

STATEMENT OF
THE COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
JOINT ECONOMIC COMMITTEE

January 4, 1971

Mr. Chairman and Members of the Committee:

As requested in your letter of November 25, 1970, we have assembled a statement showing the various types and categories of assistance which contribute to the military capability of foreign countries. At your request we have, to the extent possible, placed a dollar value on each of the program categories for the past six fiscal years.

In order to prepare this statement it was necessary to gather data from a number of sources within the Executive Branch which we have set forth in the following categories:

1. Military Assistance Grants
2. Foreign Military Sales Through U.S. Government Channels
3. U.S. Commercial Sales of Military Articles
4. Turnover of Real and Personal Property to Other Nations, and
5. U.S. Economic Assistance Related to Internal Security and Common Defense Purposes

I believe it would be most helpful to you if I proceed to explain each line item and what it represents.

First, however, it might be well to describe briefly how the Executive Branch is organized to administer assistance programs for other countries.

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The Foreign Assistance Act of 1961, as amended, Section 622, provides that the Secretary of State under the direction of the President will be responsible for the continuous supervision and general direction of economic and military assistance programs.

Section 623 of the act defines the responsibilities of the Secretary of Defense which include (1) determining military end item requirements and procurement and delivery of the items to the foreign country, (2) supervision of training of foreign military personnel, and (3) establishment of priorities in the procurement, delivery and allocation of military equipment.

A Department of Defense (DOD) Directive (Number 5132.3 dated July 8, 1963, currently under revision), defines Department of Defense policy and responsibilities relating to military assistance. Within the Department of Defense the Assistant Secretary of Defense (International Security Affairs) is designated as the principal staff assistant to the Secretary of Defense in the functional field of international security. As such he is responsible for developing and directing all aspects of military assistance as it relates to the Department of Defense, including grant aid; service funded support of military assistance; funding support of international military headquarters, agencies and military assistance groups; military sales to other nations; providing of military personal property excess to Department of Defense requirements to foreign countries; and ship loans and leases. Ship loans of major combatant vessels also require specific congressional approval.

The Assistant Secretary of Defense (Installations and Logistics) has the primary responsibility for developing the logistic plans required to implement the military assistance programs. He also has authority to act for the Secretary of Defense in respect to turnover of real property--military installations--no longer required for use by the Department of Defense, located in foreign countries. The military departments are responsible for preparing data necessary to develop Department of Defense programs and to implement military assistance and sales programs in accordance with instructions from the Assistant Secretary of Defense, International Security Affairs.

The Under Secretary of State has been delegated the authority by the Secretary of State to coordinate the economic and military assistance and sales programs. The continuous supervision of the military assistance program has been delegated to the Director of the Bureau of Politico-Military Affairs, Department of State, while supervision of economic assistance programs is the responsibility of the Agency for International Development (AID), Department of State.

TABLE I

U. S. MILITARY ASSISTANCE GRANTS

FISCAL YEARS 1965-1970

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
	(In Millions)					
Military Assistance Program - Grant Aid	\$1,005.0	\$1,098.7	\$ 905.2	\$ 615.8	\$ 460.0	\$ 409.0
Military Assistance Service Funded Support of Other Nations	34.1	838.5	1,496.0	1,591.7	1,965.6	2,174.4
Support of International Military Headquarters, Agencies, and Assistance Groups with DOD Funds:						
a. International Military Head- quarters and Agencies	18.9	20.1	21.1	22.8	22.0	55.6
b. NATO Infrastructure	23.0	43.6	81.8	37.5	47.0	50.0
c. Military Missions	<u>72.5</u>	<u>91.2</u>	<u>110.6</u>	<u>141.8</u>	<u>147.2</u>	<u>163.5</u>
TOTAL	<u>\$1,153.5</u>	<u>\$2,092.1</u>	<u>\$2,614.7</u>	<u>\$2,409.6</u>	<u>\$2,641.8</u>	<u>\$2,852.5</u>

U.S. MILITARY ASSISTANCE GRANTS

The amounts presented in our tabulation as Military Assistance Program - Grant Aid are funds obligated for fiscal years 1965 through 1969 and funds programmed for fiscal year 1970. The authority to provide military grant assistance is contained in the Foreign Assistance Act of 1961, as amended. An annual appropriation for the Military Assistance Program is provided by the Congress. This assistance includes training and training support, equipment, construction, technical assistance, repair and rehabilitation, supply operations support, and administrative support.

