

ECONOMIC IMPACTS OF MILITARY ASSISTANCE

Charles Wolf, Jr.

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The Rand Corporation

Mr. Chairman and members of the Committee:

It is a pleasure to appear before this Committee in response to the Chairman's letter of invitation of January 11, 1971.

Of the three subjects that I understand these Hearings to be principally concerned with (namely, the costs, management, and impact of U.S. military assistance programs), the Committee staff has asked me to concentrate on the third, and more particularly to concentrate on the impacts of these programs on the economic development of recipient countries.

The remarks I will make are based on more than a dozen years of familiarity with these programs. In 1959, I served on the Asian Subcommittee of President Eisenhower's committee to study the Military Assistance Program, under the Chairmanship of William Draper. (As you may recall, the Draper Committee was one of the nine presidential committees that have been organized within the past two decades to investigate and report on various aspects of U.S. foreign assistance programs, economic as well as military, and on the relationships between them.) Since my association with the Draper Committee, I have from time to time done analytical studies on various aspects of these programs. However, I would ask the Committee to bear in mind that I have not been in close touch with these programs for the past two or three years.

Let me turn to the specific question you have raised. There are two sharply contrasting views of the effects of military assistance on development in the recipient countries.

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One view, which I shall refer to as the "resource diversion" (RD) view, is that military assistance diverts resources from economic development. Both local resources and foreign exchange may be diverted by the recipient, for example, in order to operate and maintain the equipment received under the military assistance program. The diverted resources may also include the time and attention of top decisionmakers, as well as non-negligible fractions of the limited supply of administrators and skilled technologists in these countries. According to the resource-diversion view, military assistance therefore tends to retard development, as well as to distort it by increasing the relative size of the military sector, and by reducing the margin available for civilian capital formation and skill formation.

The second position, which I shall refer to as the "resource addition" (RA) view, argues that resources provided through military assistance represent additions to the recipient's economic base that are likely to advance its development. These resource additions include not only such increments as roads, harbors, warehousing, trucks, jeeps, and power generators, which may directly augment what is available to the rest of the economy. They also include such increments as may become available indirectly through increased supplies of better trained and more productive manpower coming into the civilian economy after receiving military training. The resource-addition view suggests that military assistance is likely to accelerate economic development and technological progress in recipient countries.

Incidentally, it is worth noting that logically, rather than ideologically, neither of the two views implies any conclusion with respect to the desirability or "value" of military assistance. One might adhere to the resource-diversion view, but nevertheless argue that the programs were fully justifiable on other grounds, despite these adverse effects. Or, one might adhere to the resource-addition view, but still contend that the programs are too costly for the benefits they provide, or that they are accompanied by other undesirable side-effects.

I would guess that the resource-diversion (RD) view is probably more frequently encountered, although my own opinion runs along the resource-addition (RA) line, for reasons I will explain in a moment. In any event, choosing between the two views is better approached on the basis of specific country experience rather than general theorizing. Instead of thus "choosing" a single "view," we might search for the conditions under which the one and the other, respectively, hold; recognizing that the world is unlikely to conform to only one pattern of this kind.

Turning to specific countries, one can cite examples that appear to sustain each of the two views. For example, my own judgment would be that the resource-diversion view would apply during the 1960's in India and Pakistan, as well as in Castro's Cuba. If the U.S. had provided less military assistance to India and Pakistan (that is, less to both, with the reductions applied in a balanced way, or had provided none to either country), competition for constrained resources within those two countries would have been altered in such a way that defense programs probably would have been smaller, development efforts larger, and the countries' rates of economic growth probably higher. And similarly, if Soviet military assistance to Cuba, following the missile crisis of 1962, had been appreciably less, I would conjecture that that country's rather dismal development record would have been improved.

On the other hand, there are a number of cases in which the resource-addition model seems to be a more realistic interpretation of events. As examples, I would cite the cases of Korea, Taiwan, and Thailand. Over the past ten years, I have had an opportunity to do a fair amount of work on the Korean economy, beginning in 1961, when I assisted that country's Economic Development Council in structuring its first development plan. It is my considered judgment, which has been elaborated more fully elsewhere,^{*} that security assistance has had a substantial and beneficial impact on the remarkable performance

^{*} See "On Aspects of Korea's Five-Year Development Plan," P-2288, The Rand Corporation, Santa Monica, April 1961, and "Economic Planning in Korea," Asian Survey, December 1962.

of the Korean economy. As you know, Korea's rate of growth in real national product, as well as in real product per capita, has in the past three or four years been the highest of any country in the entire developing world.

