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SOME RELATIONS BETWEEN ECONOMIC AND MILITARY ASSISTANCE

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Introduction

The following paper is intended to provide a basis for improvements in planning and programming techniques in accordance with the recent NSC instructions. Some changes in programming and planning techniques are suggested in connection with a discussion of three aspects of the relationship between military and economic aid: (1) Competition and Complementarity Between Military and Development Programs; (2) Military Operating Costs and Supporting Assistance; and, (3) The "Mix" Between Military and Economic Assistance. A separate memorandum will consider the question of meshing the AID and MAP planning cycles.

I. Competition and Complementarity
Between Military and Development Programs

The recent NSC action on military aid affirmed that "MAP and AID programs are competitive, as well as complementary, in terms both of their claim on U. S. and local resources and their impact on the recipient countries." Although the point may be familiar, it is worth spelling out in a little more detail.

Stated more generally, military programs (both foreign and domestic) in aid-receiving countries may sometimes conflict with economic programs, and sometimes help economic programs. To the extent the former relation prevails, an increase in the military program will decrease the size or effectiveness of the economic program; to the extent the latter relation prevails, an increase in the military program will increase the size or effectiveness of the economic program. What examples can be cited of these relationships?

1. Resource Competition

The most obvious examples of the competitive relationship are those referred to in the NSC statement. To some extent, at least, increased appropriations for military aid reduce the amount available for economic aid. The precise extent of this competition depends both on the extent to which Congress regards economic and military aid as alternatives, and on the extent to which Congress (and the Administration) are concerned to keep total government appropriations within some specified limit. Moreover, once appropriations have been made, competition between military and economic aid funds continues to the extent that the legislation permits transfers between titles, i.e., the 10 and 20 percent transferability provisions of Section 641 of the Foreign Assistance Act of 1961.

Similarly, domestic military programs in recipient countries may absorb scarce materials, equipment and services that otherwise would be available for development programs. And of these, the scarcest may well be the attention, interest and effort of leaders and organizers.

2. External Complementarity

But military and economic programs can also complement one another. One such complementarity arises from the fact that each program can confer spillover benefits that indirectly enhance the effectiveness of the other. By improving law and order, military and paramilitary programs can increase the productivity of economic programs. There is a threshold beyond which further improvements in law, order and security probably have no effect, or even a negative effect, on the productivity or efficiency of economic programs. Most of the advanced countries, e.g., in NATO, are certainly beyond this security threshold. On the other hand, most of the underdeveloped countries on the Sino-Soviet periphery, and perhaps in Latin America and Africa, are probably well within it. It is worth pointing out that, within this threshold, the military forces and capabilities that contribute to improvements in security conditions may frequently entail more than paramilitary, police and other conventional internal security forces. Forces to close a border, or to seal a corridor that is an infiltration route, or to provide a capability for special operations inside adjacent communist areas, may involve costs and equipment greater than those that are usually associated with "police" functions.

Such "external" complementarity can also work the other way. Economic and social development programs can often indirectly increase the effectiveness of military programs. Where development programs are successful, they can, for example, make the rural environment a much less congenial one for guerrillas to operate in. Specifically, a loyal rural population can significantly raise the costs of information and intelligence to the guerrillas, and lower them for government forces, so that the military outputs of military aid and domestic military programs are enhanced. As in the previous example, there is probably also a threshold beyond which further improvements in economic and social conditions will have little or no effect on the efficiency of military programs.

3. Internal Complementarity

Besides these external effects, military aid, and programs related to it, can produce output that is directly valuable to the civilian economy. For example, outlays on military programs can be used for building various infrastructures, for technical training programs, for engineering and construction battalions, all of which may have joint civil and military value. Such opportunities for joint production have an important bearing on improved programming of military aid and related programs.

Typically, military tasks or missions can be performed in different ways. For example, in meeting or deterring external aggression, additional time can

be "bought" by providing larger indigenous forces; or, alternatively, the time required for effective intervention by U. S. or allied forces can be reduced by building infrastructures and ground environment that will facilitate more rapid commitment of such forces. In some contingencies, one alternative may be preferable; in others, a different alternative may be preferable. Some analytical work at RAND, dealing with alternative force-equipment-facilities in certain MAP countries, suggests that the military consequences of some equal-cost alternatives may not be appreciably different, although their joint-product and complementarity effects may be substantially different. In such cases where the primary criterion relating to military effectiveness yields approximately equivalent results for several alternative programs, the choice among them should be explicitly based on secondary criteria concerning economic and social side-effects.

To sum up: (1) Military and economic programs have both complementary and competitive effect. (2) In general, the competitive effects exceed the complementary effects, which is, after all, a basic reason for making a budgetary and analytical distinction between these categories of assistance in the first place. (3) Nevertheless, the internal and external complementarities between military and economic programs are of sufficient importance that programming techniques (which recognize, for example, the role of secondary economic and social criteria in choosing among alternative military programs) should be designed to take advantage of such opportunities. Indeed, in some countries the military establishment may be a relatively effective institution for contributing to the "civil", as well as military, ingredients of nation building.

II. Military Operating Costs and Supporting Assistance

The operating, or support, costs of alternative force-facilities-equipment programs are as relevant for choosing among them as the end-item or direct MAP costs. (It should be noted that this point applies whether or not the country concerned is receiving supporting assistance from the United States.) Under present MAP programming procedures, operating costs do not enter into the choice among alternative military programs in a given country. Instead, they tend to be derived from the force-facilities-equipment program after the program has been determined as a military "requirement". From the standpoint of the efficient use of recipient countries' resources, as well as those of the United States, this is a mistaken procedure. Operating costs should be related as directly to the choice among force goals and military programs as end-item (MAP) costs.