Military Assistance Service Funded Support of Other Nations includes equipment, maintenance and construction and other costs for the support of Vietnamese and other forces in Southeast Asia. These funds are made available from appropriations to the Department of Defense. Their use has increased in recent years as more countries, such as Thailand and Laos, are assisted with Defense funds. The initial authority for the use of such funds was reflected in the supplemental Defense Appropriation Act of 1966. The Defense Appropriation Acts for each year since 1966 have contained similar authority. Also included is a total of about \$350 million from fiscal years 1967 through 1970 for a number of projects previously funded by the Agency for International Development (AID) in Southeast Asia, mainly in Vietnam. Under this AID/DOD realignment program, these projects were considered to be of a military nature, such as repairing or rebuilding highways and railroads, establishing communication systems, and other support for outlying hamlets.

The support of International Military Headquarters and Agencies includes administrative, operational and capital expense program costs for the U.S. share of support for the headquarters and agencies of NATO, CENTO, and SEATO. The costs of U.S. general purpose forces committed to NATO and stationed in the European Command, but not directly associated with support of NATO headquarters and agencies, are not included.

The support of NATO Infrastructure includes program costs for airfield construction, radar systems, air defense facilities and other military facilities. The program amounts were transferred from military assistance funding to Military Construction Appropriations as of June 30, 1967, pursuant to Public Law 90-180.

The support of Military Missions includes manpower authorizations, equipment, facilities and the associated costs chargeable to military function appropriations, and specifically identified with U.S. Military Assistance Advisory Groups, Military Missions or Military Groups.

TABLE II

FOREIGN MILITARY SALES
THROUGH U.S. GOVERNMENT CHANNELS

FISCAL YEARS 1965-1970

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
			(In Millions)			
Cash Sales and Export-Import Bank Loans	\$1,080.0	\$1,467.4	\$ 805.2	\$ 848.3	\$1,317.1	\$ 772.6
Credit Authorized by DOD for Military Sales:						
a. Credit Authorized from Appropriations or Authorizations	43.0	65.0	71.5	87.4	225.5	70.0
b. Credit from Export-Import Bank Guaranteed by DOD	18.0	252.7	250.1	133.3	--	--
c. Credit from Private Banks Guaranteed by DOD	<u>49.6</u>	<u>---</u>	<u>1.5</u>	<u>43.0</u>	<u>55.3</u>	<u>---</u>
TOTAL	<u>\$1,190.6</u>	<u>\$1,785.1</u>	<u>\$1,128.3</u>	<u>\$1,112.0</u>	<u>\$1,597.9</u>	<u>\$ 842.6</u>

FOREIGN MILITARY SALES THROUGH
U.S. GOVERNMENT CHANNELS

Basic authority for the Department of Defense to sell defense articles and services to other countries is contained in the Foreign Assistance Act of 1961, as amended, and the Foreign Military Sales Act of 1968.

Cash Sales and Export-Import Bank Loans are shown by the year in which the sales were approved and the terms of sale were accepted by the purchaser. These are sales in which the ordering nation or international organization agreed to reimburse the U.S. Government directly with U.S. dollars or from loans authorized by the Export-Import Bank of the United States.

The Export-Import Bank assists in financing exports from the United States to foreign countries, including military articles and services. The Bank's authority is limited, however, by the Foreign Military Sales Act of 1968 which prohibits the Bank from extending credit in connection with sales of defense articles and services to any economically less developed country.

