Economic Aspects of military Assistance

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While it is generally not good practice to begin an article on a negative note, two disclaimers are in order: first, that in suggesting some of the positive economic aspects of military assistance this paper should not be viewed as an apology for military aid. To the economist the high “opportunity cost” of such assistance is well recognized and admitted to if the comparison is with the food, clothing, and shelter demands of a country and its population. The point here is that it is equally erroneous to think of all military assistance as “down the drain” in an economic sense. Second, even within the current development of the recipient countries there is danger of attributing too much to the military assistance program where coincident progress is found. Again the plea is that in its economic aspects the program should be viewed as one significant form of annual aid. Specifically stated, our question is, “How far does foreign economic aid understate total economic aid through the spillover economic effects of military aid?”

Consideration will be given to objectives and alternatives to military assistance, some history and present status of the program, direction and magnitude, and issues and implications.

Objectives and Alternatives

Military assistance is, of course, one of the four basic components of the Foreign Assistance Program. More obviously economic in aspect are the sister programs; Supporting Assistance, which consists of raw materials, commodities, machinery, and tools, plus financial assistance to support the defense production of our allies; Technical Assistance, which consists primarily of technical cooperation with developing countries; and Development Loan Fund, designed to strengthen friendly foreign countries by encouraging the development of their economies. As stated in the Foreign Assistance Act of 1961 as amended, it is the purpose of this part (of the act) “... to authorize measures in the common defense against internal and external aggression, including the furnishing of military assistance upon request to friendly countries and international organizations.” This involves furnishing eligible military forces with the end items, spare parts, and peculiar supporting, training, and other equipment that will enable them to resist external aggression and maintain internal security.

The concept of a strength around the periphery of the Communist world created and maintained by joining the capabilities of ourselves and our allies is central to the whole security program. We spend $51 billion annually on our military establishment and have averaged about $1.4 billion on the Military Assistance Program (MAP) during the past ten years. For this latter expenditure we gain men, equipment, and bases from the recipient country. These are estimated as 4 million men in ground forces, 1900 combat naval vessels, and some 8000 operational aircraft. And since we could not or would not likely supply all these ourselves and deploy them around the world, the alternative to MAP would be some form of the “Fortress America” concept.

History and Present Status

The current program can be traced back to the transfer of 50 destroyers to Great Britain in 1940 and the Lend-Lease Act in 1941. Large sums are not new to such programs. By the end of World War II the dollar value of lend-lease deliveries had exceeded $48 billion; between 1947 and 1950 Congress had allotted more than $645 million for Greek-Turkish aid; the Marshall Plan, which had significant military aid provisions, amounted to $12.5 billion from 1948 to 1951. Added to this should be expenditures for the period on various multilateral and bilateral arrangements, e.g., NATO and the Berlin Blockade.

Still at the heart of the present program are the three key provisions of the Mutual Defense Act of 1949—grant aid, direct transfers, and technical help. The Mutual Security Act of 1951, understandably emphasizing the military aid over the economic, consolidated all the various aid ventures from the several Government agencies into a single Mutual Security Program and placed it under the Department of State. Then in 1954 the act was amended to divide the economic and military portions of foreign aid between the Departments of State and Defense. Finally, the Foreign
The Assistance Act of 1961, as amended in 1962 and 1963, replaced all others. Key provisions of these acts (together with an executive order and administrative evolution) that make for better control but more flexibility are (1) military assistance may be provided not only by loan, grant, or sale but also by lease, exchange, or any other means; (2) the Joint Chiefs of Staff are charged with continuous review in terms of global strategy and security; (3) Military Assistance Advisory Groups (MAAG) are answerable to unified commands of the areas as the established channel to DOD; (4) military assistance plans are 5-year time-phased and reviewed annually; and (5) the Agency for International Development is made responsible for coordinating MAP with both economic assistance and foreign policy.

The questions of whether or not there has in fact been a shift from military to economic aid, the regional appropriateness of each, and the meaningfulness of the distinction are treated in the following section.

