SECURITY ASSISTANCE LEGISLATION AND POLICY

FY 1986 Security Assistance Funding Reductions

By

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As reported in the previous issue of *The DISAM Journal*, the FY 1986 appropriations for security assistance programs were expected to be reduced through the application of the Gramm-Rudman-Hollings deficit reduction legislation. On 1 February 1986, an overall decrease of 4.3 percent was determined to be required, and the cuts (or "sequesters") took place on 1 March. In the application of the sequestration process, each security assistance program was reduced by 4.3 percent, with the cuts distributed uniformly (without any exceptions) for each recipient country's individual program allocations. Table 1 on the next page provides a comparison of these "post-sequester" program allocations with both the Administration's original FY 86 funding request and the enacted appropriations contained in the FY 86 Continuing Appropriations Resolution (P.L. 99-190, 19 December 1985). The negative figures shown in parentheses under the post-sequester column represent the cumulative difference (in dollar value and in percentages) between the Administration's request and the actual funding available for obligation in FY 86.

The Administration's FY 87 budget proposal for security assistance programs was submitted to Congress in February, 1986. Totaling $10.859 billion, it represents a one percent increase over the FY 86 request, but a 14 percent increase over the post-sequester funding available for FY 86. As noted in the *FY 1987 Congressional Presentation Document for Security Assistance* (CPD):

> Because of insufficient authorizations and appropriations, Congressional earmarks and a uniform 4.3 percent balanced-budget reduction . . . taken proportionally from every country and regional program level, virtually all countries are receiving less assistance in FY 1986 than they received in FY 1985, even though U.S. policy imperatives and country program requirements have not diminished . . . . The FY 1987 budget request, in many cases, has been framed to restore programs to continuity levels established in FY 1985 and previously, and to provide for increases where warranted. [Pp. 3-4.]

In the selected articles which follow, extracts from the *FY 87 CPD* are provided which furnish additional details of the FY 87 budget request. Also included are statements by senior Administration spokesmen in support of the request before cognizant Congressional committees.

Table 1
FY 1986 Security Assistance Funding
(Dollars expressed in thousands)

Programs	FY 1986 Administration Request	FY 1986 Continuing Resolution	FY 1986 Post-Sequester Funding
Foreign Military Sales Financing Program (FMSFP)	$5,655,000	$5,190,000	$4,966,829 (-688,171) (-12%)
Military Assistance Program (MAP)	949,350	782,000	748,374 (-200,976) (-21%)
International Military Education and Training Program (IMET)	65,650	54,490	52,147 (-13,503) (-21%)
Economic Support Fund (ESF)	4,024,000	3,700,000	3,546,642 (-477,358) (-12%)
Peacekeeping Operations (PKO)	37,000	34,000	32,538 (-4,462) (-12%)
TOTALS	**$10,731,000**	**$9,760,490**	**$9,346,530** **(-1,384,470)** **(-13%)**

Congressional Presentation for Security Assistance Programs, Fiscal Year 1987

[The following has been extracted from pages 1-4, 9-21, and 79-83 of the *Congressional Presentation Document (CPD)* for FY 1987. The *CPD* is jointly prepared annually by the Department of Defense and the Department of State for presentation to the Congress. It provides a description and justification of the various security assistance programs which require Congressional authorization and appropriation.]

FY 1987 SECURITY ASSISTANCE PROGRAMS

This Presentation Document is submitted to the Congress in explanation and support of the sixth Security Assistance budget request by the Reagan Administration.

During the last five years Congress and the Executive Branch together have reaffirmed the importance of Security Assistance as an element of United States foreign policy and defense strategy. Legislative changes to the Foreign Assistance Act and Arms Export Control Act, passed by the Congress in 1981 and 1985, have added clarity and flexibility to Security Assistance programs. *Although there is much more to be done, significant results have been achieved because of agreement between Congress and the Administration on the overall foreign policy and security goals which Security Assistance is designed to serve--goals that have remained remarkably constant over the last 40 years.*

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Taken as a whole, the preceding four years of U.S. Security Assistance efforts reflect constructive interaction between the Administration and the Congress. Substantially increased Security Assistance budgets in the FY 1981-1985 period are yielding significant benefits in the protection of vital U.S. interests and in the pursuit of specific foreign policy and defense goals.

Prudent, carefully planned growth in both the economic and military components of Security Assistance has increased the strength and confidence of our friends and allies around the world, and has complemented the rebuilding of our own forces and capabilities. It has facilitated the Middle East peace process by continuing strong economic and military support for Israel, and by helping to meet the legitimate needs of moderate Arab states in the region. It has helped to strengthen our coalition defense posture within NATO and to contain Soviet and Cuban supported insurgency and subversion in Central America and the Caribbean.

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The Administration believes strongly and urges the Congress to recognize that, despite the successes in recent years, the tasks that must be accomplished through Security Assistance are far from complete. *Adequate resources are vital if we are to continue to safeguard our worldwide interests and carry out our free world leadership responsibilities.* The future challenges for Security Assistance will be to consolidate the gains and sustain the momentum of success made over the last five years. We must continue to work with our friends around the world to deter and contain Soviet and other aggression, and to build a better, more stable international environment.

Because of insufficient authorizations and appropriations, Congressional earmarks and a uniform 4.3 percent balanced-budget (Gramm-Rudman-Hollings) reduction taken proportionally from every country and regional program level, virtually all countries are receiving less assistance in FY 1986 than they received in FY 1985, even though U.S. policy imperatives and country program requirements have not diminished. *Therefore, the final or actual program levels shown in the 1986 columns of this document reflect these reductions.* Among the countries affected are NATO allies and countries with which we have important base rights agreements, such as Turkey; certain key countries in the Middle East, Africa and Latin America, and even some of the most threatened nations in Asia. The FY 1987 budget request, in many cases, has been framed to restore programs to continuity levels established in FY 1985 and previously, and to provide for increases where warranted.

The Administration recognizes that the FY 1987 request is being submitted at a time of severe competition among national priorities. It is important to emphasize, however, that judiciously-spent dollars for Security Assistance often produce substantial returns and complement U.S. efforts to improve its own national defense. The priority for an adequate level of security assistance is a real and serious one. *The program outlined in this Presentation is a balanced mixture of economic and military assistance at levels clearly tied to national goals and objectives.* It will provide maximum security benefits to the United States while avoiding the much larger cost of direct United States involvement.

[The following table identifies the separate program elements of the FY 1987 Security Assis - tance budget request by principal policy objectives for all recipient countries and regional/special programs.]

FY 1987 Security Assistance Program Budget Authority [Requested] (Dollars in Thousands)

	ECONOMIC SUPPORT	FMS FINANCING TREAS.	FMS FINANCING CONCESS.	MAP (GRANTS)	IMETP (GRANTS)	PKO	TOTAL
PROMOTE MIDDLE EAST PEACE:							
EGYPT	815000	0	1300000 a/	0	2000	0	2117000
ISRAEL	1200000	0	1800000 a/	0	0	0	3000000
JORDAN	18000	50000	65000	0	2000	0	135000
LEBANON	2000	0	0	0	800	0	2800
MIDDLE EAST REGIONAL PROGRAM	25000	0	0	0	0	0	25000
TOTAL	2060000	50000	3165000	0	4800	0	5279800
ENHANCE COOPERATIVE DEFENSE & SECURITY:							
DJIBOUTI	5000	0	0	3000	150	0	8150
GREECE	0	500000	0	0	1750	0	501750
KENYA	22000	0	0	20000	1800	0	43800
LIBERIA	40000	0	0	8000	1400	0	49400
MOROCCO	20000	0	10000	60000	1850	0	91850
OMAN	18800	40000	0	0	205	0	59005
PANAMA	28000	0	4000	9800	750	0	42550
PHILIPPINES	95000	0	50000	50000	2750	0	197750
PORTUGAL	80000	21500	45000	75000	3000	0	224500
SOMALIA	30000	0	0	35600	1550	0	67150
SPAIN	12000	400000	0	0	3000	0	415000
SUDAN	90000	0	0	50000	1750	0	141750
TURKEY	150000	145000	455000	220000	4000	0	974000
TOTAL	590800	1106500	564000	531400	23955	0	2816655