Export-Import Bank reports show their loans by the year of authorization, which does not necessarily coincide with the year or years in which the borrowing country placed specific orders with the Department of Defense. For this reason it has not been possible to show a precise breakdown between cash sales and Export-Import Bank loans. Total Export-Import Bank net loan authorizations for military sales for this 6-year period amounted to \$1,559 million.

Other Credit Sales are those sales where credits or guarantees are made available by the Department of Defense. Credits may be granted directly by the Department, or it may guarantee credits extended by the Export-Import Bank or by private banks. Direct DOD credit sales increased in 1969 after guaranteed credits extended by the Export-Import Bank ceased.

TABLE III

U.S. COMMERCIAL SALES OF MILITARY ARTICLES

FISCAL YEARS 1965-1970

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
			(In Millions)			
	<u>\$ 274.4</u>	<u>\$ 312.3</u>	<u>\$ 344.5</u>	<u>\$ 334.8</u>	<u>\$ 328.9</u>	<u>\$ 567.2</u>

Military Sales to Other Nations by
U.S. Corporations

MILITARY SALES TO OTHER NATIONS
BY U.S. CORPORATIONS

The data presented in our tabulation is based on quarterly reports prepared by the Bureau of the Census and on Department of Defense sources. It includes defense articles and services which were shipped to foreign military organizations or other foreign military establishments, other than those shipments which would be considered as military sales through U.S. Government channels. The Department of State requires an export license for certain defense articles shipped to foreign nations, including commercial sales. At the request of the Committee we attempted to find out from the Department whether information was available as to the volume of these sales by individual U.S. firms. We were informed that this information was not available, since the Department deals with export licenses, not sales, and does not prepare reports of licenses by individual firms.

TABLE IV

TURNOVER OF REAL AND PERSONAL PROPERTY
TO OTHER NATIONS (ACQUISITION VALUE)

FISCAL YEARS 1965-1970

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
			(In Millions)			
DOD Excesses Provided Under the Military Assistance Program, except Vietnam	\$ 230.3	\$ 142.2	\$ 79.1	\$ 192.5	\$ 320.4	\$ 224.2
U.S. Navy Vessels on Loan to Other Nations:						
a. Vessels requiring specific congressional approval	3.8	9.9	23.2	56.8	10.6	--
b. Vessels not requiring specific congressional approval	2.2	5.7	3.5	1.0	--	23.8
TOTAL	<u>\$ 236.3</u>	<u>\$ 157.8</u>	<u>\$ 105.8</u>	<u>\$ 250.3</u>	<u>\$ 331.0</u>	<u>\$ 248.0</u>

Personal Property Transferred to Vietnamese Forces

\$252 million - Fiscal Years 1966 through 1970 for Air Force and Navy--Army figures not available

Real Property, except Thailand and Vietnam

\$900 million - Fiscal Year 1965 to November 1970

TURNOVER OF REAL AND PERSONAL PROPERTY

These turnovers have been presented at acquisition costs, which generally are the only cost figures available for these transactions. Market value at the time the property is turned over would normally be much less than the original acquisition costs.

Excesses Provided Under the Military Assistance Program are made available under Section 503 of the Foreign Assistance Act of 1961, as amended. This section authorizes the furnishing of military assistance to any friendly country or international organization and providing any defense article or service. It is expressed DOD policy, as stated by the Deputy Secretary of Defense in 1968, to maximize the use of excess defense articles, pursuant to the authority contained in the Foreign Assistance Act. Since August 1968, the DOD has developed a program to facilitate the expanded use of excess defense articles for MAP requirements. The acquisition value of excess defense articles to be made available under this program is estimated by DOD to exceed \$10 billion.

Excesses provided Vietnam are not included in the tabular figures for excesses since we have not been able to locate such figures within the Department of Defense. Incomplete figures for personal property, both excess and non-excess, transferred to Vietnamese forces are shown as a separate category. Air Force transfers from April 1, 1966 through June 30, 1970, amounted to \$66 million. Navy transfers for fiscal years 1966 through 1970 were \$185 million. We were unable to obtain any comparable Army data, although we were informed that the Army is beginning to develop a system to record non-reimbursable transfers to Vietnamese forces after July 1, 1970.

