such funding resolutions commonly results from a decision by the Congressional leadership to avoid a floor debate on foreign assistance appropriations in which the bill likely would be gutted by amendments. By incorporating the bill in omnibus appropriations acts, far less legislative obstructionism is encountered.

A variety of obvious political considerations impact on the actions of a particular Congress. Political party affiliations and party control of Congress, as well as international political events and public support of a President's foreign policy objectives are but some of these factors. For example, it has been found that in the 1961-1982 period, a consistently higher percentage of House Democrats supported foreign assistance than did their Republican counterparts.[17] Although the picture in the Senate was less clear, the study reflected a generally similar pattern, but with greater Republican support than in the House.[18] Another study reports a political split on economic and development aid versus military assistance and arms sales, with Democrats generally more favorable to the former and Republicans usually more supportive of the latter.[19] Also, partisan attitudes toward specific substantive issues have been identified. For example, Democrats have been prone to reduce assistance to governments which violate internationally-recognized human rights, whereas Republicans have been opposed to denying aid solely on the basis of such violations.[20] Finally, the lack of a political constituency for military assistance, coupled at times with substantial grass roots opposition to foreign assistance in general, has been cited as the cause of reluctance by many in Congress to support what they perceive as an unpopular program.[21] Clearly, while these political considerations (and certainly countless others) enter into specific Congressional decisions on foreign assistance, this paper centers more generally on identifying the aggregate role of Congress over time with respect to such assistance.

The preceding has been an effort to acquaint the reader with the programs of military assistance, and the general legislative functions and considerations associated with authorizations and appropriations for these programs. We now proceed to the heart of this study--the analysis of

actual Congressional involvement in military assistance from 1969-1987, beginning with an examination of funding levels over the period.

CONGRESSIONAL FUNDING FOR MILITARY ASSISTANCE

Funding levels for the three military assistance programs over the period FY 1968-FY 1987 are illustrated in the three figures on the following pages. Each figure reflects three items: 1) the level of program funding requested annually by the Administration; 2) the annual program funding authorization level approved by Congress; and, 3) the level of annual program appropriations. (Actual dollar values are provided in Appendix A.)

Several immediate observations can be drawn from these illustrations. It is readily apparent, for example, that over the 19-year period examined in this analysis, and despite annual variances, there has been substantial funding growth in the FMSCR Program, far surpassing the other military assistance activities. A glance at the MAP chart reflects similar growth, but only after a substantial decline in program value during the mid-1970s through the early 1980s. Finally, the relatively small IMET program has nevertheless experienced considerable growth during the 1980s. One caution should be noted, however, in drawing such broad conclusions. The charts (and accompanying appendices), which employ current (i.e., annual) dollar levels, reflect considerably greater increases over time than if the data were adjusted for inflation to reflect constant year dollars. Thus, as measured in current year dollars, the FMSCR Program and MAP increased by 1653% and 109% respectively between FY 1969 and FY 1986, and the IMET Program rose similarly by 90% from its initial program year of FY 1976 to FY 1986. However, constant dollar measures reflect a far different picture. Converting all values to constant FY 1986 dollars reveals that real growth only occurred in the FMSCR Program (438%); MAP declined by 36% and IMET fell by 3%.[22] Notwithstanding these differences and various funding reductions during the period, the substantial overall growth since FY 1969 of the largest military assistance program, FMSCR, reveals a general Congressional commitment to the support of such U.S. assistance.