	ECONOMIC SUPPORT	FMS FINANCING TREAS.	FMS FINANCING CONCESS.	MAP (GRANTS)	IMETP (GRANTS)	PKO	TOTAL
DETER AND COMBAT AGGRESSION:							
CAMBODIA RESISTANCE	5000	0	0	0	0	0	5000
CHAD	7000	0	0	9000	250	0	16250
COSTA RICA	150000	0	0	3100	250	0	153350
EL SALVADOR	240000	0	0	134650	1600	0	376250
HONDURAS	90000	0	0	87500	1300	0	178800
KOREA	0	230000	0	0	2200	0	232200
PAKISTAN	250000	340000	0	0	1400	0	591400
THAILAND	5000	42500	61000	5000	2500	0	116000
TUNISIA	20000	0	27000	40000	1800	0	88800
YEMEN	0	0	3000	5000	1550	0	9550
TOTAL	767000	612500	91000	284250	12850	0	1767600
PROMOTE REGIONAL STABILITY:							
AFGHANISTAN HUMAN. ASSISTANCE	15000	0	0	0	0	0	15000
AFRICA - ECONOMIC POLICY REFORM	75000	0	0	0	0	0	75000
BELIZE	3000	0	0	1000	100	0	4100
BOLIVIA	20000	0	0	6000	400	0	26400
BOTSWANA	8000	0	2000	6000	400	0	16400
BURMA	0	0	0	1000	350	0	1350
CAMEROON	0	7000	0	0	300	0	7300
CENTRAL AFRICAN REPUBLIC	0	0	0	1000	165	0	1165
CENTRAL AMERICA REGIONAL	75000	0	0	0	0	0	75000
CIVIC ACTION - AFRICA	0	0	0	10000	0	0	10000
COLOMBIA	0	0	10000	10000	950	0	20950
CYPRUS	3000	0	0	0	0	0	3000
DOMINICAN REPUBLIC	50000	0	3000	7000	850	0	60850
EASTERN CARIBBEAN	35000	0	0	9000	400	0	44400
ECUADOR	15000	0	0	8000	650	0	23650
EQUATORIAL GUINEA	0	0	0	1000	130	0	1130
FIJI	1500	0	0	300	125	0	1925
GABON	0	5000	0	0	150	0	5150
GUATEMALA	70000	0	0	10000	500	0	80500
GUINEA	0	0	0	5000	150	0	5150
HAITI	5000	0	0	500	600	0	6100
INDONESIA	0	0	35000	0	2800	0	37800
JAMAICA	100000	0	0	8000	300	0	108300
PROMOTE REGIONAL STABILITY (CONT):							
LATIN AMER. & CARIBBEAN REGIONAL	12000	0	0	0	0	0	12000
MADAGASCAR	4000	0	0	3000	75	0	7075
MALAWI	0	0	0	2000	300	0	2300
MALAYSIA	0	5000	0	0	1235	0	6235
MAURITIUS	3000	0	0	0	0	0	3000
MOZAMBIQUE	15000	0	0	0	0	0	15000
NIGER	7000	0	0	4000	275	0	11275
OCEANOGRAPHIC RESEARCH	1500	0	0	0	0	0	1500
PERU	37000	0	5000	20000	850	0	62850
SENEGAL	15000	0	0	4500	500	0	20000
SEYCHELLES	2500	0	0	0	60	0	2560
SOUTH PACIFIC REGIONAL	1500	0	0	0	0	0	1500
SOUTHERN AFRICA REGIONAL	40000	0	0	0	0	0	40000
URUGUAY	15000	0	0	2500	125	0	17625
ZAIRE	16000	0	0	12000	1600	0	29600
ZAMBIA	20000	0	0	0	0	0	20000
ZIMBABWE	11000	0	0	0	250	0	11250
TOTAL	676000	17000	55000	131800	14590	0	894390
PROMOTE KEY INTERESTS THROUGH FOREIGN MILITARY CASH SALES/ COMMERCIAL EXPORTS:							
ALGERIA	0	0	0	0	150	0	150
ARGENTINA	0	0	0	0	100	0	100
AUSTRIA	0	0	0	0	75	0	75
BRAZIL	0	0	0	0	100	0	100
FINLAND	0	0	0	0	75	0	75
INDIA	0	0	0	0	400	0	400
IRELAND	0	0	0	0	50	0	50
MEXICO	0	0	0	0	250	0	250
PARAGUAY	0	0	0	0	125	0	125
SINGAPORE	0	0	0	0	75	0	75
VENEZUELA	0	0	0	0	150	0	150
YUGOSLAVIA	0	0	0	0	160	0	160
TOTAL	0	0	0	0	1710	0	1710

	ECONOMIC SUPPORT	FMS FINANCING TREAS.	FMS FINANCING CONCESS.	MAP (GRANTS)	IMETP (GRANTS)	PKO	TOTAL
PROMOTE PROFESSIONAL MILITARY RELATIONSHIPS THROUGH GRANT TRAINING (CONT):							
RWANDA	0	0	0	0	75	0	75
SAO TOME	0	0	0	0	50	0	50
SIERRA LEONE	0	0	0	0	100	0	100
SOLOMON ISLANDS	0	0	0	0	60	0	60
SRI LANKA	0	0	0	0	185	0	185
SURINAME	0	0	0	0	50	0	50
SWAZILAND	0	0	0	0	60	0	60
TANZANIA	0	0	0	0	75	0	75
TOGO	0	0	0	0	75	0	75
TONGA	0	0	0	0	60	0	60
TRINIDAD & TOBAGO	0	0	0	0	50	0	50
UGANDA	0	0	0	0	200	0	200
USARSA	0	0	0	0	4000	0	4000
TOTAL	0	0	0	0	10495	0	10495
OTHER:							
GENERAL COSTS	0	0	0	48000	430	0	48430
MULTINATL FORCE & OBSERV. (MFO)	0	0	0	0	0	30000	30000
NARCOTICS AIRCRAFT	0	0	0	1000	0	0	1000
UN FORCES IN CYPRUS	0	0	0	0	0	9000	9000
TOTAL	0	0	0	49000	430	39000	88430
TOTAL BUDGET AUTHORITY	4093800	1786000	3875000	996450	68830	39000	10859080
PROMOTE PROFESSIONAL MILITARY RELATIONSHIPS THROUGH GRANT TRAINING:							
BAHAMAS	0	0	0	0	60	0	60
BANGLADESH	0	0	0	0	370	0	370
BENIN	0	0	0	0	75	0	75
BURKINA FASO	0	0	0	0	150	0	150
BURUNDI	0	0	0	0	170	0	170
CAPE VERDE	0	0	0	0	100	0	100
CHILE	0	0	0	0	100	0	100
COMOROS	0	0	0	0	50	0	50
CONGO	0	0	0	0	90	0	90
GAMBIA	0	0	0	0	75	0	75
GHANA	0	0	0	0	300	0	300
GUINEA-BISSAU	0	0	0	0	75	0	75
GUYANA	0	0	0	0	50	0	50
ICELAND	0	0	0	0	50	0	50
IVORY COAST	0	0	0	0	150	0	150
MALDIVES	0	0	0	0	55	0	55
MALI	0	0	0	0	150	0	150
MAURITANIA	0	0	0	0	75	0	75
NEPAL	0	0	0	0	125	0	125
NIGERIA	0	0	0	0	100	0	100
PACAMS	0	0	0	0	3000	0	3000
PAPUA NEW GUINEA	0	0	0	0	85	0	85

Note: Countries included in Eastern Caribbean are: Anguilla,Antigua,Barbados,British Virgin Islands, Dominica,Grenada,Montserrat,St. Christopher-Nevis, St. Lucia and St. Vincent and the Grenadines.
a/ Repayment forgiven.

SECTION I: THE ROLE OF SECURITY ASSISTANCE IN NATIONAL SECURITY

U.S. National Interests and Objectives

The United States seeks to protect fundamental national interests--the nation's territorial integrity, political and personal freedoms, democratic institutions, and continued economic prosperity--without resorting to armed conflict. Beyond the deterrence of conflict, U.S. security and well-being are best preserved by the orderly conduct of relations among nations, by broad acceptance of democratic values and respect for human dignity, and by progress toward a better quality of life for all peoples.