**Direction and Magnitude**

Since World War II the United States has extended about $100 billion in foreign assistance to over 100 countries and regional groups. Of this amount, the figures are over two to one on the side of economic aid. Even in areas where military operations have erupted dramatically to public notice and one might expect military expenditures to have predominated, this has many times not been the case. And while it seems a good rule of thumb to say that our emphasis should shift as the threat and our views of the threat shift, this is not to say that the two are mutually exclusive. Economic aid "versus" military aid is largely a false issue—rather they generally support one another. First, even in cases where economic development is judged to be a key objective, it is not always clear that a given amount of economic aid is more conducive to economic growth than an equivalent amount of military aid. This is especially so for some Latin-American countries, for example, where assistance for internal security is predicated on the grounds that the military has an essential role as a stabilizing influence in these countries. Second, it can be argued that in results—if not in labels—the two are almost interchangeable in that military aid will release resources and funds of the recipient country for diversion into other uses, and vice versa. Finally, and our chief concern in this paper, direct spillover effects from military assistance—like infrastructure expenditures and civic-action programs, like road and harbor construction, communications and sanitation facilities—clearly have significant economic aspects.

The hypothesis that there is some kind of inverse relationship between military and economic aid is dismissed by the Draper Report through its findings in 24 countries studied where the economic growth rate was less than 2 per cent. Ten of these countries showed a high rate of military investment, two a moderate rate, seven scarcely any military growth, and five a zero or a negative military growth rate. Thus only 10 of the 24 countries lend any support to the argument at all. Further it must be remembered that economic growth itself does not necessarily preclude Communist incursions—witness the strength of the parties in France, Italy, and Cuba.

At another point the Draper Report concludes that the matter of emphasis between economic and military aid should be dictated by whether strategy appropriate to the country involved is long-run or short-run in nature, whether of the cold-war strategy or hot-war variety. Thus if the threat is primarily external, as in the case of countries on the Soviet periphery, military assistance would predominate, while economic aid may be more appropriate to countries like the emerging African nations which are remote from immediate military danger but prone to internal threat.

However this may be, it is clear that the Military Assistance Program itself has been quite responsive in magnitude and direction to the thermometer of international tensions. Not surprisingly, the bulk of U.S. military aid has gone to the world's trouble spots of the postwar era. The most casual newspaper reader would probably arrange the order about as the evidence indicates in the accompanying table. Note that over the period about one half our aid has gone to Europe, one third to the Far East, one sixth to the Near East and South Asia, and tiny amounts to Africa and Latin America. Note too that even in the short period presented (1961-64) the trends are suggested as Europe stabilizes and picks up more of its own tab while South Asia, the Far East, and Latin America increasingly heat up.

**Military Assistance Program Comparison by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY 1964*</th>
<th>FY 1963</th>
<th>FY 1962</th>
<th>FY 1961</th>
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<tbody>
<tr>
<td>Europe</td>
<td>16%</td>
<td>15%</td>
<td>20%</td>
<td>28%</td>
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<tr>
<td>Africa</td>
<td>2</td>
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Military assistance reached a peak of $5.7 billion at the time of the Korean War and the NATO buildup. The request for $1.0 billion for FY 1965 is close to the average appropriation that has prevailed since FY 1959, i.e., $1.4 billion. The cost of military assistance thus represents approximately 2 per cent of the amount required annually to support the U.S. military establishment.

Finally it should be pointed out that for many countries their defense effort is consequential relative to their gross national product (GNP) and large compared to other common measures of economic magnitudes. A 1961 RAND Corporation study of seven countries over the 1958-59 period showed the median proportion between defense and GNP to be 5.2 per cent; between defense and gross investment, 34.3 per cent; between defense and Government expenditure, 53.3 per cent; and between defense and Government investment 81.7 per cent. In economic terms the question is posed, How can military assistance, and the structure of defense forces and budgets in underdeveloped countries, be modified so as to yield approximately equivalent military effectiveness and yet generate substantially improved economic and political effects?

The study sets out the principle that where the primary criterion—in this case, military effectiveness—does not indicate obvious preference for a particular alternative program, the choice should be made on secondary criteria. This might be a consideration of economic performance through a comparison of the effects of alternative military programs on the operating costs of the defense establishment, on public capital formation, and on the generation of skills in the recipient country. Here one would choose the program with the best ancillary economic developmental effects on the basis of the differential opportunities.

In the concluding section I shall take up some of the issues that are still loose in the Military Assistance Program and cite some of their implications.