FIGURE 1

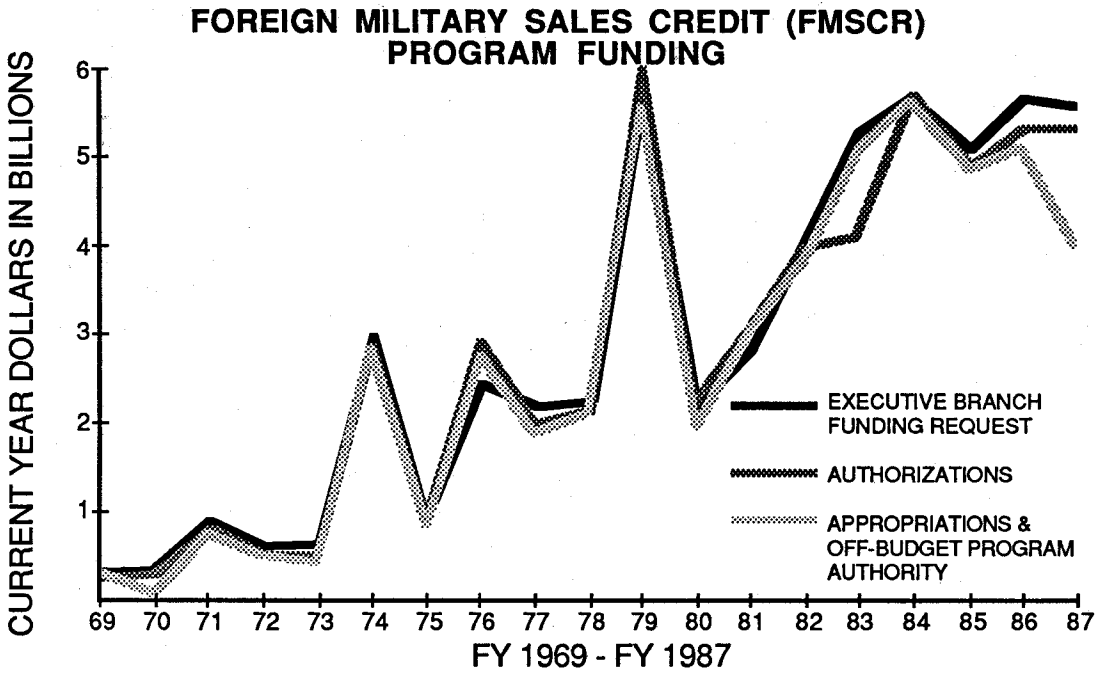


FIGURE 2

MILITARY ASSISTANCE PROGRAM (MAP) FUNDING

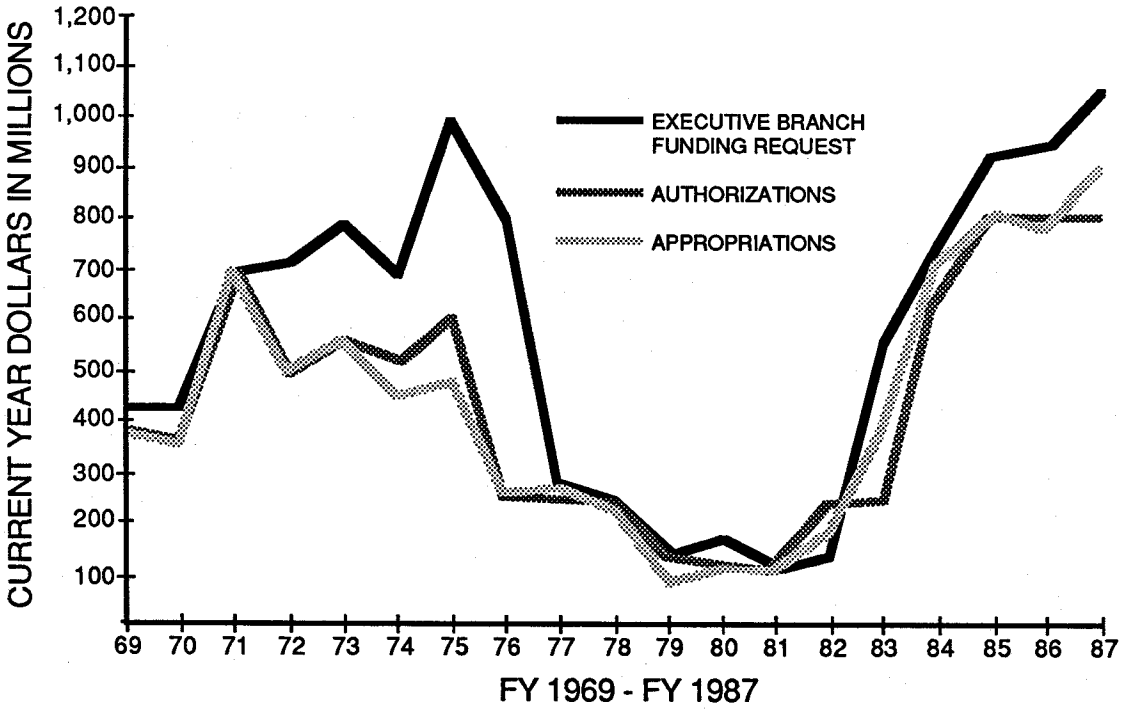


FIGURE 3

INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROGRAM FUNDING

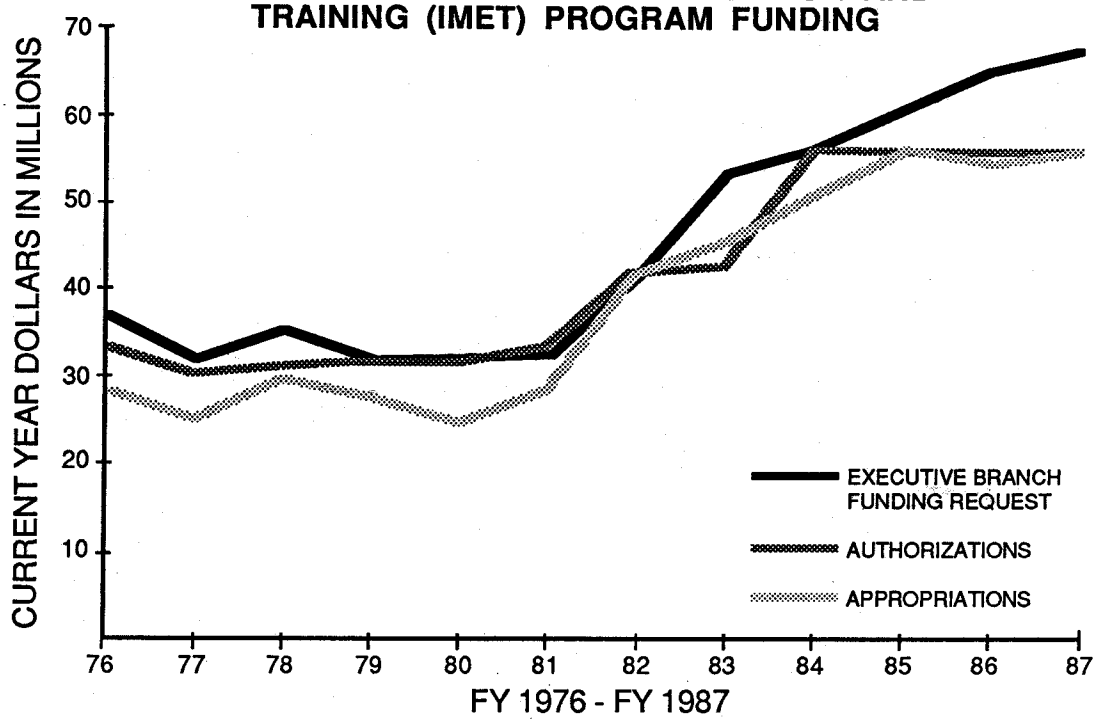


TABLE 1
Average Annual Authorization/Appropriation Reductions as a Percentage of Average Annual Security Assistance Budget Requests FY 1976-1987
(Dollars in Millions)

	Security Assistance Programs		
	FMSCR	MAP	IMET[1]
Average Annual Budget Request	$2,926.13	$565.41	$45.78
Average Annual Cut in Budget Authorization	$44.08	$125.66 [$61.00][3]	$4.67 [$3.10][4]
Average Annual Cut in Budget Appropriation	$175.22 [$94.91][2]	$134.52 [$60.08][3]	$7.24 [$5.92][4]
Average Annual Authorization Cut as a % of Average Annual Budget Request	1.50%	22.21% [10.79%][3]	10.05% [6.77%][4]
Average Annual Appropriation Cut as a % of Average Annual Budget Request	6.00% [3.24%][2]	23.79% [10.63%][3]	15.81% [12.93%][4]

1 IMET data is limited to FY 1976-FY 1987.
2 Omits the unrepresentative FY 1987 FMSCR appropriation.
3 Omits the unrepresentative MAP authorizations/appropriations for FY 1972-FY 1976.
4 Omits the unrepresentative IMET Program authorizations/appropriations for FY 1987.

Of greater analytical significance is the demonstrated relationship between executive branch annual funding requests and legislative branch annual authorizations and appropriations, for here one may find an important indicator of Congressional support (or lack thereof) for administration budget proposals for military assistance. The FMSCR program is quite illustrative. An examination of Table 1 above reflects significant authorization support for this program. In a budget process whereby requests are often subjected to substantive Congressional funding reductions, one finds the annual FMSCR Program authorization levels falling only an average of $44.08 million per year below request levels. While such a sum may seem quite substantial, it actually is relatively small (1.50%) in terms of the multi-billion dollar nature of the average annual FMSCR Program. Less support is evident in the annual appropriations levels which fell an average of $175.22 million (or 6.00%) per year. These reductions, however, are significantly affected by the large budget deficit reduction-induced program cut in FY 1987 of $1,620.6 million; if this single year is omitted from the total calculation, the annual average reduction in appropriations over an eighteen-year period (FY 1969-FY 1986) is far less severe at $94.91 million (or 3.24%). This relatively strong Congressional funding support for the FMSCR Program is explained in large part by the fact that until FY 1985 direct appropriations were combined with guaranteed off-budget loans, as previously discussed. In fact, throughout the period FY 1969-FY 1984, the annual off-budget loan authority approved by Congress exceeded the level of direct appropriations. The perception by Congress of such off-budget loans as "free monies," together with relatively limited direct appropriations, jointly served as an incentive to Congress to support executive branch budget requests for the FMSCR Program.

The FMSCR funding legislation also reflects some unusual features worthy of note. While one expects annual authorizations normally to fall below administration budget requests, as is generally the case here, in no less than seven years of the 19-year period, or over 1/3 of the period,

authorizations exceeded requests (FYs 1975-76, 1979-82, and 1984); and in three years, appropriations exceeded requests (FYs 1976, 1981, and 1984).

The surprisingly high level of Congressional funding support for the FMSCR Program is considerably tempered by various Congressionally imposed regulatory and prohibitory restrictions on this program which are discussed later in this paper. However, one such important restriction which is useful to examine at this point involves the Congressional practice of *earmarked funding*. Over the years Congress has increasingly earmarked (or fenced off) specified funding levels within a designated program account to be allocated to particular countries. Such earmarks furnish Congress a means of compelling the executive branch to allocate appropriated program funds at levels which often exceed those desired by the Administration. Similar earmarkings are commonly employed in other government accounts to protect Congressionally-favored programs from executive branch underfunding. Examples of such FMSCR Program earmarkings include annual Congressional funding for Israel, Egypt, and several other countries. Funding for Greece and Turkey also falls within this category, and is quite illustrative. Since FY 1980, in response to the Cyprus conflict and Congressional sympathies toward Greece (supported by an active Greek-American lobby), Congress has insisted that annual military assistance for Greece be provided at a level of not less than 70 percent of that furnished to Turkey. This allocation procedure is widely known as the "7-10 ratio," and although efforts to establish it in law have failed, Congressional committees have regularly applied the ratio in their dollar earmarks in the annual authorization and appropriation process, and have made frequent references to it in their committee reports.[23] Repeated Administration efforts to furnish substantially higher funding levels for Turkey have been consistently constrained by such funding earmarks for Greece and Turkey which adhere rigidly to this Congressional allocation ratio.

The earmarking process has a further constraining effect since it usually reduces the availability of funds which the Administration wishes to allocate among non-earmarked countries. Thus, even though Congressional support for overall program funding may be relatively strong, such earmarks generally require substantive modifications to the Administration's program which degrade the assistance levels desired for other countries. Moreover, in a year in which sizeable earmarks are combined with major budget reductions, this allocation problem intensifies. FY 1987 provides an excellent illustration. The Administration proposed an FMSCR budget for FY 1987 of $5,611 million to provide credits to 24 countries. Congress, operating under the pressure for budget deficit reduction, subsequently cut the request by $1,570.6 million (or 28%) to $4,040.4 million, the largest such reduction in this program's history. At the same time, Congress also earmarked $3,755.5 million (or 93%) of this severely reduced account for four countries (Egypt, Greece, Israel, and Pakistan). With only $284.9 million remaining in the FMSCR account, the Administration had no practical choice other than to substantially curtail its planned FY 1987 program by furnishing credits to only three additional countries (Morocco, Spain, and Turkey). Thus, the earmarks and funding reductions altered a program originally designed for 24 countries to one which could only provide for seven. Increased FY 1987 MAP funding (see discussion below) provided some relief, but programs for all countries other than those with earmarked funds had to be cut by an average of 50 percent. The Reagan Administration is currently awaiting Congressional action on a request for a supplemental FMSCR appropriation for FY 1987 of $200 million, plus an additional $261 million for MAP. (These two accounts comprise a portion of the overall $1,321 million foreign assistance supplemental appropriations request for FY 1987.) Given the austere Gramm-Rudman-Hollings requirements for identifying funding sources for supplemental appropriations (i.e., either new revenues or transfers from other budget accounts), together with the large request for supplemental national defense appropriations ($2.8 billion), it remains to be seen whether Congress will approve the requested additional military assistance funding. Furthermore, as this study was being completed (March, 1987), it seemed increasingly likely that if Congress were to strictly adhere to the Gramm-Rudman-Hollings FY 1988 deficit target of $108 billion, the FY 1988 budget request for military assistance would experience another year of significant funding reductions.

With respect to MAP, Congressional funding support for this all-grant program has been markedly less than that for the FMSCR financing program. Annual authorizations have averaged $125.66 million (or 22.21%) below the average budget requests during the nineteen-year period, with annual appropriations averaging $134.52 million (or 23.79%) below the average annual request. Given the much smaller funding levels for MAP than FMSCR during this period, the far more substantial Congressional cuts for MAP initially suggest a greater Congressional opposition to outright grants than to a financing program in which loans are repaid with interest. Although there certainly is some merit to this conclusion, one must also recognize that a key component of the FMSCR Program since FY 1984 has involved another type of grant funding--i.e., the sizeable "forgiven credits" for Israel, and since FY 1982, for Egypt as well.[24] Moreover, since FY 1985, all the loans for these two countries have been entirely forgiven, and by FY 1987, had grown to an annual total of $3.1 billion, representing 76 percent of the overall FMSCR appropriation of $4.04 billion for that year. Congressional support for these major grants for Israel and Egypt has been unwaivering, and at times (FY 1976 and FY 1981) has exceeded funding levels proposed by the administration. Also, in three years (FY 1975, FY 1982, and FY 1983) Congress altered the requested appropriation to increase the proportion of forgiven loans to repayable loans. Thus, it is clear that Congress will support selected grant funding programs for military assistance.