It is also important that recipient countries should bear a major share of the costs of operating their own defense establishments. In fact, this principle provides much of the motivation behind the Congressional view that supporting assistance, which shifts the economic burden of military operating costs to the United States, should be gradually eliminated. For various reasons, this view does not seem to me to be technically sound. A rigid restriction against financing the "local" costs of investment projects from economic aid funds can lead to inefficient, capital-intensive methods of construction that use too much foreign exchange. Similarly, a severe restriction against financing the operating costs of military programs from

military aid funds can lead to an inefficient, "capital-intensive" force structure which overemphasizes fancy equipment, or skimps on infrastructure investment.

This line of reasoning suggests several conclusions: (1) Supporting assistance directly contributing to military objectives should be justified before Congress primarily as a part of the military assistance program, since it basically depends on the same variables that determine MAP in any given country, namely the size and kind of local forces and the willingness and ability of the recipient country to pay for these forces from its own resources. If P.L. 480 funds are used to defray military operating costs, a similar argument and justification should be made to the Congress. (2) Consistent with the principle that recipient countries should bear a major share of the current costs of their defense establishments, it should be made clear that any attempt to eliminate or phase out supporting assistance at this time in certain countries would be ill-advised both on feasibility grounds (e.g., Korea), and on the grounds that it would provide an incentive for inefficient structuring of local forces. (3) MAP programming procedures should be revised so that this type of supporting assistance costs become an integral part of the formulation and selection of alternative force-facilities programs, rather than a derived "requirement" after a particular program has been chosen.

III. The "Mix" Between Economic and Military Assistance

In the recent NSC policy statement on military aid, the agencies concerned were instructed to:

"plan in terms of which mix of military and other forms of aid will best serve our overall national security aims."

One difficulty in carrying out this mandate arises from the fact that the returns from military and economic aid are not readily commensurable. Hence, a judgment concerning the best aid "mix" requires a choice between end-results which are qualitatively different. To facilitate this judgment and choice, it is essential that (a) alternative but equal costing military-and-economic aid packages be explicitly formulated; and (b) that the gains and losses associated with these packages be identified as precisely as possible.

In clarifying this consideration, the following analytical method is relevant:

(1) Three differing, budget levels--a "current", a "high" and a "low"--should be identified for each country's military aid program and its economic aid program to bracket the interesting possibilities over a five-year planning period. A specified amount for U. S. supporting assistance to help defray military operating costs should be included as a component of each military aid budget level, together with a general indication of the approximate size of the local defense budget that is likely to be associated with each level of military aid. Similarly, the three budget levels for economic aid should indicate the amount of local currency support from U. S. aid for the recipient country's development budget, and the general size of the development budget that should be assumed for each level of economic aid. A simple numerical example is attached as Appendix A to illustrate the approach.

(2) Next, an explicit statement of U. S. objectives in each country is needed, with separate identification of those that are of particular relevance to military and to economic programs. These objectives, if they are to be useful in considering alternative aid mixes, need to be more precise than the usual formulation of objectives in terms of broad and loose national purposes. They should be formulated with sufficient precision so that their relationship to the amounts and kinds of aid can be identified, and comparisons and choices among conflicting objectives can be highlighted. This will usually mean that broad aid objectives^{1/}, must be broken down into plausible, but more precise, military indicators (e.g., force units, combat capabilities, bases, etc.) and economic and social indicators (e.g., investment, production, employment, training and skill formation, land ownership, etc.). In turn the military indicators can be related to specific internal and external military threats, and the economic-social indicators related to various specific economic needs.

(3) In relation to the objectives set forth in (2), separate military and economic programs should be formulated for the current, high, and low budget levels. Each of these programs should represent the MAAG and USOM's judgment as to the best five year program corresponding to each of the assumed budget levels.

(4) Finally, assessment by the country team would be required of the political, economic, and military consequences of the nine pairings of economic and military programs. Of these pairings, three will be of equal cost (i.e., the high military-low economic, low military-high economic, and the current military-current economic). From the standpoint of the mix problem, these pairings are the ones on which particular attention should be focussed. For other combinations, the resulting budget level for total U. S. aid would be changed, and hence the mix problem obscured. However, some evaluation of the gains and losses associated with other pairings should be made by the Ambassador and Country Team, together with an indication of different pairings that might be preferable, if the total aid budget level were changed.

^{1/} Relating, for instance, to internal security and external defense capabilities, in the case of military aid; or to economic development and social reform, in the case of economic aid; or to political influence, precluding or neutralizing communist bloc aid, etc., in the case of either economic or military aid.

APPENDIX A

Alternative Five-Year Aid Combinations
for Hypothetical Country X

	<u>High Military- Low Economic</u>	<u>Current</u>	<u>Low Military- High Economic</u>
	<u>M₁</u>	<u>M₂</u>	<u>M₃</u>
<u>Military Budget Levels</u>			
MAP	130	100	90
Local Currency Support for Military Budget	<u>300</u>	<u>250</u>	<u>160</u>
U.S. military aid budget level	430	350	250
Local Military Budget Financed from Non-Aid Sources*	(425)	(400)	(375)
<u>Economic Development Budget Levels</u>			
Development Loans, Grants, etc.	100	160	230
Local Currency Support for Local Development budget	<u>50</u>	<u>70</u>	<u>100</u>
U.S. Economic Aid Budget level	150	230	330
Local Development Budget Financed from Non-Aid Sources*	(325)	(350)	(390)

* Figures in parentheses indicate non-aid resources.