To assure our own and the free world's security, and to avoid war, the United States seeks first to deter aggression and--should this effort fail--to ensure that we and other nations can mount an adequate defense to frustrate aggressive designs. We also seek to safeguard our friends and allies from coercion and intimidation. As a complement to our own defense posture, we rely on formal alliances and other cooperative relationships in which other nations' resources add collectively to our own to protect shared interests. To be effective, our mutual defense ties must be cohesive and the participants must be strong and confident.

The economic well-being of the United States and material progress for all peoples are equally essential goals. This requires international commerce of vital resources, as well as mutually beneficial financial, trade and investment ties.

Our immediate security objectives are:

- to foster improved relations with all nations, especially those in strategic areas of the world;
- to strengthen or develop defensive alliances and other cooperative military arrangements;
- to safeguard and ensure access abroad to support the movement of U.S. forces where necessary to protect free world interests;
- to enable countries to defend themselves against external threats, maintain internal order, strengthen democratic institutions, and improve judicial systems; and
- to alleviate the causes of economic and political disruption that threaten security and independence by fostering meaningful economic reform and development.

The Challenges

Today, and for the foreseeable future, the United States faces serious, often interrelated, challenges:

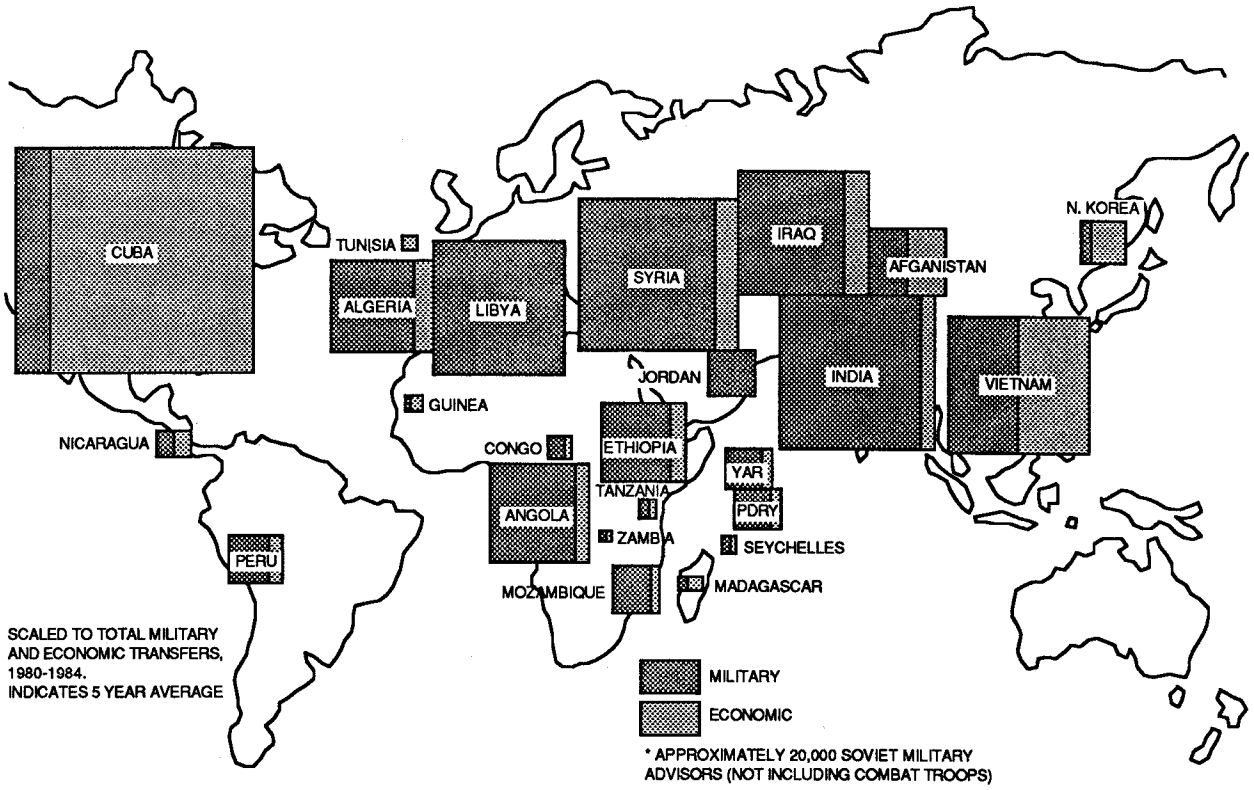
- The expansionist and destabilizing behavior of the Soviet Union;
- Indigenous regional tensions--including those arising from ethnic, religious, and border disputes--and external manipulation and exacerbation of these tensions;
- Political violence, including terrorism and insurgency; and
- Basic political, economic, and social problems, including poverty, hunger, overpopulation, and inefficient, often corrupt and tyrannical, governments.

First and foremost is the challenge posed by Soviet adventurism. The build up of the USSR's arsenal--both conventional and nuclear--continues unabated. This situation requires increased efforts by the U.S. and its allies to modernize their forces on a continuing basis. The Soviet Union's growing capability to project power and influence far beyond its borders; its use of surrogates to subvert and undermine free nations and to create and bolster client states around the globe; and its resort to intimidation--and, as in Afghanistan, direct aggression--all pose threats to the United States and our friends.

A major characteristic of Soviet foreign assistance is its predominant use of military rather than economic aid to extend political influence. Figure A depicts the relative size of Soviet military and economic support worldwide. This illustration reflects major Soviet arms sales and economic assistance programs. It shows that very few countries receive the bulk of Soviet economic assistance. Moreover, Soviet military sales are clearly concentrated in areas of high instability. Along with military sales, the Soviet Union maintains about 20,000 military advisors worldwide, not including those elements of the combat troops in Afghanistan which may be carrying out advisory functions.

FIGURE A

SOVIET MILITARY SALES/ASSISTANCE AND ECONOMIC ASSISTANCE* (1980-1984)



In addition to the Soviet challenge, *regional tensions and conflicts are seemingly intractable elements on the contemporary world scene which present the risks of larger confrontations.* Foremost among these has been the longstanding Arab-Israeli conflict. The leading antagonists to Israel have been, and continue to be, supplied militarily by the Soviet Union. The war between Iran and Iraq has endured for more than five years, and continually threatens to spill over to neighboring states and to disrupt the flow of oil from the Persian Gulf. In addition, the continuing

threat to the Republic of Korea from its aggressive Communist counterpart in the north; Vietnam's occupation of Cambodia and its drive for hegemony in Southeast Asia; the persistent conflict in the Ogaden involving Somalia and Ethiopia; and the threats posed in separate hemispheres by Libya and Nicaragua--both armed by the Soviet Union at levels far beyond their own defensive needs--all pose direct threats to regional stability.

Insurgencies also hold the seeds of larger conflicts, and represent potential dangers to international peace. Of greatest concern to the United States are the communist-led insurgencies in Central America, especially in El Salvador. Attention must also be focused on the insurgency in the Philippines where communist elements are exploiting serious political and economic grievances. The Polisario--utilizing Soviet military equipment--continue to alter the political and territorial status of the Western Sahara through violent means.

Another serious threat to U.S. and free world interests is the increasing occurrence of international terrorism. This recourse to random, often indiscriminate violence to achieve power, influence, or other concessions not readily attainable through normal political mechanisms or by direct military action, is a vicious and growing phenomenon. It is one with which most states and international organizations are ill-equipped to cope. Terrorism and low-intensity conflicts are serious challenges which require close and innovative cooperation among civilized nations.

Moreover, in some regions of the world the challenges of insurgency and terrorism are compounded by an effective alliance between insurgents, terrorists, and international drug traffickers whose illicit activities threaten the very fabric of society in many countries. These elements share a basic interest in undermining the authority of governments and the rule of law.

It is clear that basic inequities and imbalances lie at the root of most of the conflicts in the world. These inequities reflect systemic weaknesses which are vulnerable to exploitation by insurgents, terrorists, or radical and aggressive regional powers. *There are many genuine and deep-rooted sources of distress which must be addressed if we are to find long-term solutions to international instability. These cannot be dealt with effectively, however, in an environment of violence.* Some minimum degree of security from external threats and containment of internal disorders is required to achieve progress in correcting political, economic and social ills. Helping to provide this security is one of the most important objectives of our security assistance program.