Perhaps the most significant explanation for MAP funding cuts rests in the period of the early 1970s (FY 1972-FY 1976) when the reductions were most substantial. During this period, and for several years thereafter, Congressional efforts were aimed at reducing overall U.S. military grant funding while increasing sales activity supported by the FMSCR program. By FY 1982, however, economic conditions had seriously deteriorated among many purchasing countries which were increasingly hampered by related problems of international debt, mounting inflation, and balance of payments deficits. The escalating interest rates (exceeding 13 percent) associated with FMSCR loans made such loans increasingly undesirable, and Congress then renewed its general support for MAP. Thus, if one eliminates the FY 1972-FY 1976 period from the calculations, the annual reductions in authorizations fall to an average of $61 million per year (or 10.79%) and the appropriations to an even lower average of $60.08 million (10.63%)--still large, but far more comprehensible and reflective of more recent Congressional levels of support of MAP. Indeed, in FY 1987, MAP funding rose to $900 million, the largest annual MAP apropriation since FY 1966.

Discrete data on IMET Program funding is only available from FY 1976 onward, since prior to that year the IMET program was incorporated in MAP. The smallest of the three military assistance activities, the IMET Program nevertheless has historically experienced significant budget cuts far greater proportionately than those associated with the FMSCR Program, but generally less than those for MAP. In the 12-year period for which data is available (FY 1976-1987) this program rose from $28.74 million to $56.00 million. However, annual authorization reductions to the budget request averaged $4.67 million (10.05%), with annual appropriations cut an average of $7.24 million (15.81%). Even when the sizeable FY 1987 cut (over twice that of any other single year) is eliminated from the calculation, the annual average reductions remain high for such a relatively small program, at $3.10 million (authorization) and $5.92 million (appropriation), or 6.77 percent and 12.93 percent, respectively. The explanation for these comparatively large reductions in IMET Program funding appear to reflect the disparate view of the program held by the Congress. An interview with a State Department military analyst suggests there are three major and contending Congressional points of view on the matter. The first view strongly endorses the IMET Program as a principal means of maintaining and enhancing important military-to-military relations among allied and friendly foreign nations. A second Congressional view tends to depreciate the general value of the program as bringing the U.S. too close to too many military dictatorships. Adherents of this perspective oppose IMET program growth both in terms of dollar value as well as in the number of participating counties, particularly additional small Third World countries for which little of value is thought to be gained for the United States. They also fear that the IMET Program may be used as a wedge for the introduction in a following year of

FMSCR/MAP, thereby further stretching U.S. worldwide commitments. Finally, a third view tends to perceive this all-grant program as being used by the Administration as a ruse to provide numerous high-income countries with small IMET grants which then permit them to purchase additional military training at special discounted FMS tuition rates well below the FMS cost to non-IMET Program recipients.[25] An example of this latter perception is reflected in the House Appropriations Committee Report on the FY 1987 budget which calls for specific justifications by the Administration for any IMET funding in FY 1987 and beyond for "high income countries," identified as those with annual per capita incomes exceeding $5,500.[26] Given this conflict in Congressional perceptions, it is clear that such mixed views of the IMET Program have contributed to the significant annual budget cuts reflected above.

A final point of interest arising out of this funding analysis involves the relationship between annual authorization and appropriation levels. In general, an authorization bill establishes funding ceilings for specific appropriations. In terms of military assistance programs, as the previous discussion has illustrated, the annual appropriations have usually fallen below annual authorization levels, although at times they have been equal. Similar findings relate to other U.S. government-funded activities. Of special interest here, however, are those unique cases in which appropriations have exceeded authorizations. This occurs only when the appropriations committees, having determined a need for increased program appropriations, are successful in obtaining Congressional concurrence in waiving the authorization ceilings. During the period under study, such waivers have occurred four times with respect to MAP (FYs 1976, 1977, 1983, and FY 1987) and once for the FMSCR Program (FY 1983).[27]

NOTES:

1. See the following: Franck, Thomas M. and Edward Weisband, *Foreign Policy by Congress*, New York: Oxford University Press, 1979; Crabb, Cecil V. and Pat M. Holt, *Invitation to Struggle: Congress, the President, and Foreign Policy*, Washington, D.C.: Congressional Quarterly, Inc., 1980; Ripley, Randell B., *Congress: Process and Policy*, 2d ed., New York: W.W. Norton and Co., 1978; Sundquist, James L., *The Decline and Resurgence of Congress*, Washington, D.C.: The Brookings Institution, 1981; and Whalen, Charles W., Jr., *The House and Foreign Policy*, Chapel Hill, N.C.: The University of North Carolina Press, 1982.
2. Pierre, Andrew J., *The Global Politics of Arms Sales*, Princeton, N.J.: Princeton University Press, 1982.
3. Klare, Michael F., *American Arms Supermarket*. Austin, TX: University of Texas Press, 1984.
4. Hildreth, Steven A., "Perceptions of U.S. Security Assistance, 1959-1983: The Public Record," in Graves, Ernest and Steven A. Hildreth, eds., *U.S. Security Assistance: The Political Process*, Lexington, MA: Lexington Books, 1985, pp. 41-99.
5. Kramer, Franklin D., "The Government's Approach to Security Assistance Decisions," in Graves, *op. cit.*, pp. 101-123.
6. For comparisons of annual appropriations for the three programs between FY 1969 and FY 1987, see the tables in Appendix 1.
7. U.S. Senate. *Foreign Assistance and Related Programs Appropriations Bill, 1985*. Report of the Committee on Appropriations on S2793, June 26, 1984, p. 105.
8. P.L. 98-473, October 12, 1984.
9. Section 31, *Arms Export Control Act* (AECA).
10. For FY 1986 and FY 1987, six countries have been authorized this extended repayment program: Greece, Korea, Portugal, Spain, Thailand, and Turkey. A major additional benefit of this program involves a grace period during the first ten years during which only interest payments are required. Section 31, AECA, as amended.
11. The original FY 1986 FMSCR appropriation was subsequently reduced by $223.17 million, or 4.3 percent--a reduction required for all military assistance programs pursuant to the sequestration process required by P.L. 99-117 (the Gramm-Rudman-Hollings budget deficit legislation). All FY 1986 appropriations identified in this paper are shown at the pre-sequestration level.

12. For additional details regarding FY 1987 appropriations, see: Samelson, Louis J., "Congress and the Fiscal Year 1987 Security Assistance Budget," *The DISAM Journal of International Security Assistance Management*, Winter, 1986-1987, pp. 10-30.
13. In 1984 the Department of State estimated that foreign leaders who had previously received training under IMET included 30 presidents/heads of state, 200 cabinet ministers/legislators/ ambassadors, 300 military chiefs of staff, and 2000 officers then holding general/flag rank. (Department of State message, subject: IMET, Oct. 9, 1984.)
14. The annual authorization act which includes military assistance is entitled, "The International Security and Development Cooperation Act of (Year)"; and the corresponding annual appropriations act bears the title, "Foreign Relations and Related Programs Appropriations Act, (Year)."
15. Until very recently, the Congressional budget committees played a marginal role in military assistance funding, generally restating the executive funding request in reporting out recommendations for Congressional budget resolutions. (Kramer, pp. 109-110) However, in the deficit reduction environment which characterized Congressional activity in the spring and summer of 1986, the budget committees and Congress in general approved a first concurrent budget resolution for FY 1987 with substantial reductions from the executive branch request. The target budget allocations provided in that resolution were directly applied in the subsequent committee mark-ups of the appropriations bill. It remains to be seen if this enhanced role of the budget committees will continue into the future. If it does, then the Gramm-Rudman-Hollings legislation will have succeeded in evoking a significant institutional change in the Congressional budget system.
16. In addition to foreign assistance, the omnibus continuing appropriations resolution for FY 1987 (P.L. 99-591) incorporated all of the other 12 general appropriations bills which also failed to be enacted individually and which are required annually to fund U.S. government programs. Thus, P.L. 99-591 provided funding for Defense, Military Construction, Legislative Branch, Labor-Health and Human Services-Education, Interior, Transportation, Treasury-Postal Service, Commerce-Justice-State, Agriculture, Energy-Water Development, Housing and Urban Development-Independent Agencies, and the District of Columbia, as well as Foreign Assistance. During the nineteen-year period (1969-1987) covered in this study, such continuing appropriations resolutions were employed for foreign/ military assistance for eight separate years, i.e., FY 1973, FY 1980-FY 1981, and FY 1983-FY 1987.
17. Lewis, Jean, "Historical Look at Objectives of Foreign Aid: Congressional Action and Legislative Changes, 1961-1982," unpublished paper prepared for the Commission on Security and Economic Assistance, Georgetown University, 1983, p. 37.
18. *Ibid.* The author suggests that the differing and less clear patterns of support for foreign assistance in the Senate than in the House are a result of several factors: greater influence in the Senate of personal political philosophies; less consituent pressure felt by Senators; and the greater exertion of influence by strong individuals in the Senate.
19. Destler, I. M., "Reagan and Congress--Lessons of 1981," *The Washington Quarterly*, Spring, 1982, pp. 3-14.
20. Mortsolf, Larry A., "The Role of Interest Groups in the U.S. Military Assistance Program, 1972-82," unpublished Ph.D. dissertation, University of Cincinnati, 1984.
21. Lewis, *op. cit.*, p. 36.
22. The conversion to FY 1986 constant year dollars employs inflation indices of 30.7 for FY 1969 and 51.4 for FY 1976, as reported in the *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987.* With respect to the IMET Program, the 3% (constant dollar) decline in appropriations has been offset somewhat by various legislative and administrative changes in military training pricing formulas since FY 1976 which have had the overall effect of reducing the cost of such training.
23. One attempt to include the 7-10 ratio in law was made in the House Appropriations Committee mark-up of the FY 1986 appropriations bill (H.R. 3228, 1 August 1985). The Reagan Administration strongly opposed the inclusion of this provision in law, and it was subsequently eliminated from the final statutory language of the bill by the Appropriations Conference Committee; however, that Committee's report on the bill included the statement that "the conferees direct that military assistance for Greece and Turkey be provided only in accordance with a seven-to-ten ratio." *Congressional Record*, 19 December 1985, p. H12969. See also, U.S. Senate. *Foreign Assistance and Related Programs Appropriations Bill, 1987.* Report of the Committee on Appropriations to accompany S2824, 99th Cong., 2d Sess., September 16, 1986, p. 125. The Senate committee, in recommending FY 1987 funding earmarks for Turkey at $490 million and Greece at $343 million observed, "This level of assistance thus provides funding recommendations based on the historic 7-to-10 ratio which Congress has consistently supported."
24. "Forgiven credit" first became an element in the FMSCR Program following the 1973 Middle East War. An emergency supplemental FY 1974 appropriation of $1.5 billion in FMSCR financing was furnished to Israel under a Congressional stipulation that Israel would be relieved of its contractual liability for the repayment of