In my judgment, Taiwan provides a similar example of the resource-addition view, although the direct experience I've had in that country is less than in the case of Korea.*

Which of the two views, RD or RA, applies in any particular case, and which view one chooses to adopt in general, depends on the answers one gives to two critical questions:

1. Would the resources that are made available to security assistance programs by the United States be available for development purposes if the security programs were reduced?
2. Would the military expenditures made by the recipient country not be made if U.S. military aid were not forthcoming? (In other words, would all, or part, of the country's own defense expenditures be discontinued if foreign military assistance were not forthcoming?)

The answer to the first question is something which the members of this Committee are in a better position to provide than I am. To

* For a compatible, though not identical, view, see Neil H. Jacoby, U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development, New York, 1966, pp. 116-126. Jacoby's approach is rather different from that suggested in my statement in the text, since he considers the question of the "military burden" from the standpoint of whether, and by how much, Taiwan's growth would have been accelerated if all the country's resources that were devoted to defense purposes were instead to have been available for developmental uses. This assumption begs the fundamental question of whether that country's own priorities would have permitted such a reallocation. In any event, note the following interesting conclusion that Jacoby's study leads him to:

The view has often been expressed that a ["semideveloped"] country cannot simultaneously maintain a powerful military force and also finance rapid economic growth. The case of the Republic of China suggests that both national purposes can be achieved simultaneously by a semideveloped economy like Taiwan's in 1965 provided that major military hardware is supplied by an external source. (underscoring added) Ibid., p. 126.

put it more bluntly, would in fact appropriations for foreign economic development aid (grants, loans, technical assistance, investment guaranties, etc.) be larger if military aid were reduced? I strongly suspect that the answer is negative; I would be interested in hearing the Committee's own judgment on this question.

The answer to the second question is, in the major military aid recipients that I'm familiar with, also negative. Partly because of genuine security concerns in these countries, and partly because of strong internal political and organizational realities, military programs in fact often command a higher priority than development programs. It is often the development programs, or parts thereof, that are the marginal claimants on resources, rather than the defense programs.

In countries like Israel or Korea or Thailand, the basis for the higher relative value placed on defense seems clearer and more convincing to us than in some other countries. Yet it is an important reality in the national priorities of many other small and insecure countries, too. In such cases, the effect of military aid may well be to release resources for development purposes. And reductions in military aid may well result in diminished resources for development.

Notwithstanding these observations, or perhaps because of them, I would like to endorse a point made by several others who have already appeared during the course of these Hearings: in reorganizing and refurbishing our security assistance programs, a strenuous effort should be made to ensure that these programs, as well as the related local resources within the recipient countries, are allocated and evaluated within the standard budgetary procedures of the recipient countries. To my knowledge, this is rarely if ever done in the conduct of our military assistance programs, although as I mentioned earlier my direct knowledge on this point is at least a couple of years out of date.

To summarize the preceding discussion, my reasons for favoring the RA view over the RD view are based both on direct experience in

the countries I've referred to, as well as the negative answers that I would judge should be given to the two questions concerning resource availabilities.

Let me now turn from the specific question of the impact of military assistance programs on development, to the broader, but related, question of whether a high rate of defense expenditures tends to be associated with a low economic growth rate in the developing countries? In some empirical work done on Latin America by a colleague of mine at Rand two years ago, an effort was made to answer this question. The results are summarized in the following table.

IS A HEAVY ARMS BURDEN ASSOCIATED WITH
A LOW GROWTH RATE?

Arms Burden (% of GNP; 1950-1964)	GDP Annual Growth Rate (1950-1966; or other periods in certain cases)	
	High	Low
High	Dominican Republic (5.5%; 5.2%) Brazil (2.5%; 5.2%) Nicaragua (2.3%; 6.4%) Ecuador (2.2%; 4.7%) Venezuela (2.0%; 6.8%) Peru (1.9%; 5.7%)	Argentina (2.7%; 3.0%) Chile (2.5%; 4.1%) Paraguay (2.0%; 3.2%)
Low	El Salvador (1.4%; 5.4%) Bolivia (.8%; 5.0%) Mexico (.7%; 6.1%)	Haiti (1.8%; 2.0%) Colombia (1.6%; 4.5%) Honduras (1.4%; 3.7%) Guatemala (.9%; 4.3%) Uruguay (.9%; 0.0%) Costa Rica (.6%; 4.3%)

Excerpted from Thomas A. Brown, "Statistical Indications of the Effect of Military Programs on Latin America, 1950-1965," P-4144, The Rand Corporation, Santa Monica, California, July, 1969, p. 10. "Highs" and "lows" are divided at the respective medians.