The Security Assistance Program

The United States Security Assistance Program is an important instrument for pursuing peace and world order. It has been a cornerstone of postwar U.S. foreign policy, and an integral part of our overall national security effort. In order to maintain a stable world order, it is essential that threatened allied or friendly countries are able to defend themselves. Only in a secure environment can countries actively pursue the economic reforms and social development necessary to enhance domestic and regional stability.

The United States cannot provide all the military equipment and services that might be needed to ensure the security of friendly nations. The transfer of U.S. defense articles and services is only one element in the development of these nations' defense capabilities. Most countries recognize that they must rely to the greatest extent possible on domestic resources to safeguard their sovereignty, territory, population, and wealth, and most devote significant resources to this effort. Nevertheless, *U.S. security assistance is a vital and necessary element in helping friendly nations provide for their own defense.*

Security assistance also plays an important role in the global defense posture of the United States. It often permits our friends and allies to accept defense responsibilities that we might otherwise have to assume at a much greater cost in money and people. In addition, security

assistance contributes to the full spectrum of cooperative defense relationships that we have established with many nations. Recognizing security assistance as tangible evidence of the U.S. commitment to shared defense goals, recipient countries may be more readily disposed to provide facilities for U.S. forces, or for access by U.S. forces when threats to mutual interests arise.

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Within the overall framework of security assistance, succeeding Administrations, working together with the Congress, have developed various program designs which allow the U.S. to tailor bilateral and multilateral cooperation to specific needs and circumstances. The basic funded components of security assistance are the Foreign Military Sales Financing Program, the Military Assistance Program, the Economic Support Fund, the International Military Education and Training Program, and Peacekeeping Operations. Foreign military cash sales and commercial exports are also reviewed as they contribute to security assistance.

The **Foreign Military Sales Financing Program (FMS)** offers credits to facilitate the purchase of U.S. military equipment, spare parts, training, and other services to meet basic defense requirements. A number of friends and allies find it difficult to pay in cash for major defense acquisitions, but are financially capable of assuming loan obligations for their military purchases. In addition to standard Treasury (i.e., market) interest rates, a concessional rate component provides flexibility to address the needs of friendly nations whose economic problems require more favorable credit terms, but not an all-grant program. *The FMS credit program proposed for FY 1987 totals $5.661 billion ($1.786 billion at Treasury rates of interest for 13 individual country programs; $775.0 million at concessional rates for 14 programs; and $3.1 billion--over half of the total program--in forgiven credits for Israel and Egypt).*

Through the **Military Assistance Program (MAP)**, grant financing is made available to selected countries for the acquisition of defense equipment and services. The United States provides MAP funds to coalition defense partners and front-line states who are financially unable to maintain an adequate self-defense without diverting scarce resources from national economic development. Historically, the United States has directed MAP funds toward developing regions of the world in which U.S. security interests are threatened. Such assistance has strengthened the security of friends and allies while reducing the potential requirements for direct U.S. military involvement. *The proposed MAP program for 1987 is $996.45 million in grant funding for 39 country and regional programs.*

The **Economic Support Fund (ESF)** assists foreign nations in attacking the root causes of economic and political disruption and in creating the conditions necessary for sustainable economic growth. The program promotes infrastructure development and helps recipients correct structural economic weaknesses. ESF assistance also provides balance of payments and budget support to governments that need time in which to make longer term financial policy adjustments. A flexible ESF program of grant and loan assistance helps to further political and economic stability in areas where the United States has vital security interests at stake. *For FY 1987 the proposed ESF program is $4.0938 billion in grants and loans (approximately half to be provided to Israel and Egypt).*

The **International Military Education and Training Program (IMET)** provides grant professional military training to foreign military and related civilian defense personnel in the United States and in facilities overseas. IMET is a cost-effective, highly successful program that serves U.S. interests by promoting a better understanding of American values and by strengthening professional military cooperation with the defense establishments of other countries. IMET participants receive instruction in U.S. military skills and doctrine, thereby improving their ability to manage their own country's military resources. Valuable technical training in the operation and maintenance of defense equipment contributes also to the readiness of our friends

and allies. *For FY 1987, the Administration is recommending an IMET program of $68.83 million in grant funds.*

The **Peacekeeping Operations (PKO)** account consists of grants for peacekeeping programs that promote U.S. security interests and enhance regional stability. PKO funds have recently facilitated continued U.S. support for such operations as the Multinational Force and Observers (MFO) in the Sinai and the United Nations Forces in Cyprus (UNICYP). *A total of $39 million in grant funds is being proposed for FY 1987.*

The Administration's total Security Assistance budget authority request of $10,859.08 million represents an increase of only $110.81 million over the FY 1986 request of $10,748.57 million, and an increase of $1,098.58 million over the $9,760.5 million in budget authority provided by Congress in the FY 1986 Continuing Resolution.

NON-FINANCED PROGRAMS

Foreign Military Cash Sales agreements and Commercial Military Export deliveries comprise the majority of the total yearly dollar value of what is commonly termed U.S. arms sales. These ranged from nearly 72 percent of the 1982 total of $23.2 billion to about 73 percent of an estimated total of $14.7 billion in 1985. These sales are made primarily to NATO and other key defense partners who seek regional stability goals similar to those pursued by the United States. (Although not technically part of "security assistance," major commercial exports are scrutinized and reviewed within the same legal and policy framework as are government-to-government sales.) These sales --FMS cash and commercial--not only support U.S. national and global security goals, but also translate directly into savings to the U.S. in terms of reducing unit costs for items which our military services buy for their own use, and stretching out production lines which provides thousands of jobs. Primarily, however, the U.S. benefits from an enhanced defense capability through rationalization, standardization, and interoperability in meeting common threats.

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An illustration of how security assistance is consistent with U.S. interests may be obtained by examining the application of one of the major programs: Foreign Military Sales (FMS). As depicted in Figure B, FMS sales are made to countries of strategic importance to the United States, principally to those with whom we have longstanding alliances and other defense relationships. Figure B shows the five year average of sales agreements with other nations, and covers all nations to whom we have sold more than $5 million worth of defense articles and services. The volume of sales to each country is scaled in proportion to those of other countries. The Israeli depiction below includes acquisitions through primarily commercial channels using FMS funding. Other countries also make important direct commercial purchases, though not in the volumes represented in Figure B.

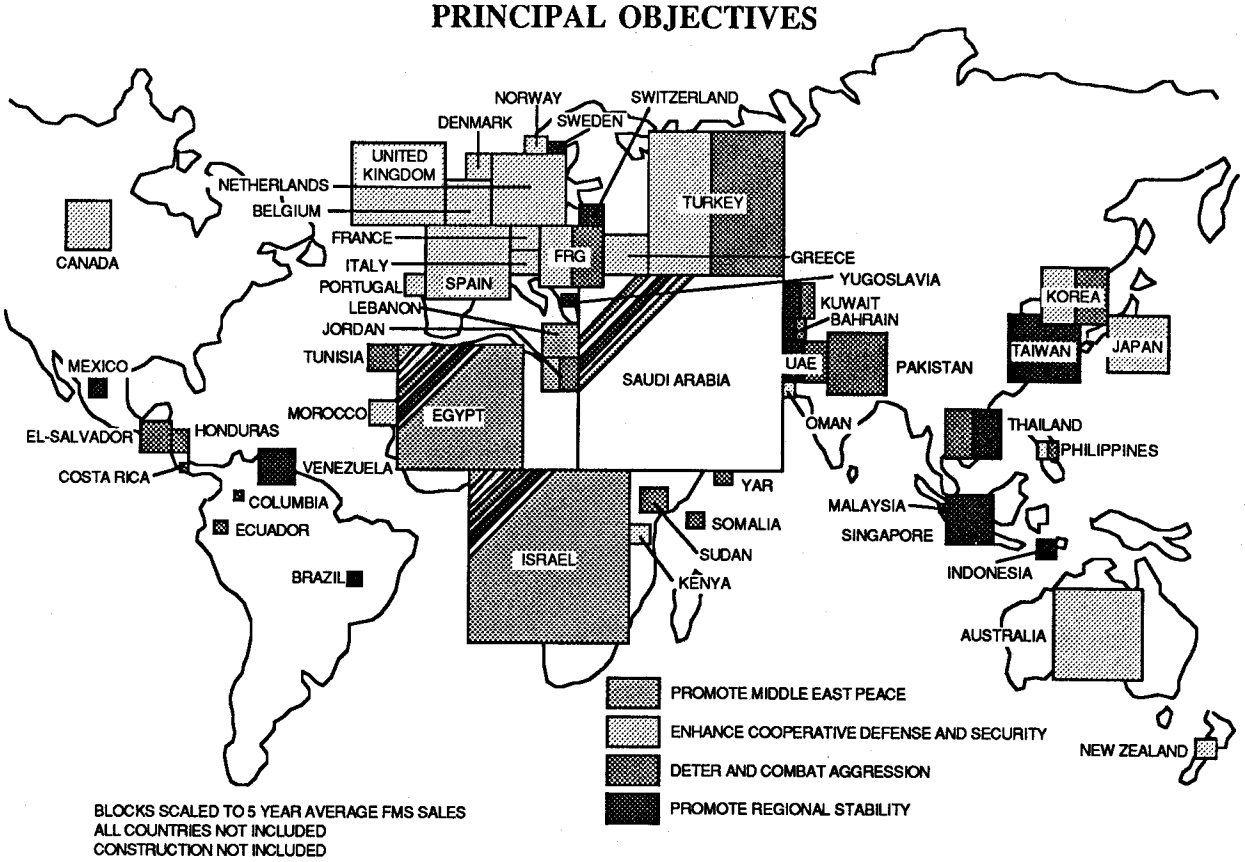
The greatest proportion of FMS sales has been to countries in the Middle East with whom we share significant interests and goals. Other participants in FMS and commercial sales are the NATO and ASEAN countries, even though many of these produce much of their own military equipment. Sales to Africa and Latin America are not large in monetary terms because they tend to represent relatively low-cost acquisitions of basic military equipment and training. In the case of Venezuela, the program size reflects primarily the single sales agreement of 24 F-16 aircraft concluded in 1981.