this loan. In subsequent years, Israel continued to receive a combination of such forgiven loans plus additional standard loans which required repayment. In FY 1979, following the establishment of the Egyptian-Israeli Peace Treaty, FMSCR loans (repayable) were first extended to Egypt, with forgiven loans then added to Egypt's annual FMSCR account beginning in FY 1982. Since FY 1985, both countries have received only forgiven loans. Cumulatively, the FMSCR Program has furnished Israel a total of $23.2 billion in FMSCR financing of which $12.2 billion has been forgiven; Egypt has received $9.36 billion in total financing, with $4.81 billion in forgiven credits.

25. Personal interview with Lt Col John G. Bowman, USAF, Office of Security Assistance and Sales, Bureau of Politico-Military Affairs, U.S. Department of State. We are also indebted to Dr. Henry H. Gaffney, Director of Plans, Defense Security Assistance Agency, for his suggestions regarding Congressional perceptions of U.S. support to military dictatorships, and the use of IMET as a wedge to obtain FMSCR/MAP. The complex five-tier tuition system employed by the U.S. government for pricing foreign military training provides IMET recipients the lowest of four different FMS rates for the purchase of the same military training. Although this rate may be about twice that charged against the grant IMET account (the fifth tier), it nevertheless may run as low as 1/3 that of the top tier FMS rate. Tiers two and three provide special declining FMS rates respectively to NATO member countries (plus Japan, Australia, and New Zealand) and to MAP recipients. These pricing differences vary with respect to specified direct and indirect training costs, and despite efforts by the Reagan Administration to reduce the system to a single, low price (FMS/IMET price), Congress has sustained multi-tier pricing through the passage of successive legislation. Moreover, some current members of Congress seek a return to a full-price system.
26. U.S. House of Representatives. *Foreign Assistance and Related Programs Appropriations Bill, 1987.* Report 99-747 of the Committee on Appropriations to Accompany H.R. 5339, 99th Cong., 2d Sess., August 5, 1986, p. 80.
27. The statutory language associated with the waiver of authorization levels to permit higher level appropriations is instructive. Such a waiver was employed most recently in the omnibus FY 1987 Continuing Appropriations Resolution (P.L. 99-591), which included the *Foreign Assistance and Related Programs Appropriations Act, 1987*, and which increased MAP funding to $900 million or $94.9 million above the authorization level ($805.1 million) in P.L. 99-83. The waiver stated, "The amounts appropriated under this heading [i.e., Military Assistance] shall be made available *notwithstanding* Section 10 of P.L. 91-672, "Foreign Military Sales Act Amendment, 1970," and Section 15(a) of the "State Department Basic Authorities Act of 1956" [emphasis added]. It should be noted that FY 1983 and FY 1987 each represented the second year of a two-year authorization act, with funding authorized in each year at the same level of the respective preceding year (i.e., FY 1982 and FY 1986). These funding levels had fallen out-of-date with new assistance requirements, and this helps explain the increases in appropriations over authorizations for those two years.

APPENDIX A-1
Foreign Military Sales Credit Program Funding
FY 1969-1987
(Current Year Dollars in Millions)

Fiscal Year	Budget Request	Off-Budget and Program Authorization[1]	Off-Budget and Program Appropriation[1]	Difference Between Request and Authorization	Difference Between Request and Appropriation
1969	$296.00	$296.00	$296.00	$ 0.00	$ 0.00
1970	350.00	340.00	70.00	-10.00	-280.00
1971	885.00	840.00	741.10	-45.00	-143.90
1972	582.00	550.00	547.58	-32.00	-34.42
1973	629.00	550.00	530.86	-79.00	-98.14
1974	2,960.00	2,930.00	2,889.37	-30.00	-70.63
1975	872.00	872.50	848.84	+0.50	-23.16
1976	2,430.20	2,968.38	2,784.70	538.18	+354.50
1977	2,179.60	2,022.10	1,911.83	-157.50	-267.77
1978	2,217.50	2,152.35	2,101.00	-65.15	-116.50
1979	5,767.50	6,155.50	5,673.00	+388.00	-94.50
1980	2,188.00	2,235.00	1,950.00	+47.00	-238.00
1981	2,840.00	3,116.00	3,046.19	+276.00	+206.19
1982	4,054.40	4,069.53	3,883.50	+15.13	-170.90
1983	5,273.30	4,169.53	5,106.50	-1,103.77	-166.80
1984	5,656.00	5,761.50	5,716.50	+105.50	+60.50
1985	5,100.00	4,939.50	4,939.50	-160.50	-160.50
1986	5,655.00	5,371.00	5,190.00[2]	-284.00	-464.50
1987	5,611.00	5,371.00	4,040.40	-240.00	-1,570.60

1 Prior to FY 1985, FMSCR authorizations and appropriations included a mix of U.S government-funded loans (direct appropriations) plus off-budget authority for commercial loans and for financing obtained through commercial sources by the Federal Financing Bank of the Department of the Treasury. The dollar values shown above reflect the total of such annual off-budget authority plus direct U.S. government financing (i.e., program authorization/appropriation). Since FY 1985, all authorizations/appropriations consist only of direct U.S. government financing.

2 Reflects amount ($5190 million) appropriated under P.L. 99-190. Pursuant to P.L. 99-177 (Gramm-Rudman-Hollings), 4.3 percent of the FY 1986 FMSCR appropriation (or $223.170 million) was sequestered, leaving only $4,966.83 million available for obligation.

Sources: Defense Security Assistance Agency, *Foreign Military Sales, Foreign Military Construction Sales, and Military Assistance Facts* (annual issues, FY 1979 through FY 1986; and *Congressional Presentation for Security Assistance Programs, FY* 1987, Vol. I, pp. 89-90.

APPENDIX A-2
Military Assistance Program Funding
FY 1969-1987
(Current Year Dollars in Millions)

Fiscal Year	Budget Request	Program Authorization	Program Appropriation	Difference Between Request and Authorization	Difference Between Request and Appropriation
1969	$420.00	$375.00	$375.00	$ -45.00	$ -45.00
1970	425.00	350.00	350.00	-75.00	-75.00
1971	690.00	690.00	690.00	0.00	0.00
1972	705.00	500.00	500.00	-205.00	-205.00
1973	780.00	553.10	553.10	-226.90	-226.90
1974	685.00	512.50	450.00	-172.50	-235.00
1975	985.00	600.00	475.00	-385.00	-510.00
1976	790.00	245.88	252.20	-544.12	-537.80
1977	279.00	235.80	264.55	-43.20	-14.45
1978	230.00	228.90	220.00	-1.10	-10.00
1979	133.50	133.50	83.38	0.00	-50.12
1980	160.20	111.90	110.00	-48.30	-50.20
1981	104.40	106.10	110.20	+1.70	+5.80
1982	131.40	231.40	171.41	+100.00	+40.01
1983	557.00	238.50	383.33	-320.50	-173.67
1984	747.00	639.70	711.75	-107.30	-35.25
1985	924.50	805.10	805.10	-119.40	-119.40
1986	949.35	805.10	782.00[1]	-144.25	-167.35
1987	1,046.50	805.10	900.00	-146.50	-146.50

1 Reflects amount ($782 million) appropriated under P.L. 99-190. Pursuant to P.L. 99-177 (Gramm-Rudman-Hollings), $33.626 million (4.3 percent) of the FY 1986 MAP appropriation was sequestered, leaving only $748.374 million available for obligation.

Sources: Defense Security Assistance Agency, *Foreign Military Sales, Foreign Military Construction Sales, and Milittary Assistance Facts* (annual issues, FY 1979 through FY 1986; and *Congressional Presentation for Security Assistance Programs, FY* 1987, Vol. I, pp. 91-92.