The first figure opposite each country in the table shows that country's defense outlays as a percentage of GNP, while the second

figure after the semicolon shows the country's annual growth rate in real terms, for approximately the period 1950-1966. What the table suggests is that the answer to the question is emphatically negative: high arms burdens do not seem to be associated with low growth rates. In fact, the data suggest just the reverse: most of the countries with relatively high defense budgets have relatively high growth rates as well, and most of the slowly-growing countries in Latin America have low defense budgets! Of course, such an apparent relationship certainly does not imply a causal connection in either direction. Nevertheless, the results are perhaps surprising, although not as surprising as might be immediately inferred. In fact, for a number of sociological, organizational, and psychological reasons, one might expect such a result. However, to conjecture about these reasons would be too time-consuming and would take me too far afield to warrant further discussion here.

In any event, I would urge extreme caution in drawing any inferences from these data. One reason for caution concerns the data themselves: intercountry and intertemporal comparisons of the sort summarized in the previous table are often unreliable. Another reason is that there are obviously several countries that don't fit the apparent result: for example, Mexico and Bolivia both have low defense budgets and high growth rates, while Argentina and Paraguay have relatively high defense budgets and low growth rates. Anyhow, the data are at least of interest in testing one's intuitions, or prejudices, about the relationships that are involved.

I do not want to be misunderstood in what I've said up to this point; specifically, I want to make quite clear that I am not suggesting that military programs -- either ours or others -- should be justified by virtue of their favorable economic impact. Even if there are such impacts, military programs seem to me a high-cost means of obtaining them. There are more efficient ways.

The primary justification for military assistance programs, and more broadly for security assistance, lies in other directions. This justification lies in helping other countries to meet reasonable

defense goals, based on their demonstrated credentials for helping themselves, and based on the premise of some diminution in U.S. involvement and expenditures for national security purposes abroad. Basically, the justification for our security assistance programs lies in the principle of comparative advantage. Where the United States and another country or countries share common security objectives, it makes sense for the U.S. to concentrate its contributions to those joint objectives in forms which we can provide efficiently, such as military equipment and technical advice. And it makes equal sense for the other partner country or countries to provide their contributions in forms, such as military manpower, which they can furnish more efficiently.

For example, in the case of Korea, it has been estimated that Korean forces are on the average perhaps one-third as effective as corresponding U.S. ground forces, yet their operating costs are one-twentieth, or a still lower fraction of U.S. operating costs. With the resulting leverage factor of 7 or more, it is efficient from both the U.S. and the Korean standpoints to substitute or upgrade Korean forces in place of higher-cost U.S. forces.

This principle has provided the underlying rationale for most of our military assistance in the past two decades. I believe it is also at the core of the Nixon Doctrine. I do not claim to understand fully that Doctrine, although I find such unclarities as persist to be quite unsurprising. Clarifications are more likely to come in the execution than through additional verbiage. What the Nixon Doctrine means will depend on what is done to implement it. Practice makes "doctrine" as often as it follows from doctrine. A renovated, properly authorized, organized, and funded Security Assistance Program should, I believe, be at the core of a meaningful implementation of the Nixon Doctrine. And such implementation is a matter of great urgency and importance in the international arena.

Properly handled, security assistance programs can be made quite generally complementary, rather than conflicting with, international development efforts. Indeed, there are numerous ways in which the two types of programs should complement one another. Thus, economic

development programs can raise the effectiveness of military programs by increasing the resources on which local defense budgets can draw, raising educational and literacy levels, and adding to the stock of skills that the military can use. On the other hand, for economic development to move forward in the less developed countries, it is essential that adequate security be maintained, and that the expectations of savers, investors, and workers be strengthened that security will continue to be maintained in the future.

Consequently, military and paramilitary programs that provide reasonable insurance against attack, and that help to control internal subversion and improve law and order, are essential for effective development programs. Moreover, military programs can also contribute to development by adding joint civil-military infrastructure, by technological transfer and training that raises the quality of human resources, and, in some cases, by providing a wider market for domestic production of goods and services, including but not confined to military equipment. Sometimes, the stimulus provided by reliable military demand may enable domestic producers to realize the economies of larger-scale operation that permit a lowering of costs and prices, and result eventually in access to new civilian markets as well.

Within the United States government, and especially within the recipient countries themselves, efforts to realize and exploit these potentially important complementarities between military programs and development programs should be encouraged.