The blocks in Figure B are shaded to indicate the principal objectives we pursue through FMS and commercial sales, and other arms transfer arrangements. In many cases there are several foreign policy/security goals which FMS and other security assistance programs support. For

instance, in Turkey, a NATO member which shares a common border with the Soviet Union, our programs both strengthen the Western Alliance and facilitate political development.

FIGURE B

FOREIGN MILITARY SALES AND PRINCIPAL OBJECTIVES



The major recipients of MAP and FMS financing being proposed in the FY 1987 Security Assistance program are shown schematically in Figure C. This chart reflects the FMS credit program, including Treasury rate loans, concessional interest rate loans, the "forgiven" credits for Egypt and Israel, and Military Assistance Program grants. Again, the blocks are scaled in proportion to one another. It is apparent that seven countries receive about 70 percent of the proposed financing and 20 countries about 90 percent.

The bulk of MAP grant financing will be extended to developing countries in Africa and Latin America, as well as Portugal, Turkey and the Philippines. Concessional credits are usually combined with MAP grants or Treasury rate credits for countries with low per capita incomes and which have difficulties in meeting overall foreign debts. Treasury rate credits are provided to those countries which can better afford near-market interest rates. To complement the military assistance financing shown in Figure C, the United States also conducts extensive worldwide economic assistance efforts. Figure D shows how our Economic Support Fund (ESF), together with Development Assistance (DA), and Food Assistance (PL-480), are proposed for distribution in FY 1987.

FIGURE C
FY 1987 FMS/MAP FINANCING REQUEST
(scaled to financing)

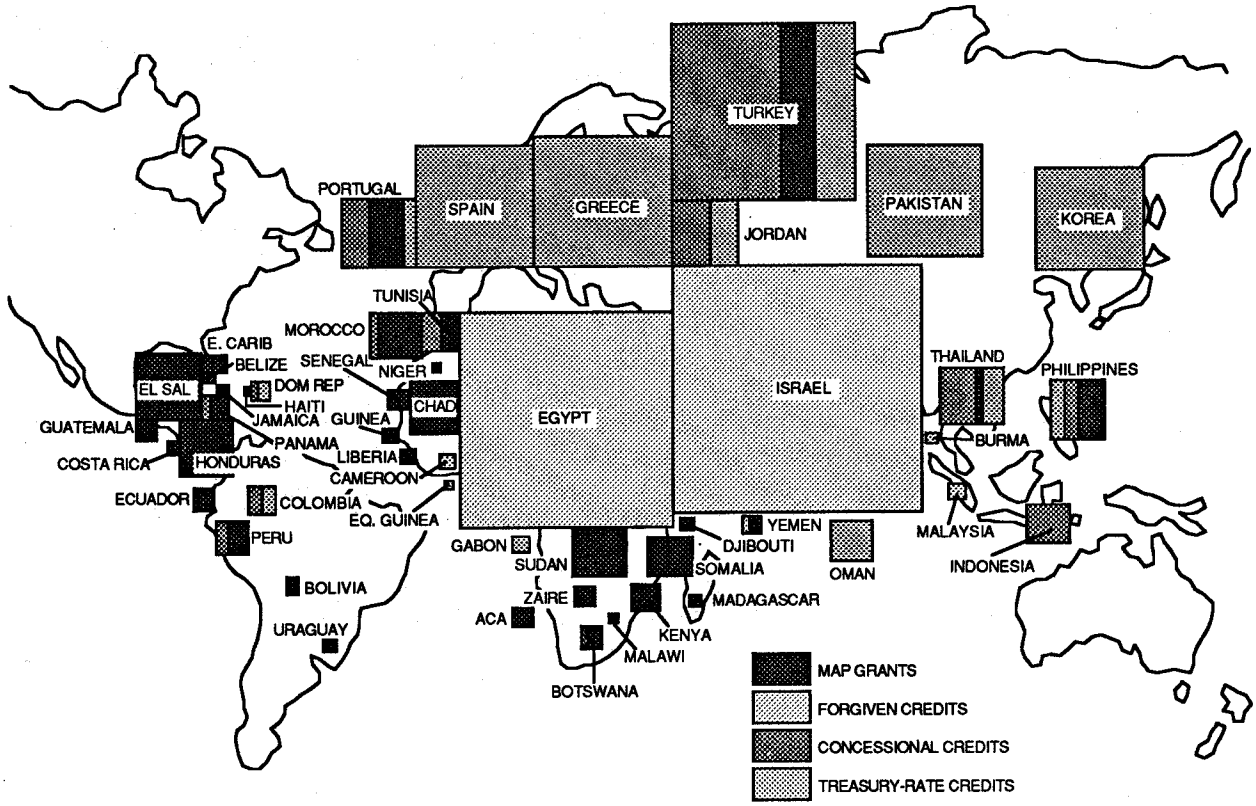
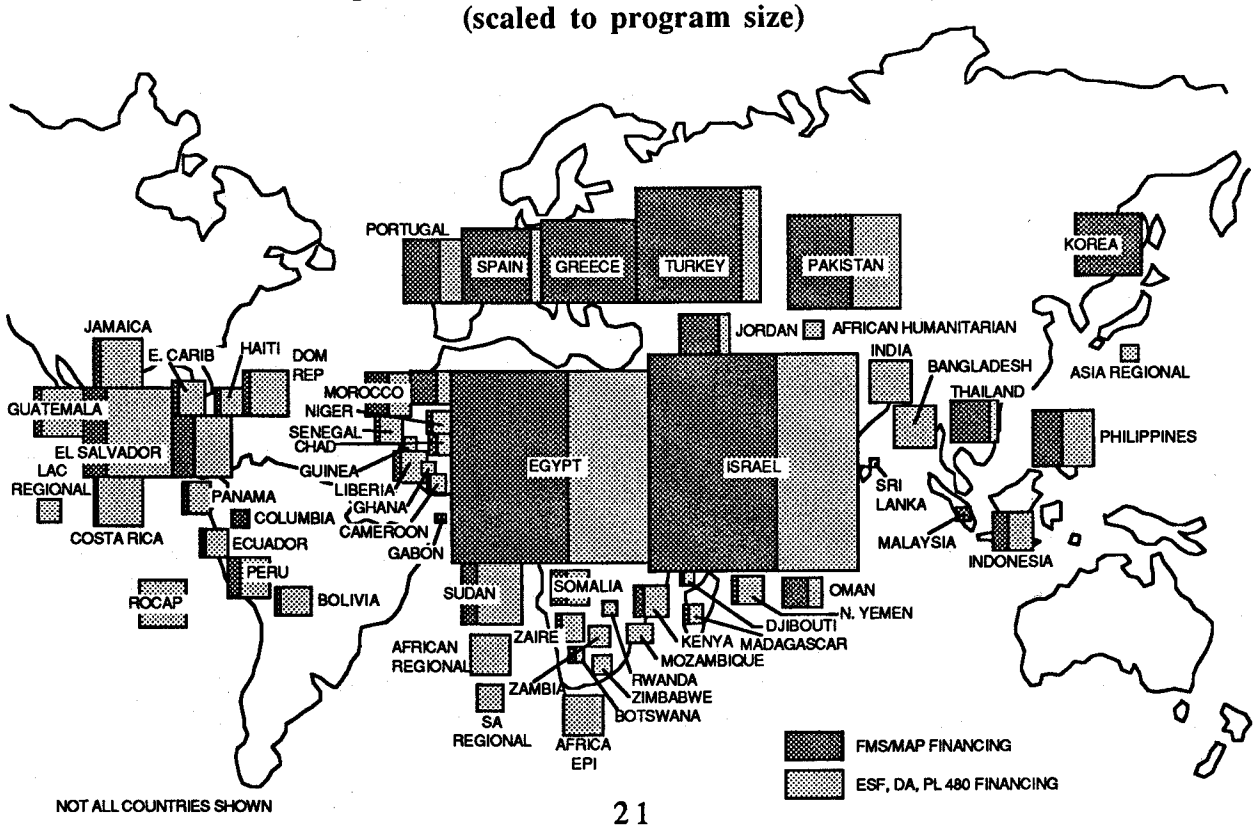