APPENDIX A-3
International Military Education and Training Program Funding
FY 1976-1987
(Current Year Dollars in Millions)

Fiscal Year	Budget Request	Program Authorization	Program Appropriation	Difference Between Request and Authorization	Difference Between Request and Appropriation
1976	$37.00	$33.75	$28.75	$ -3.25	$ -8.25
1977	32.20	30.20	25.00	-2.00	-7.20
1978	35.00	31.00	30.00	-4.00	-5.00
1979	32.10	31.80	27.90	-0.30	-4.20
1980	32.90	31.80	25.00	-1.10	-7.90
1981	32.50	34.00	28.40	+1.50	-4.10
1982	42.00	42.00	42.00	0.00	0.00
1983	53.70	43.00	46.00	-10.70	-7.70
1984	56.53	56.45	51.53	-0.08	-5.00
1985	60.91	56.22	56.22	-4.69	-4.69
1986	65.65	56.22	54.49[1]	-9.43	-11.11
1987	68.83	56.22	56.00	-22.04	-23.94

1 Reflects amount ($54.49 million) appropriated under P.L. 99-190. Pursuant to P.L. 99-177 (Gramm-Rudman-Hollings), $2.343 million (4.3 percent) of the FY 1986 IMET appropriation was sequestered, leaving only $52.147 million available for obligation.

Sources: Defense Security Assistance Agency, *Foreign Military Sales, Foreign Military Construction Sales, and Milittary Assistance Facts* (annual issues, FY 1979 through FY 1986; and *Congressional Presentation for Security Assistance Programs, FY* 1987, Vol. I, p. 92.

Trends in Foreign Defense Transfers

[The following has been extracted from pages 362-367 of the *Congressional Presentation Document (CPD) for Security Assistance Programs, Fiscal Year 1988*, prepared jointly by the Department of State and the Department of Defense.]

INTRODUCTION

Since World War II, U.S. defense transfers have served the common security objectives of the United States and recipient governments. Under government-to-government programs and through commercial sales, U.S.-origin equipment and services have strengthened our friends and allies and enabled them to bear a larger share of the common defense burden.

U.S. defense transfers have, however, declined sharply since the early 1980's both in absolute terms and as a proportion of global transfers, reaching a nine year low in 1986. These transfers are unlikely to increase significantly during the rest of the decade.

This Administration supports the goal of a balanced reduction in world arms transfers if global and national security are not imperiled. The current decline in U.S. transfers does not serve this objective. Other countries' growing displacement of the United States as a supplier of defense articles and services is likely to increase the numbers and proportion of world transfers made with inadequate concern for the impact on regional and global stability and contribute to diminished western security.

WORLD SALES

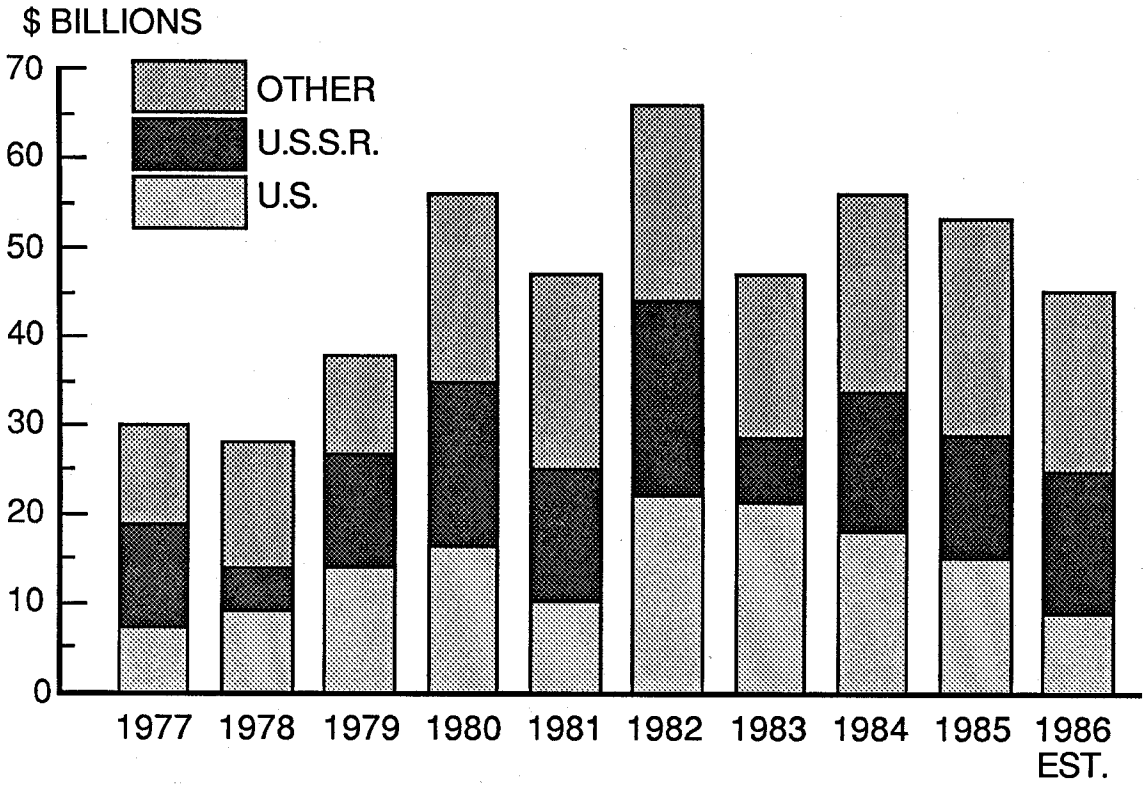
Figure 1 on the next page shows that worldwide defense purchases increased during the latter 1970s and early 1980s, an increase due mainly to Third World modernization and expansion financed primarily from gains in export income, particularly from oil. These military purchases rose to a peak of approximately $66 billion in 1982, fell in 1983, but recovered to a level near $55 billion during 1984-85. Final totals for 1986 are estimated to have fallen to about $45 billion.[1] If the impact of inflation is accounted for, the post 1982 decline in purchases is far more substantial.

Important factors that have contributed to the recent decline include the general slowdown in the world economy, especially reduced oil prices, the continuing world debt crisis, and either the completion of major defense modernization efforts, or country difficulties in absorbing large equipment acquisitions. The decline would have been sharper had not regional tensions exacerbated by the Iran-Iraq War sustained a high level of demand by the Persian Gulf states. Most of that demand has been satisfied by Soviet and Western European sales.

Analysis indicates that most countries are not likely to significantly increase purchases in the next few years. Although the industrial West has benefited significantly from reduced prices of oil and other commodities and can afford new systems on a regular basis, the Third World's purchases will be constrained by these low prices as well as by its continuing problems with accumulated debt.

1 All sales are shown in then-year dollars. Non-U.S. purchases refer to sales agreements measured by calendar year. U.S. sales refer to FMS sales agreements and commercial deliveries, and are measured by fiscal year.

FIGURE 1
WORLD DEFENSE TRANSFERS
1977-1986



U.S. SALES OF DEFENSE ARTICLES AND SERVICES

Boosted by the same factors that increased world demand, U.S.-origin sales climbed in the latter 1970s and peaked in 1982 at $22 billion, as shown in Figure 2. Unlike the worldwide pattern, however, U.S. sales have dropped sharply and steadily since 1982. U.S. defense-related sales in fiscal year 1986, including both FMS transfers and commercial cash sales, were only about $9 billion, the lowest level in almost a decade. *The U.S. portion of the world defense market, depicted in Figure 3 on the next page, also continued to decline from a peak of approximately 43 percent in FY 83 to a point where in FY 86 it probably will be less than 25 percent.*

The fall in total U.S. sales since FY 82 reflects both domestic and external factors. Self-imposed political and technology transfer constraints have caused the U.S. to turn down certain requests, many of which have been filled by less constrained suppliers. The political and military value lost for these policy considerations has been greatest in the Middle East due to bias against sales to moderate Arab states who are not directly identified with the Camp David Accords. Reductions in FMS credit and MAP funding in FY 86 also limited the USG's ability to meet friends and allies' legitimate defense requirements. Externally, U.S. manufacturers have been affected by increased competition from foreign arms production and greater efforts by developed states to explore more convenient cooperative marketing arrangements that enhance their domestic industrial and technological development.