During fiscal years 1965 to 1970, 33 ships were delivered to recipient foreign governments, 14 on loans and 19 on leases. The acquisition costs of those ships represent the original construction costs, exclusive of any subsequent modernization programs. Loaned ships are major combatant types, such as battleships, aircraft carriers, destroyers, destroyer escorts, cruisers, and submarines. Specific congressional approval is required before any of these types of ships can be loaned to foreign governments. The ships were loaned under the following authority:

Public Law 387, 87th Congress
Public Law 324, 89th Congress
Public Law 398, 89th Congress
Public Law 224, 90th Congress

Other types of ships, such as cargo ships, tugs, troop landing ships, and auxiliaries, may be leased to foreign governments, under the authority of 10 U.S.C. 2667, with the approval of the Secretary of the Navy.

All of the ships which were loaned or leased during fiscal years 1965 through 1970 were built 24 or more years ago, and according to Navy officials their life expectancy has now been exceeded.

We have been advised by Defense officials that data regarding the transfer of real property in Thailand and Vietnam is not available in Washington, and that a breakdown of data for other countries is not maintained by fiscal year. We were informed that the total of \$900 million reflected their best judgment as to the value of real properties released or in the process of being released from the period of about fiscal year 1965 to November 1970. This total represented the original United States investment and does not necessarily indicate United States investment left

in place at the time of release. Defense personnel further stated that their real property accounting system does not make it possible to determine anything but the original United States investment. Value of installed real property (heating plants, generators, etc.) which may be removed prior to release is not recorded on their records.

The United States Code, title 40, section 511, contains a provision for the disposal of foreign excess property (real and personal) by the heads of executive agencies. The code, however, does not contain any specific provision for disposing of real property such as buildings on land that is not owned by the United States. We were informed in most instances that the land for United States bases and installations overseas is not owned by the United States, but rather by the foreign governments concerned.

There are various executive agreements between the United States and foreign governments that contain provisions regarding the United States use and disposal of facilities overseas, but they differ in each instance. We have been advised that the general trend is to state in these agreements that all buildings and improvements financed by the United States revert to the foreign government, and that the foreign government will not require the United States to put the land and facilities back in its original condition prior to the time the United States started using the land and facilities. The agreements also provide that the United States may take with it all removable property.

TABLE V

U.S. ECONOMIC ASSISTANCE RELATED TO INTERNAL SECURITY
AND COMMON DEFENSE PURPOSES

FISCAL YEARS 1965-1970

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
	(In Millions)					
Economic Security Assistance:						
a. Supporting Assistance Including Public Safety Programs	\$ 438.7	\$ 702.7	\$ 718.4	\$ 594.5	\$ 464.4	\$ 518.1
b. Additional Public Safety Programs	10.0	15.3	7.8	7.1	6.7	7.8
Food for Peace Funds Used for Common Defense Purposes	<u>101.2</u>	<u>135.8</u>	<u>105.0</u>	<u>150.3</u>	<u>92.8</u>	<u>108.0</u>
TOTAL	<u>\$ 549.9</u>	<u>\$ 853.8</u>	<u>\$ 831.2</u>	<u>\$ 751.9</u>	<u>\$ 563.9</u>	<u>\$ 633.9</u>

U.S. ECONOMIC ASSISTANCE RELATED TO INTERNAL
SECURITY AND COMMON DEFENSE PURPOSES

Economic aid in this category includes commitments for economic security assistance administered by the Agency for International Development (AID) and agricultural commodity shipments under the Public Law 480 program (Food for Peace).

Economic security assistance has been furnished from AID's appropriation for supporting assistance, as authorized under the Foreign Assistance Act of 1961. This assistance has been characterized as economic aid directed primarily toward immediate political and security objectives; for example, economic assistance to a country engaged in a major defense effort. The object of this economic assistance is to enable larger defense efforts to be undertaken in less-developed nations threatened by Communist expansion and to avert situations of dangerous instability in sensitive areas.