FIGURE D
FY87 REQUEST: ECONOMIC & MILITARY PROGRAMS
(scaled to program size)



NOT ALL COUNTRIES SHOWN

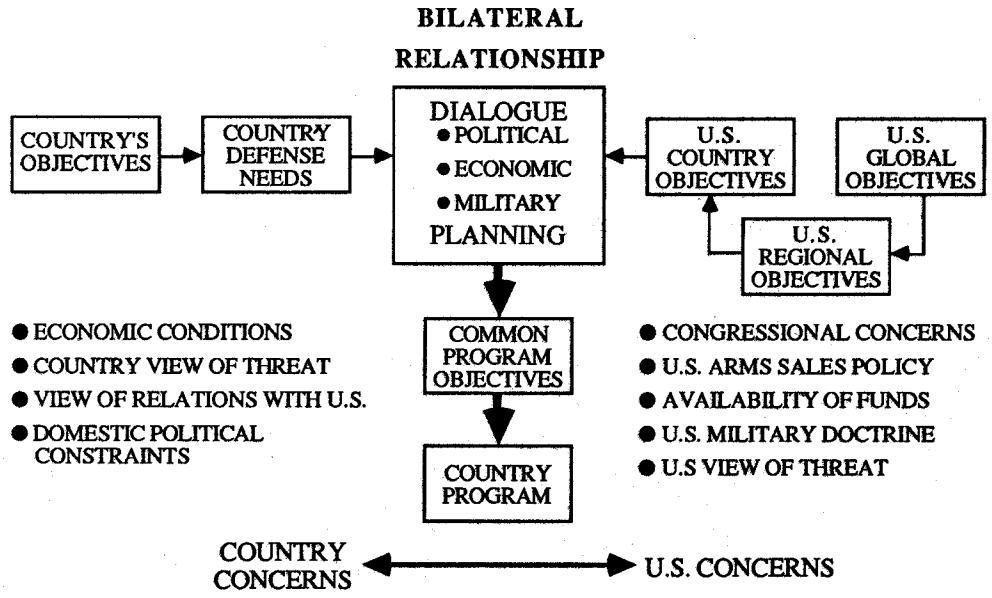
This graphic shows that our economic assistance tracks closely with our strategic interests. It also shows that in the African and Latin American regions economic assistance is far greater than military assistance. There is also a close balance between military and economic assistance for Israel, Egypt, Turkey, Pakistan, and the Philippines. Countries which are more fiscally sound receive little or no economic assistance; these include Spain, Greece, Oman, and the Republic of Korea. Not shown in the illustration are U.S. contributions to multilateral development banks (MDBs) and other international institutions.

Figure D demonstrates clearly that U.S. foreign assistance programs stress the importance of nations' and peoples' social aspirations and economic well-being while, at the same time, enabling an adequate measure of defense to ensure sovereignty. This stands in sharp contrast to the Soviet emphasis on military over economic assistance that was illustrated in Figure A.

Planning with Countries

Good planning, continuity, and reliability are the keys to effective security assistance programs. The extent to which planning can bridge the gap between a country's objectives and those of the United States depends, in turn, upon the quality of the overall bilateral relationship. The closer the basic relationship, the more intense the dialogue on broader policy issues. Figure E conceptualizes the elements to consider during the planning process.

FIGURE E
Structuring U.S. Programs as a Part of Overall Relations



Security assistance planning is a dynamic process. Where U.S. and country objectives differ, discussions are necessarily more restricted. Where relations are close and objectives largely coincide, the country program may be a fully developed five-year plan. In other cases, the program may simply cover management of a large system purchase, with discussions confined to the specific defense capability the system provides. In all cases, however, *careful planning of a materiel or training program with recipient countries promotes mutual objectives and interests.*

Before beginning or expanding a security assistance relationship, the United States carefully considers its own arms control and transfer policies, available resources, and domestic concerns as reflected in Congressional views. It also weighs such factors as the recipient country's objectives,

and its ability to absorb equipment and to finance both original acquisition and continuing logistics support. Notwithstanding these considerations, many programs are established in response to a serious threat to a friendly country's security or to significant changes in bilateral relationships. For example, the new Pakistan program resulted from U.S. and Pakistani concerns over the Soviet invasion of Afghanistan. The current program with Egypt, moreover, stems from that country's willingness to pursue peace with Israel and its desire to curtail Soviet military support.

The U.S. devotes a great deal of effort and diplomacy to achieve closer planning with our security assistance partners. We try to make sure that cash purchases or funded programs respond effectively to national defense requirements. In the current period of constrained financial resources, bilateral planning of security assistance programs is increasingly important. Now, more than ever, we have to ensure the most efficient use of funds.

What is planned? The answer depends on the extent of country sophistication, the infrastructure in place, and the extent of country experience with security assistance processes. To illustrate, military assistance to El Salvador necessarily began with basic infantry equipment and training. Then, the U.S. provided transport vehicles, medical equipment and training, and larger-caliber arms. From there, we expanded to communications in an integrated command, control and communications system, and to a logistics and maintenance infrastructure. All capabilities had to be carefully developed through a step-by-step process.

At the other end of the spectrum are countries with highly developed military establishments. In Egypt and Pakistan, for example, our emphasis is on total packages. Equipment, spares, training, and maintenance capability are introduced for each system modernized. Intermediate countries are those where previously purchased U.S. equipment is in place and in use. The first requirement is to ensure adequate support of that equipment before undertaking selected purchases for modernization. This kind of planning is characteristic in countries such as Morocco and Tunisia.

Good planning means giving considerable attention to all the important details. In all cases, the United States ensures that the full cost implications of any purchase are clearly understood. We also make sure that the country anticipates lead times and the need for preparatory training and spares inventory prior to the delivery of equipment. In the case of IMET, we work carefully with countries to ensure that training programs will provide needed military skills and will maximize exposure to the U.S. system and its values.

Who plans? Security assistance program planning takes several forms. These vary from day-to-day contacts between the local military and U.S. diplomatic missions, to service program reviews at the technical level, to prepartions for more periodic, high-level Joint Military Commissions. Although defense requirement surveys are used less as country planning capabilities grow in sophistication, site and engineering surveys are often necessary. The most comprehensive planning usually takes place with strong Washington leadership, including representatives from the Department of Defense, and the Joint Chiefs of Staff and military services, assisted by the Unified Commands, the Department of State, and U.S. embassy country teams. Recipient countries provide comparable representation.

Several lessons have emerged from our worldwide efforts in planning security assistance programs, to which recipient countries are increasingly receptive:

- It is important for countries to recognize the full implications of lead times. Given limited U.S. production bases with special order requirements for FMS and MAP acquisitions, it is necessary for countries to buy adequate stocks of spares, munitions, and other consumables. The Special Defense Acquisition Fund (SDAF) is now operating at a sufficient volume to alleviate some lead time problems.