FIGURE 2
U.S. DEFENSE TRANSFERS
FY82 - FY86

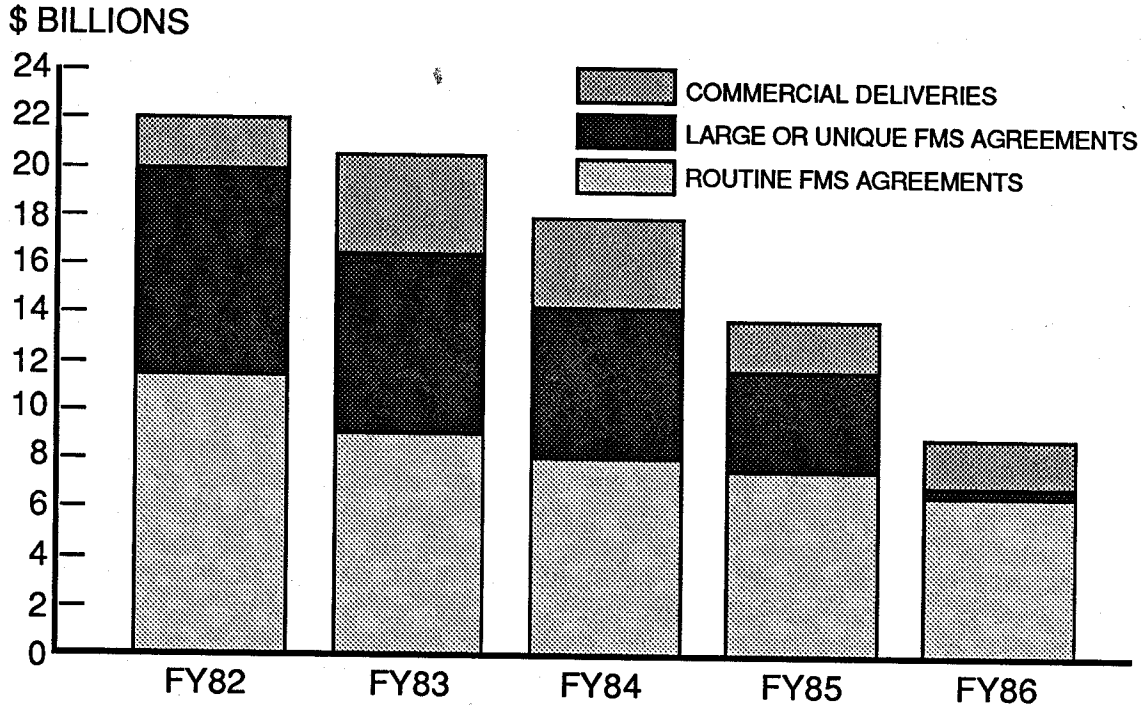
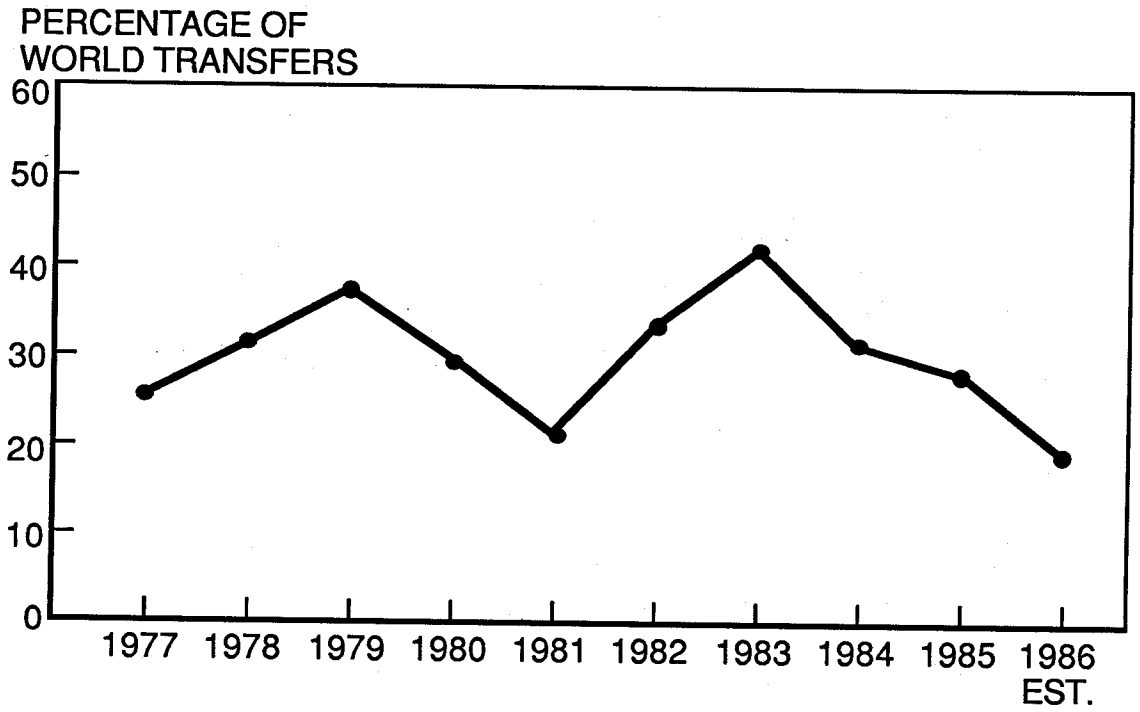


FIGURE 3
U.S. PORTION OF WORLD DEFENSE TRANSFERS
1977-1986



OTHER TRENDS

Arms production outside the United States, especially in Western Europe, and in the industrialized Third World is increasing both in scope and sophistication. While the expansion of arms production has been quite extensive in the Third World since the end of the Second World War, the expansion of the developed world's, and especially Western Europe's, arms production has had even a greater impact on the level of U.S. sales. The developed states have increased the sophistication of their arms production, turning out systems that compete favorably with American products' performance.

Despite the fact that developing and producing a major defense system is expensive and more risky than purchasing one from an established supplier, many states continue to expand their own arms production efforts, viewing such production as a means of reducing the perceived drain of resources abroad and as a vehicle to spur general domestic development. To mitigate the costs and risks associated with system development, these states are increasingly turning to joint or multi-national ventures.

The expansion of the scope and sophistication of foreign arms production is especially evident in Western Europe. Our NATO allies have been unhappy with the American dominance of the intra-NATO trade in defense articles and services. To relieve this perceived drain on their economies, especially in terms of domestic jobs, our European allies are producing more of their own systems, often cooperatively, as a substitute for buying from the U.S. Our allies' perception of the one-way street in armaments cooperation and their reaction to it has strained U.S.-NATO relations and has hindered efforts to enhance the standardization and interoperability of alliance forces. It may also portend a long-term trend toward substantially reducing the U.S. presence in the defense market.

Figure 2 on the previous page depicts the latest five-year trend in U.S. defense transfers.

To address NATO concerns, and provide evidence of a two-way street, the United States has taken the lead in promoting expanded armaments cooperation. In the forefront of this effort have been the cooperative projects launched with funds appropriated specifically for this purpose under the Nunn Amendment. Expanded cooperation should also reduce NATO security assistance requirements by increasing the recipients' ability to provide a larger share of their defense needs. This further serves one of the key objectives of the U.S. security assistance program--self-sufficiency.

Increased indigenous arms production is also resulting in efforts by more countries to export more military systems. Export sales are seen as essential by many of these states to their ability to maintain a domestic arms industry at acceptable cost. While developed countries are increasingly displacing the U.S. as a supplier of sophisticated equipment, countries such as Brazil, Israel, South Korea, and China, sell primarily low-priced, moderately sophisticated systems to states who do not need or can not afford the most advanced systems.

The governments of other countries generally promote, often vigorously, the export of their arms, while the United States does not market products. Other countries and their industries have also proven more willing to enter into barter and countertrade arrangements. Foreign exporters generally operate under fewer political and technological transfer constraints than do U.S. suppliers. The principal advantage the U.S. enjoys as a supplier are its state-of-the-art technology, comprehensive and reliable system support, and for a few selected recipients, an all grant aid financing program.

CONCLUSION

The U.S. has limited influence over the sales promotion of European, Soviet bloc, and Third World sources of military equipment. Furthermore, the U.S. cannot control the decisions of sovereign nations regarding either the types of defense systems purchased or the choice of supplier.

There are several things, however, which the U.S. should consider in assessing future arms transfers.

First, we must recognize the growing trend among developed countries of the world to seek increasingly cooperative arrangements which maximize the benefits to their industrial and technological base. The Congress endorsed this concept in the recent Nunn/Quayle legislation, which increased flexibility for NATO cooperative ventures.

Secondly, we must recognize and respond to the legitimate self-defense needs such as those of moderate Arab states. The fact of an increasingly broad spectrum of alternative sources to meet requirements ensures that some other country will sell major systems when the U.S. refuses, depriving the U.S. of any influence over the use of these systems.

Third, we need to recognize and react to the corrosive effect that declining foreign defense purchases have upon the U.S. industrial base. As foreign purchases decline, the U.S. must bear a greater share of research and development costs and accept less cost-effective U.S. defense production.

Fourth, the U.S, must continue to provide MAP funding or concessional financing to our developing friends and allies to enhance their security, foster their development, and more securely bind them to the West.

Unless the U.S. Government and U.S. defense industries are able to deal with domestic constraints and external challenges, it is unlikely that the United States will be able to satisfactorily address its friends and allies' legitimate self-defense requirements during the rest of this decade. Foreign military and political influence will be affected adversely.

Patriot Missile Sales:
A Case Study in Offset Sales Arrangements

[The following study has been extracted from the *Second Annual Report on the Impact of Offsets in Defense Related Exports*, dated December 1986, pages II-1 and II-21 through II-31. This report, prepared by the Office of Management and Budget (OMB), was furnished to Congress pursuant to the requirements of Section 309 of the Defense Production Act. Requests for copies of the complete report should be placed with the OMB Publications Office, (202) 395-3610.]

DEFENSE PREPAREDNESS

Armaments cooperation, including coproduction, is an integral part of U.S. efforts to improve acquisition management and modernize conventional forces. The objectives of these efforts are to develop, field, and support--through equitable burdensharing--the most effective and interoperable conventional military equipment for U.S. forces and those of its allies and friends. The support we have received from Congress has been a vital part of our ability to establish growing defense cooperation partnerships with various countries.