**Issues and Implications**

Finding the appropriate focus of attention along the spectrum of resistance to external and internal threats presents the policymaker with a serious dilemma. If too many resources are devoted to countering the external threat, the recipient country becomes vulnerable to internal instability, e.g., Korea. If too much is devoted to the internal threat at the neglect of the external, adventurous grabs may be invited, e.g., India. And if the resources of resistance are spread too thin in combination, exploitation of the vulnerabilities can be expected, e.g., Laos. Furthermore, internal stability and order may come at considerable cost, as is sometimes alleged in the case of Latin America.

Establishing helpful standards of judgment for deciding what countries should receive military aid (and how much) is a second difficult task. Some argue for an annual, ad hoc, case-by-case analysis of the distribution of the cost burden, while others contend that the uncertainty of assistance inherent in such an approach is destructive to the posture of the recipient country. Presently annual reviews of longer-range aid plans, with significant downward modifications largely limited to the end years, seem to satisfy the latter objection.

If it is felt that military assistance is not particularly well suited to meeting erupting immediate crises, it is all the more clear that any program must be carefully linked with the overall pattern of U.S. strategic policy for that country.

Third, while there is general agreement that economic assistance must accompany and be integrated with military aid (especially in the case of underdeveloped countries), the tests for military participation in economic development are not so clear. Three suggested guidelines might be where participation (1) does not unduly detract from the military task,
(2) is not contrary to the long-run development of institutions of popular preference, and (3) is clearly in the public’s interest, as opposed to that of any special-interest groups. Examples of productive participation of local military people in civic-action programs are myriad. These have typically come in the areas of agriculture, industry and mining, transportation and communications, sanitation and housing, labor skills, and public administration. They include crop dusting by the Air Force in El Salvador and veterinary service by the Army in Argentina.

The technical training of foreign military personnel is frequently cited as a major aspect of the Military Assistance Program. Approximately 175,000 foreign nationals have been trained in the U.S. under the program, and about 60,000 more have been trained overseas at U.S. installations. Still others have been trained in their own countries by U.S. teams. Besides their hoped-for political role in stabilizing internal upheavals, their spillover skills and educational and technical competence can be viewed as a substantial input to the human capital of their countries.

Finally, passing mention should be made of the relation of MAP to the balance-of-payments problems currently experienced. Testifying on the Foreign Assistance Act of 1962, General Lyman Lemnitzer, Chairman of the Joints Chiefs of Staff, said, “There is a collateral benefit of our Military Assistance Program which is not generally appreciated. Our Military Assistance Program does not result in a Flow of gold from the U.S. The contrary is true.”

The $335 million of MAP funds spent outside the U.S. in 1962 was offset by $800 million received that same year from the sale of military equipment under the program. The receipts for 1963 were reported as $600 million. Of course the shifts from foreign buying to U.S. buying and from grants to sales (credits) were the key changes that reduced the domestic trade implications of the Military Assistance Program.

It is likely that the above issues, and others, will continue to be debated as with all Governmental programs where the costs are easy to determine and the returns are not. It is equally likely that the Military Assistance Program will continue at about its present size (not to say direction), barring either a dramatic change in the long-term international climate or a profound shift in U.S. defense strategy.

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Notes

2. Foreign Assistance Act of 1963, S. 1276, Hearings before the Committee on Foreign Relations, U.S. Senate, 88th, 1st, June-July 1963, p. 181. This does not of course imply any direct involvement of these forces with the U.S., except to the degree that they are firmly committed with us in bilateral or multilateral defense agreements.

3. The historian would likely suggest earlier spillovers of military/economic development in the U.S., e.g., West Point and the Corps of Engineers, exploration of the West, Navy geodetic surveys, air charting and graphic services, flood control, canals, and railroad activities.


7. Ibid., pp. 36-37. It is recognized of course, as mentioned, that “stability aid” may be required in the form of military assistance even in nonperipheral countries as an element of order and authority. Also the whole idea of counterinsurgency and its evolving requirements may severely upset this neat distinction.

8. C. Wolf, Defense and Development in Less Developed Countries (California: RAND P 2291-1, 1961), p. 1. The countries studied were Burma, India, Indonesia, Korea, Pakistan, Philippines, and Viet Nam.


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