• Where countries are dependent on U.S. funding--the levels and timing of which are uncertain--they must design plans and procurement requests so as to make full use of funds in a timely manner in order to confine lead times to production times. Because of these uncertainties, countries should also plan for funding at several levels, with viable programs at each level.

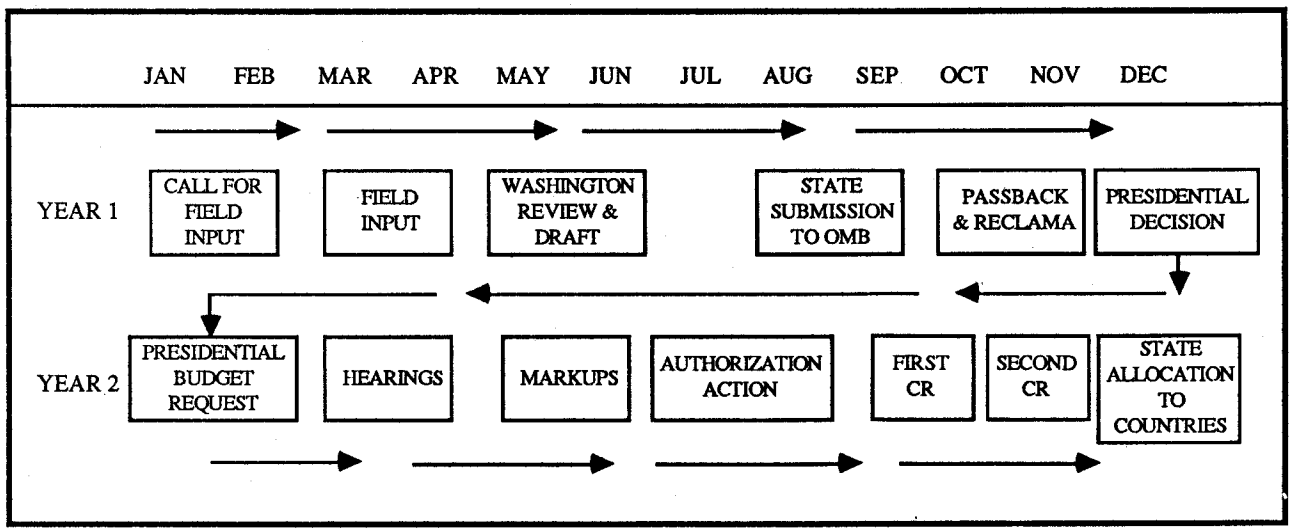
• Given the wide diversity of defense requirements and other national circumstances, no single master planning model is practicable. Each plan is unique to the country involved. In the end, the recipient country must make its own choices and set its own priorities since it is ultimately responsible for its own defense.

There are many examples of successful planning with friends and allies. At present, we have well-established five-year plans with Israel, Egypt, Turkey, and Pakistan. We also have effective planning with Spain and Portugal, and we are developing long-range plans--despite the uncertainty of resources--with Tunisia, Morocco, and Somalia. We have developed comprehensive one-year plans with El Salvador and Honduras that will soon evolve into a two-year effort. We have also drawn up a comprehensive support plan with the Philippines that will permit equipment restoration and restructuring of existing forces. Our excellent planning relationship with Jordan is based on the precise identification of defense requirements; however, implementation has been stalled due to Congressional restrictions. With NATO countries and Japan, our planning efforts focus on selected cooperative projects aimed at fulfilling mutually agreed upon force objectives.

Where we have effective programs, and are seen as reliable defense partners, we can develop the kind of bilateral rapport that allows for broader cooperation, such as in joint exercises and operations. Other benefits can include fruitful negotiations on base rights or access to facilities for U.S. forces. In sum, *close security assistance planning provides the opportunity for broader bilateral cooperation and thus enhances our global and regional defense posture.*

Predictable budget outcomes would go far to stabilize planning and ensure that mutual objectives are realized. Without this certainty, we are unable to predict with confidence what a country will purchase during the year following Congressional action. The security assistance budget process is long; and the U.S. fiscal year is different from that of many of our friends. Some countries' fiscal year begins as late as April, further complicating the planning process. Figure F below illustrates the U.S. budget process with the length of time involved between procurement planning and final allocations. It demonstrates why country projections cannot be precise.

FIGURE F
Budget Process Flow Chart



With the exception of a few countries which enjoy widespread political support in the United States, funding in future years remains highly uncertain. Multi-year funding is virtually impossible, since funds are appropriated annually. During the time funding is under consideration, threats change, governments change, country priorities change, and the worldwide situation may force shifts in U.S. priorities. Production for certain items may cease, or new items may enter the market. Since our ten largest country programs take 80 percent of available U.S. security assis - tance funds, it is clear that resources for the other forty countries for whom we request assistance are marginal. Under these circumstances, countries may change their minds as to what defense gaps to attempt to close during and after completion of the lengthy Congressional budget process.

Despite these uncertainties, the Administration is improving the planning process with countries. Although the individual country programs . . . may change, the Administration believes strongly that each is deserving of full Congressional support and funding.

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SECTION V: DOMESTIC BENEFITS

This year for the first time we are including information on the domestic benefits of foreign military sales and the foreign military sales financing program. (The domestic benefits of the ESF program are not considered here.)

It is important to emphasize that this section is not intended to justify the security assistance program on the basis of identifiable domestic benefits. *Whether or not the United States has a security assistance relationship with a particular country is a matter of foreign policy objectives and national security goals. It is, however, equally important for both critics and supporters of the program to understand that there are real economic benefits that accrue to us as a nation as a result of our security assistance programs.* Almost all of the monies appropriated for security assistance are spent here in the United States; the program helps create or sustain jobs, and creates substantial tax returns to the U.S. Treasury.

The security assistance financing program, especially when combined with foreign military sales that are not financed by the United States, does not make a net contribution to the budget deficit. The elements of the financing program [MAP, FMSCR(C), FMSCR(T), and the forgiven credits for Israel and Egypt] fit together with those sales financed wholly or partly by other countries' national funds to generate the overall cash sales that are recorded as either FMS orders or commercial sales. The economic benefits of non-financed sales are considerable, if only in terms of lowering the foreign trade deficit. The total "contribution" of the FMS program to the economy exceeds $10 billion per year. *Taken as a whole, the program is not a drain on the economy. Very often, the visible expense of security assistance in the Federal Budget obscures the fact that the United States clearly receives substantial economic benefits from the overall program.*

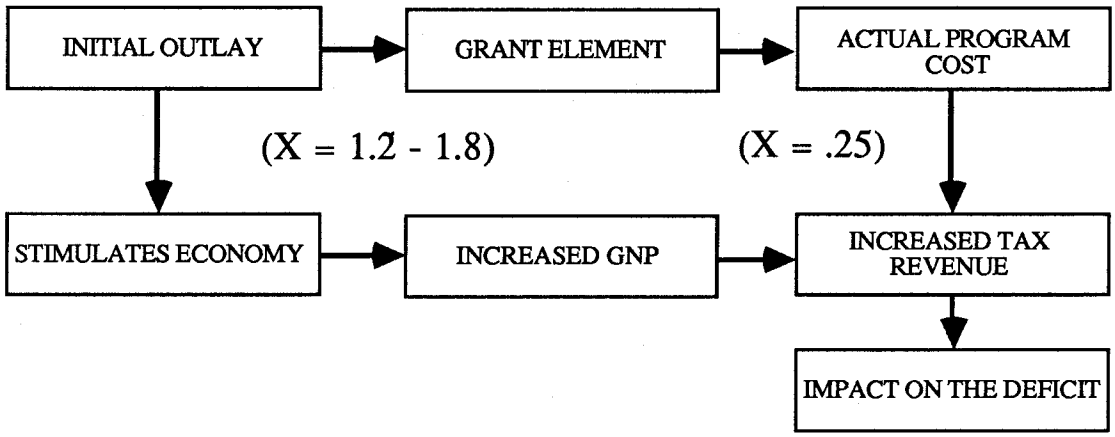
Foreign military sales have been on a downward trend for the past four years. Even so, at the end of FY 1985 the *undelivered balance* of foreign military sales was approximately $50 billion. Actual disbursements by Defense Department procurement agencies on behalf of, and paid for by, foreign customers in the United States have averaged $10.6 billion annually for the past six years.