To gain the benefits of technological advances elsewhere, DOD has instituted management practices and organizational changes to assure that allied developments and products are thoroughly considered in U.S. acquisition strategies and decisions. This has resulted in a greater commitment to force modernization by our allies. Through armaments cooperation and reciprocal defense trade, the economic burden is shared and access to the best technology is enhanced. The result is more modern and common equipment delivered sooner to all allied forces with concomitant improvement in the viability of coalition strategy.

* * * * * * * *

[The following represents] a case study of Patriot missile sales to the Governments of the Federal Republic of Germany (FRG), Japan (GOJ), the Netherlands (GON), the related offset agreements, and an overview of the potential impact of the transactions on U.S. industrial competitiveness. The case study does not attempt to assess United States foreign or defense policies or objectives associated with these sales. This case study focuses only on industrial competitiveness which is only one factor in the complex decision making process on defense exports.

Introduction

The Patriot surface-to-air missile was chosen for examination because the sales encompass various types of defense-related offsets, including coproduction, licensed production, subcontractor production, overseas investment, technology transfer, and countertrade. There are several limitations to this case study. Because these three sales are so recent, it is difficult to quantify at present their impact on overall U.S. industrial competitiveness or on the subcontractor base. No survey of U.S. industry was conducted, nor was the DPA 309 data base used, as these transactions are outside the time frame for that file. However, Table II.B.1 puts the case study transactions in the same format as the information in the DPA 309 data base. [The DPA 309 data base is a system employed by the Office of Management and Budget for tracking and analyzing offset sales programs which are reported annually to Congress pursuant to Section 309, Defense Procurement Act (DPA).]

The Patriot surface-to-air missile (SAM) system is the first new heavy SAM system fielded by the U.S. in over 20 years. The military operational requirement for the Patriot stems from the need to improve air defense in Northern and Central Europe. Over 75% of U.S. Patriot battalions will be deployed to Europe. Although there are numerous light, low altitude SAM systems deployed in NATO, SAM systems capable of countering medium and/or high-level aircraft attacks are outmoded in many respects.

TABLE II.B.1
Patriot Sales and Offset Transactions
(U.S. $ millions)

	Germany	Netherlands	Japan	Totals
Sales Value	872	305	1,125	2,302
Offset Obligation	500	305	--	805

The Patriot system is capable of attacking enemy aircraft at all practical altitudes from sea level to up to 90,000 feet, and is the first land based system deployed in the Free World that can launch missiles against multiple targets simultaneously. Previous Army systems, such as the HAWK (Homing All the Way Killer) missile, while capable of engaging several targets in rapid succession, can only track one target at a time. The Patriot is therefore a "force-multiplying" system. It offers improved reliability, range, and requires far fewer radars and other components than previously deployed systems in the NATO arsenal. Its combination of mobility, reliability, and firepower make it superior to all but the most advanced Soviet SAM systems.

The Patriot system was developed during the early 1970s, at a cost of more than $2.2 billion and began operational deployment in the early 1980s. It was designed primarily for the NATO European theatre of operations, and the participation of NATO European countries in its procurement is essential if the system is to provide an effective air defense shield for NATO forces. Since 1975, the United States has been actively promoting the system to allied countries. These activities have resulted in the three sales discussed here and negotiations are continuing with Italy, Belgium, and other countries.

The Patriot is the only SAM system of its type in the Free World. The only potential competitor to the system is Hughes Aircraft's proposed NIKE Phoenix system which exists only in concept. Hughes proposes to develop an improved system from the aged NIKE. It would incorporate modern target acquisition and fire control technologies. As yet, no prototype of the proposed system has been built, and therefore it is not yet in the demonstration phase.

Some of the more important high technology products in the Patriot include avionics, advanced metallurgical products, advanced plastics and ceramics, composites, propulsion systems, computer hardware and software, and instrumentation. In addition, production of the Patriot requires the use of numerous manufacturing and process technologies. Some of the more advanced and critical types include computer-aided design and computer-aided manufacturing (CAD/CAM), powder metallurgy, systems integration, advanced alloying processes, robotics, factory testing equipment, laser welding and metrology, and CNC machine tools.

Table II.B.2 shows U.S. merchandise trade with the three countries included in the case study in 1985.

TABLE II.B.2
U.S. Merchandise Trade with Selected Countries, 1985
(U.S. $ millions)

	Total Exports	Total Imports	Military Exports	Military Imports	Balance All Trade	Balance Mil. Trade
Germany	9,050	20,239	125	23	-11,189	97
Netherlands	7,269	4,081	51	11	3,188	40
Japan	22,631	68,783	440	19	-46,152	421

Patriot Sale to the Federal Republic of Germany (FRG)

In 1984, the U.S. Secretary of Defense and the FRG Minister of Defense signed the Agreement Implementing Cooperative Measures for Improving Air Defense in Central Europe. The agreement was based on the principle of substantially improving NATO air defenses through equitable defense burdensharing and mutual reinforcement of the individual defense capabilities of both countries. Both parties were to benefit from the enhanced deterrence facilitated by the strengthening of NATO air defenses and the standardization of equipment.

The FRG agreed to buy 27 Roland fire units, to be deployed and manned by FRG Air Force personnel at U.S. Air Force main operating bases in Germany. The Roland is a low-altitude SAM system, built jointly by France and the FRG.

For the FRG, the purchase of the Roland offered the dual advantages of supplying their air defense battalions, and increasing production of the German-built Roland. They will also replace missiles in existing German air defense battalions with Patriots, and man them for the common air defense of Germany. Further, the Germans also agreed to provide mutually agreed improvements worth $50 million toward projects which the U.S. and the FRG agree are beneficial to the air defense of the NATO Central Region.

The U.S. Government agreed to grant the FRG an additional 14 Patriot fire units in exchange for the Roland protection and FRG operation and maintenance of an additional 12 U.S.-owned fire units. The latter group is to be operated and maintained by the FRG air defense forces for a period of 10 years.

The FRG purchased 14 Patriot fire units from the U.S. government for $872 million in 1984 dollars. The U.S. cost of the complete Patriot system is $100 million per fire unit. The main reason that the price [for the FRG] is lower is that the FRG will build their own truck/trailer units, electric generators, communications and identification friend or foe equipment, and other FRG organic items. The price was also reduced by the decision to waive non-recurring production and R&D charges.

In a separate agreement, Raytheon agreed to provide German industry with $500 million dollars in offsets for contracts for the manufacture of Patriot components and spare parts, and for logistical services. The period of performance extends to the year 2000. The components to be coproduced by German firms include: rocket motor, warhead, safe and arm device, igniter, display and controls, IFF antenna, IFF antenna elements, missile TWT [traveling wave tubes], missile batteries, missile CRAF, modules, cables and distribution boxes. However, those components that make Patriot a state-of-the-art air defense system (e.g., the system radar sets and missile guidance section and software) will be produced in the United States.

Five firms in the FRG are licensed to produce major subsystems for the Patriot system at a total value of more than $300 million. Two-thirds of the production will be undertaken by

Messerschmitt, Boelkow, and Blohm (MBB), the German contractor for the production arrangement. The firms and the components they produce include:

German Firm	U.S. Licensor	Component	Quantity
MBB	Raytheon	Rocket Motors	1,980
		Propulsion Section Assemblies	1,980
		Missile Round Assemblies	1,980
		Safety and Arming Devices and Warheads	1,680
		Control Section Assemblies	840
AEG	Raytheon	Traveling Wave Tubes	1,680
Siemens	Raytheon	Displays and Controls	36
		IFF Antennas	37
Diehl	Eagle Picher	Batteries	1,680
	Raytheon	Electronic Modules	10,316
Motorenwerk Bremerhaven	Raytheon	Cables	16,416

Many of the individual components of the Patriot missile system are not state-of-the-art technology. What makes the Patriot a superior system is its design for the integration of its components and the manufacturing technology embodied in the production of the missile. The Patriot is a classic example of applied engineering: it achieves its exceptional capabilities through superior design engineering. Components of relatively low sophistication are wedded in a system resulting in superior performance. The significance of these characteristics of the Patriot system is that FRG industry may gain access to a number of production management techniques more advanced than those currently in use in the FRG missile industry. The FRG currently manufactures only one SAM missile, the Roland, in cooperation with Aerospatiale [in France].

U.S. contractors whose parts and components are being produced in the FRG may also face new competitors in bidding on future Patriot orders, whether such orders are placed in the U.S. or a foreign government. Furthermore, if commercial applications are related to the military technologies/capabilities acquired by the new competitor, the commercial markets of the U.S. subcontractor could be threatened as well.

Eagle Picher, for example, the single source for batteries used in the Patriot missile as well as many other weapon systems (including 11 U.S. frontline precision guided missiles), is duplicating its capabilities through a joint venture with Diehl in Germany. Additionally, these capabilities will be triplicated by Mitsubishi Heavy Industries in Japan under their Patriot coproduction agreements. While batteries are undoubtedly a vital component in the Patriot system and this excess production capacity may be useful in a mobilization emergency, one can question whether it makes economic sense to create two new and/or enhanced competitors and excess production capacity in such a narrow market.

Further, [Germany's] AEG, a world leader in the design and production of travelling wave tubes (TWT), will be making 1,680 TWTs for Patriot. Japan will also be producing TWTs under their Patriot coproduction agreement. Factory test equipment and other capabilities necessary for TWT production will be copied and reproduced in the FRG and Japan as well. In a report on the Microwave Tube Industry completed by the Commerce Department in September 1984, it was noted that U.S. exports of high value TWT's play an important role in the industry's continued profitability. From a long-term perspective, enhanced competitors in Europe and Japan could be expected to diminish the export potential from the U.S. and erode the profit opportunities of the

remaining high value TWT industry in the U.S. The low-value end of the TWT industry in the U.S. is already threatened by import competition.