Supporting assistance may include funds for public safety programs, that is, for training, equipping, and advising civil police, regulatory and administrative authorities, and paramilitary police groups in recipient programs. AID has provided additional funds for public safety programs from its appropriations for Technical Cooperation, Development Grants, and Development Loans.

Food for Peace Funds Used for Common Defense represent that portion of the local currency funds generated by agricultural commodity sales agreements allocated for common defense purposes in the year the sales agreement was signed. A few agreements are for more than a year's requirements. These have been prorated. Adjustments have been made for actual shortfall of deliveries from annual agreements.

The purpose of the Food for Peace Program as set forth in the Agricultural Trade Development and Assistance Act of 1954, as amended, (P.L. 480) is to increase the consumption of U.S. agricultural commodities in foreign countries, to improve the foreign relations of the United States, and to promote in other ways the foreign policy of the United States.

In order to carry out these objectives Title I, Section 101, of the Act authorizes the sale of agricultural commodities for dollars on credit terms or for foreign currency. Section 104 lists a variety of purposes for which the foreign currency generated through these sales can be used. One of these purposes is the procurement of equipment, materials, facilities, and services for the common defense including internal security.

The State Department negotiates the terms of the sales agreements on a country-by-country basis at prices acceptable to the United States and the individual country. The U.S. Government maintains fiscal control over all local currency generated under P.L. 480 until such time as funds are released for approved purposes within the foreign country.

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In addition to the military and economic assistance provided other countries by the United States, these countries may derive economic advantage from having sizable U.S. military forces stationed there. Examples of such economic benefits would be roads or other facilities constructed by U.S. troops, and dollar purchases, for troop support, of foreign currencies at official exchange rates that may not reflect true market values.

Benefits of this sort cannot be easily quantified, nor can any possible offsetting disadvantages, such as the inflationary pressures generated by large numbers of U.S. troops in relatively underdeveloped economies.

Following are some illustrations of economic benefits of this nature to another country.

U.S. military purchases of Vietnamese piasters for fiscal years 1965 through 1970 have amounted to nearly \$1.5 billion. By comparing official exchange rates with estimated black market rates the over-valuation in military purchases of piasters for these years can be computed as a subsidy to the Vietnam economy in the equivalent of about \$680 million. That is, the U.S. military did not receive goods and services in that amount, due to the amount of real purchasing power lost through the unrealistic official rate of exchange. The fiscal year breakdown of this estimate is as follows:

1965	\$ 5 million
1966	67 million
1967	186 million
1968	116 million
1969	126 million
1970	180 million

According to the Department of Defense, approximately 5,000 U.S. military troops have been used to build, rebuild, and maintain roads, bridges, and railroad facilities in Vietnam. About 910 miles of roads and bridges have been completed. While the primary purpose of this work has been to meet military objectives, the construction and maintenance of these transportation facilities also has some benefits to the Vietnam economy.

At the request of the Committee we have made inquiries regarding the preparation, by the Department of Defense, of the annual "100 Companies" report. This report of companies receiving the largest dollar volume of prime contract awards includes purchases by the Department of Defense for the various military assistance grant and sales programs. The report is prepared from a compilation of procurement actions of \$10,000 or more involving appropriated funds, contract authorizations, replenishment of stock or revolving funds, and appropriated funds, such as Military Assistance Program funds, transferred to the Department of Defense.

Defense officials informed us that within this framework the report includes all articles purchased by the Department through its procurement offices or through interagency transactions including articles furnished or repaired or refurbished and provided through grant assistance programs or through sale to foreign countries.

We are also submitting, at the Committee's request, a list of the major U.S. suppliers of weapons and equipment for military assistance grant and sales programs.

Mr. Chairman, this completes my prepared statement. We will be glad to try to answer any questions you may have.