This means that *the foreign military sales program (whether the sale is financed by the U.S. Government or not) directly sustains or creates an estimated 265,000-371,000 man-years of jobs annually.** In addition, the $50.0 billion in "backorders" represents at least 1.3 million man-years of jobs "in the bank."

The American taxpayer is also the beneficiary of additional savings which are the result of the security assistance program. These savings are described in terms of "forgone costs"--that is, money saved as a direct result of actions taken to avoid certain expenditures. For example, if the United States maintains a conventional deterrent credible enough to avoid the outbreak of hostilities, then we are able to avoid the far greater costs of fighting a war. Equally, if we are able to support an ally in sustaining an armored division, for example, then we avoid the cost of having to provide that division ourselves. This armored division not only defends mutual interests, but in many cases also occupies defensive positions that we, for political reasons, could not. These "deterrence" savings, however, are more difficult to quantify than those that stem directly from security assistance and foreign military sales.

While foregone costs are difficult to determine, economic analysts have attempted to quantify the other savings of security assistance. Macroeconomic analysis done by independent firms has provided several models for estimating the costs to the U.S. taxpayer for security assistance programs such as the funded financing program. The basic model, which provides an informative way of visualizing the "net costs" of security assistance, is shown below.

Macroeconomic Flows



By applying this model to the Military Assistance Program, and to FMS concessional and Treasury-rate credit assistance, one can calculate a range of impacts of the program on the deficit and estimate the cost of the program to the taxpayer. Multipliers for this model vary from 1 to as much as 2.7 or higher. Indeed, some Department of Defense studies suggest multipliers considerably higher than 2.7. Some FMS payments, such as the government-to-government administrative surcharge *when initially received,* are transfer payments and by definition have a multiplier of 1. Other payments for the production of goods and services have higher multipliers. Tax rate multipliers vary according to the goods and services provided. Those requiring highly skilled and trained people, who earn relatively higher incomes, will produce a higher multiplier; those requiring lower skill levels will have a lower multiplier. Multipliers are notoriously difficult to define.. *For purposes of illustration,* we use a multiplier range of between 1.2 and 1.8 and a marginal tax multiplier of .25.

*A Department of Defense study estimates that when indirect employment is included, total FMS outlays sustained over 651,000 jobs in 1985.

A dollar of MAP can cost the taxpayer between 55 and 70 cents. $100 million in grant military aid spent solely in the United States sustains or creates some 2,500 jobs and should generate between $30 and $45 million in offsetting tax revenue. The net cost to the taxpayer, therefore, is in the range of $55-$70 million. By the time the money is spent, the FY 1986 MAP program of $748.4 million could generate offsetting federal government revenues of between $225 and $337 million. The $996.45 million MAP proposal for FY 1987 could produce revenue offsets of between $299 and $448 million. The net cost to the U.S. taxpayer would have a range of approximately $548-$698 million.

A dollar of FY 1987 concessional FMS credits can earn the taxpayer as much as ten cents. At the lower end of the spectrum, the multiplier effect can produce a net cost as low as four cents. For an initial outlay of $100 million in appropriated credit, one must first determine the "grant element" (i.e., the cost of the interest rate subsidy). We estimate that the grant element in FY 1987 will be 34.57 percent, yielding an actual program cost of $34.57 million. However, this expenditure should also cause the generation of between $30 and $45 million in offsetting tax revenues. Against a program cost of $34.6 million, the net effect of providing $100 million in concessional credit--which is spent in the United States and paid back with interest--can produce a gain of $10.4 million or a net cost of $4.6 million.

The FY 1986 concessional rate loan program of $877.2 million will have a program cost of approximately $310 million. The range of the effect on revenues should be between a net cost of $47 million and a net gain of $85 million. (We estimate the concessional element of FY 1986 was 35.32 percent.) The proposed FY 1987 concessional loan program of $775 million (with its slightly lower grant element) will have an actual program cost of approximately $268 million. The macroeconomic effect of the expenditures should range between a net cost of $36 million and a net gain of $81 million.

A dollar of Treasury-rate FMS credit can earn the taxpayer between 30 and 45 cents. Because the loans generated by the program are repaid at the Treasury rate of interest, the actual cost to the U.S. Government for Treasury-rate credits is considered to be zero (there is no grant element). When the macroeconomic impact of increased GNP and tax revenues is considered, the positive effect on the deficit is greater than with concessional credits. A Treasury-rate loan of $100 million, where the funds are spent in the United States and repaid on time with interest, should produce additional revenues of between $30 and $45 million. The FY 1986 program of $1,122.9 million could produce a range of offsetting tax revenues of between $337 and $505 million. The proposed FY 1987 program could generate additional revenues of between $536 and $804 million from a loan program of $1,786 million.

The forgiven FMS credits proposed for Israel and Egypt are a special case. To the extent that Israel spends these "grant" monies in the United States, they have the same macroeconomic effects as MAP funds. However, forgiven credits that are authorized for spending in Israel or for directed offset programs to support Israeli defense industries result in a 100 percent program cost to the taxpayer. The initial cost of the forgiven credit program in FY 1986 was $2,966.7 million. This in turn produced between $770 and $1,155 million in offsetting tax revenues. The proposed forgiven credit program for FY 1987 has a projected actual cost of $3,100 million and could generate between $810 and $1,215 million* in offsetting revenues.

*Assumes $400 million in offshore procurement and directed offsets in FY 1986 and FY 1987.

This estimation of the macroeconomic impact of various elements of the "military" portion of the security assistance program allows comparison of program size with estimated program costs. It also makes possible a calculation of the range of potential effects of this program proposal on the deficit [as shown below].

Deficit Impact Projections
($ Millions)

	Program	"Actual Cost"	Potential Range of Deficit Impact		
MAP	$ 996.45	$ 996.45	+$ 548.05	to	+$ 697.52
FMS(C)	$ 775.00	$ 267.92	-$ 80.83	to	+$ 35.42
FMS(T)	$1,786.00	---	-$ 803.70	to	-$ 535.80
Israel & Egypt	$3,100.00	$3,100.00	+$1,885.00	to	+$2,290.00
TOTALS	**$6,657.45**	**$4,364.37**	**+$1,548.52**	**to**	**+$2,487.14**

Note: A positive sign (+) indicates a deficit increase; a negative sign (-), a deficit decrease.

The macroeconomic analysis of the on-budget program does not, however, present the entire picture. The financing program for foreign military sales is just a portion of the total FMS economic picture. The non-financed sales are the larger portion. The foreign monies (i.e., non-financed sales) are funds that flow into the U.S. economy at no cost to the taxpayer. Over the last three years, the average Trust Fund balance for foreign national funds has been at least $4 billion. All Trust Fund monies are considered funds of the U.S. Treasury and count positively against the deficit. If the negative deficit impact calculated above is compared to the unappropriated $4 billion average Trust Fund balance, the result is that sales not only offset the calculated negative impact but actually reduce the deficit by almost $2.5 billion.

In addition to reducing the deficit, the disbursement of foreign national funds also has a positive economic impact. By adding the average Trust Fund balance to its actual disbursements of foreign national funds, we found that the total contribution of foreign governments to the U.S. economy amounted to $12 billion and $10.8 billion, respectively, in fiscal years 1984 and 1985. All too often, the part of the program financed by U.S. Government funds is seen as the total sales program, while the greater volume of unfinanced sales is ignored. *Whether financed or non-financed, foreign military sales clearly make a significant, and positive, contribution to the U.S. economy.* These "cash" sales and their economic by-products are, in the final analysis, simply the beneficial results of an instrument of foreign policy.

The security assistance program obviously must be paid for, and there are two costs. First is the program cost, which we have discussed above. Second is the opportunity cost (that is, the monies that could have gone to other purposes) which we have not discussed. These costs are, in fact, part of the price of defending this country's interests around the world. *Security assistance* is a basic instrument of foreign policy. Viewed from this perspective, it *is but a small portion of the cost this nation must pay to support its national security interests, to provide security for friends and allies, and to make a major contribution to U.S. security.* The United States cannot avoid its global responsibilities nor its own defense needs. It must bear the cost of security assistance or put national interests at risk.