The FRG will design and build their own truck/trailer units and electric generator units for the Patriot, taking potential sales away from the U.S. contractor, Southwest Mobile Systems. This will also affect component vendors that supply parts to Southwest and could reduce Southwest's future sales if the German truck/trailer contractors bid on future Patriot orders. Mann, the German truck/trailer manufacturer, bid [unsuccessfully] on the original Patriot orders for the U.S.

In addition, the basic inefficiencies associated with offsets (i.e., duplication of production facilities, excess capacity, uncompetitive components and subsystems) may further add negative competitive impacts to the buyer and/or seller. The U.S. Army estimates the German per unit coproduction costs for the complete Patriot missile system to be twice that of Raytheon's unit costs. The higher costs are attributable to high start-up costs, investment in tools and equipment, transportation charges for materials and supplies, and workforce training amortized over fewer units.

The FRG Patriot sales agreement is an example of an international arms sale where the foreign policy considerations and military operational requirements for the air defense of NATO Europe may compete with considerations of trade balance and industrial competitiveness considerations. While U.S. industry will benefit from the FRG order for 14 Patriot fire units and NATO will gain from improved air defense capability and interoperability, the impact of the direct offsets in the form of coproduction, subcontracting, and technology transfer may contribute to the capabilities of German industry and may have future negative effects on subcontractors of the U.S. defense base.

Patriot Sale to the Netherlands

The background of the sale of four Patriot fire units to the Netherlands is similar to that of the FRG sale. In an effort to meet the priority requirement to increase NATO Europe's air defense capabilities, the U.S. responded to the Netherland's request for a proposed Patriot sales package. This package was modified during subsequent negotiations to include offsets.

The sale of Patriot to the Netherlands was unusual in that it involved both direct and indirect offsets to be provided by Raytheon, and direct fulfillment of a $70 million offset to the Netherlands by the United States Government. The fulfillment of offsets by the U.S. Government is not a standard practice. The DOD policy (Duncan Memorandum) on offsets states that the U.S. Government will "not normally enter into offset agreements." However, in this case it was deemed necessary for foreign policy and national security reasons.

The basic structure of the U.S.-Netherlands agreement was as follows: The Netherlands would buy four Patriot fire units (reduced strength, five launchers per set--a total of 160 missiles), for $305 million under an FMS sales agreement. The Netherlands also agreed to make manpower and other services valued at $33 million available for use by the U.S. The U.S. prime contractor, Raytheon Corporation, agreed to "best efforts" to provide the Netherlands with $235 million in direct and indirect offsets. The period of performance of the contract is 1984 through 1999.

The total offset commitment to the Netherlands--$305 million--is equal to 100% of the purchase price of the Patriot fire units to be implemented over a 15 year period. The Netherlands is another case where foreign policy considerations and military operational requirements may compete with future industrial competitiveness considerations.

The U.S. prime contractor, Raytheon Corporation, will benefit from increased sales of the Patriot, but at a cost of absorbing $115 million in direct offsets and $120 million in indirect offsets. Raytheon will discharge its indirect commitment through the purchase of goods and services in the

Netherlands before the end of 1999. As part of the Patriot coproduction agreement ($65 million), Fokker aircraft of the Netherlands will be producing electronic circuit boards (modules) and electronic power supplies (small transformers), and will duplicate Raytheon's special factory test equipment.

In addition, the U.S. Army will buy 1,980 (+/- 3%) Patriot missile cannisters, with a value of about $70 million, which will be produced in the Netherlands, displacing potential sales of U.S. companies. This is the U.S. government financed offset which distinguishes the Netherlands arrangement from the others in the case study.

Patriot Sale to Japan

The Patriot sale to Japan contributes to the foreign policy and national security objectives of the U.S. by improving the military capabilities of Japan; furthering rationalization, standardization, and interoperability; and enhancing the defense capability by replacing aging NIKE Hercules systems. Because of domestic Japanese political considerations, Japan will not enter into an FMS program of this magnitude. Consequently, DOD entered into a coproduction Memorandum of Understanding with the Government of Japan for the Patriot program.

Under the terms of the agreement, Japan will produce 26 Patriot fire units in cooperation with Raytheon Corporation. One of the unusual aspects of the agreement is that Raytheon and its subcontractors (Martin Marietta, Eagle Picher, Hazeltine, and others) in essence will be licensors and subcontractors to the Japanese. With Mitsubishi Heavy Industries acting as prime, the Japanese will produce all components (electronics, mechanical components, metal parts, microwave, propulsion, etc.) of the Patriot system except the fuse and the program guidance, and the surveillance and identification software.

Estimated fees and orders from Japan to Raytheon and other U.S. companies will approximate $776 million or 29.6% of the estimated total contract value of $2.6 billion. The U.S. government will sell another $345 million, or 13.1% of the value of the contract. Overall, the U.S. will receive 43% of the value of the sale.

The agreement also highlights the importance to Japan of obtaining U.S. technology and production know-how for future defense and commercial industrial goals. The Department of Defense estimated that Japan, because of uneconomical production runs in coproducing the Patriot, will pay between 55 and 80 percent more for the system than had it been directly purchased from the U.S. Raytheon Corporation.

From an industrial competitiveness standpoint, the U.S.-Japan coproduction agreement has several major negative features. For an outlay of equal to less than one-half the FMS face value of 26 Patriot fire units, the Japanese government will establish the full production, engineering, management, and technology transfer required to greatly enhance their production experience in the missile sector of the aerospace industry. The Japanese Government has identified aerospace as a priority for industrial development. The Patriot coproduction program will further this objective.

The Japanese are at least equal to, and in some circles, considered superior to U.S. firms in making the hardware components, such as computer numerically controlled machine tools and robotics that make up automated factory systems. They also offer the hardware at substantially lower prices than their U.S. competitors. U.S. firms are currently the world leaders in developing flexible manufacturing systems software. This gives U.S. builders of factory automation systems a major competitive advantage over rivals in Japan since the software is by far the most important element of these systems. The historic weakness of Japanese companies in the factory automation field has been in the development of systems software. The Japanese are making every effort to

license CAD/CAM technologies from leading U.S. firms. If they are successful, they may, as they have done with other technologies, develop a productivity advantage in this area as well.

The Japanese are already capable of producing most of the parts and components that comprise the Patriot system. For example, Japanese firms are the dominant competitors in many of the commercial markets for items such as semiconductors, optical components and bearings, where they are gaining substantial market positions in the United States. All they require for the Patriot coproduction is some additional engineering, test equipment, and production experience.

The U.S.-Japan Patriot coproduction agreement will achieve U.S. national security objectives, and provide a 1/3 share in the production of an additional 26 Patriot fire units to the U.S. prime contractor and associated subcontractors and vendors. On the other hand, the production and the technology gained by the Japanese may be detrimental to U.S. industrial competitiveness in the long term.

CONCLUSIONS

The Patriot missile system sales have had these effects from an economic perspective:

- Increased the sales income of the U.S. prime contractor and some related subcontractors.
- Increased employment in the United States and abroad.
- Increased the production and decreased the cost of Patriot missiles and components in the United States and abroad.
- May have increased the number of competitors by transferring technology, management know-how, and tooling to foreign defense industries.

Offsets are a major factor in the competition for international defense sales, even in the sale of systems such as the Patriot missile which has no competitors. Foreign purchasing governments use offsets as a trade management tool for the purposes of preservation of foreign exchange, the targeted development of selected industrial sectors, and the enhancement of the capability of domestic industries through technology transfer. In the future, we can expect increased numbers of foreign competitors for both complete and partial weapons systems as well as commercial products because of arrangements such as the Patriot deals.

The Role of the Arms Control and Disarmament Agency (ACDA) in Security Assistance and Arms Transfers

[The following is a reprint of an 8 April 1987 statement by ACDA.]

The role of ACDA in U.S. security assistance is legislated by Section 511 of the Foreign Assistance Act of 1961, as amended. This provision requires that all decisions to furnish military assistance be coordinated with the Director of the Arms Control and Disarmament Agency and the Director's opinion be taken into account on the extent to which proposed military assistance might:

(1) contribute to an arms race;
(2) increase the possibility of outbreak or escalation of conflict; or
(3) prejudice the development of bilateral or multilateral arms control arrangements

ACDA participates in the Security Assistance Program Review Working Group (SAPRWG) which develops proposed fiscal year U.S. security assistance programs. ACDA's role in the group is to ensure that arms control considerations are fully taken into account in the development of proposed country programs. ACDA, along with other participants in the working group, receives as an important input the Annual Integrated Assessment of Security Assistance (AIASA) prepared by our embassies. ACDA reviews each proposed country program and drafts a separate section on arms control considerations in the annual *Congressional Presentation for Security Assistance Programs (CPD).*

In addition, under Sections 38 and 42 of the Arms Export Control Act, ACDA must evaluate and render its opinion from an arms control standpoint on proposed Foreign Military Sales and commercial export license requests for military equipment. The Agency makes its views known to the Department of State on about 1,500 cases per year.

The primary office within ACDA responsible for implementing and carrying out the Director's statutory requirements in security assistance and arms transfers is the Arms Transfer Division of the Nuclear and Weapons Control Bureau.