EIR Strategic Studies

Ibero-American military budgets are new U.S. target

by Dennis Small and Peter Rush

On May 26, Peru's Finance Minister Carlos Boloña told a nervous audience at Rockefeller's Council of the Americas in New York, that they should not worry about the Peruvian situation getting out of control. The military is in check, he reassured them, because they are being financially strangled: They are not being given the budget they require to decisively win the war against the Shining Path (Sendero Luminoso) narco-terrorists in that country. Interrogated as to how this was being done, Boloña explained, according to Peruvian press accounts: "We've told them that our budget availability has a limit, and therefore any request for resources must be accompanied by a proposal for who should lose those resources, which seems to have achieved positive results."

No Peruvian military leader has yet pointed out to Boloña—at least not publicly—the obvious answer to his bad faith question: Cut the budget line for *debt service payments,* and use it instead for the war against Sendero.

Even former Peruvian Prime Minister Manuel Ulloa, no enemy of the banks, to be sure, was frank about the matter. In comments to a meeting of the Inter-Action Council in Querétaro, Mexico in early June, Ulloa stated flatly that "Shining Path receives from the narcos more money than the state gives to its Armed Forces." Independent estimates by *EIR* confirm this conclusion: Sendero's budget of about $720 million a year in drug money is more than two-thirds larger than the pathetic $429 million that was budgeted for the entire Peruvian Armed Forces in 1990!

This situation is unfortunately not unique in Ibero-America: It is only the starkest example of how Washington's policy of financially starving the continent's armed forces is directly handing military superiority to the forces of narco-terrorism and Khmer Rouge-style genocide.

Robert McNamara's three big lies

This result is intentional. For years, the Anglo-American financial establishment has been embarked on a policy to discredit and dismantle the militaries of Ibero-America, since these institutions—along with the Catholic Church—are considered to be the only viable centers of resistance to Bush's new world order.

The policy was most fully elaborated in the 1990 book *The Military and Democracy,* which was financed by the U.S. government and has become known as the "Bush Manual" (see *EIR,* Jan. 11, 1991). Over recent months, the strongest weapon in the establishment armamentarium against the military has been the propaganda line that the lack of development in Ibero-America and the Third World is due to their excessive military expenditures. Military cutbacks are needed in the post-Cold War world, they intone.

This line of argument is based on Three Big Lies first promoted by Robert McNamara, the former U.S. defense secretary and former president of the World Bank, in a paper he issued in April 1991. In that document, "The Post-Cold War World and Its Implications for Military Expenditures in the Developing Countries," McNamara asserts:

1) Military expenditures in the Third World, and Ibero-America in particular, constitute a giant share of these countries' GNP.

2) These military expenditures are not only large, but they are growing by leaps and bounds.

3) This military spending is the reason why health, education, and other social expenditures receive very little money in these countries.

McNamara's proposed solution is simple enough: Slash military outlays by *half* by the end of the decade.

Army tanks on parade in Colombia outside the Justice Palace in Bogotá, Colombia in July 1985, four months before the building was taken over by the M-19 narco-terrorists. Throughout Ibero-America, the military has been instrumental in preventing nations from being taken over by the drug mob.

McNamara writes in his paper:

"Can such large [military] outlays, in countries so drastically in need of capital to accelerate the rate of economic and social advance of their 5 billion inhabitants, be reduced? My answer is yes. This paper will put forward the proposition that . . . the tying of financial aid to developing countries to reductions in military expenditures can lead to less risk of war among Third World nations and to cuts in their military expenditures, as a percent of GNP, of more than half by the end of the decade. The end of the Cold War offers dramatic opportunities for the nations of the world to move in this direction. The international organizations, including financial institutions such as the World Bank, can catalyze the process thereby accelerating economic and social development without reducing security." And lest there be any confusion, McNamara explains further: "I strongly urge the linking of financial assistance, through 'conditionality,' to movement toward 'optimal levels' of military expenditures."

This call for military cutbacks from one of the architects of the Vietnam War did not go unheeded. His successor at the World Bank adopted it as official World Bank policy a few months later, at the September 1991 annual meeting, as did the bank's sister institution, the International Monetary Fund. In fact, as recently as early June, in his speech to the Rio Earth Summit, IMF Managing Director Michel Camdessus explained that the cause of poverty in the world is not his agency's austerity demands, but rather the military spending of beleaguered Third World nations. "For years we have heard that the pressing needs for defense . . . were an obstacle," Camdessus stated. "Is it not time, at last, to take advantage of the reduction in global tensions and to rechannel resources to more productive and useful uses? . . . Nonproductive expenditures are only too abundant in the world. Suffice it to cite military expenditures which have been left virtually unchanged despite the prospects opened up by the end of the Cold War."

McNamara's pioneering April 1991 paper was supposed to provide the statistical backup for all of these subsequent calls to action. In it are presented a set of tables comparing expenditures on health, education, and the military, as a percentage of Gross National Product (GNP) in various countries. McNamara's general point is that the first two categories are relatively low, because the last is so high—i.e., if you're poor, blame it on the military.

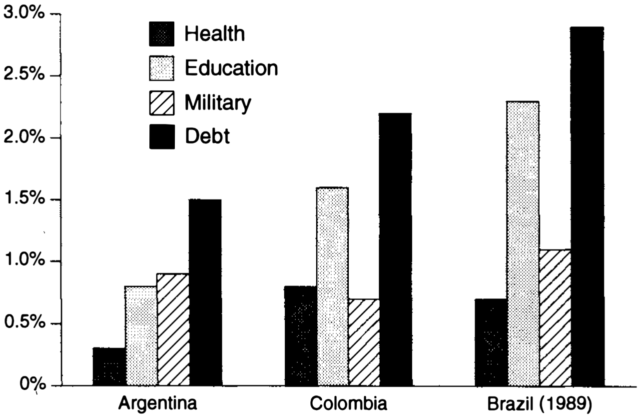
But there is a curious thing about McNamara's tables, in which there is one budget line missing from all of them: the amount the governments spend on *debt service,* on payments on both the internal and the foreign debt!

Perhaps this was a simple oversight by the otherwise brilliant economist? Would it be overly presumptuous to ven-

FIGURE 1

McNamara's big lie: government expenditures in Argentina, Colombia, and Brazil, by sector, 1990

(percent of GNP)

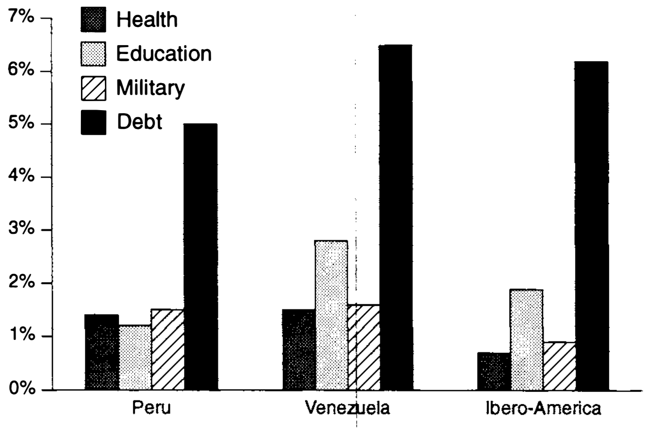


Sources: ADLA, Argentina; Comptroller General of the Republic of Colombia; Planning Ministry, Brazil; Army Newspaper, Brazil; IADB.

FIGURE 2

Government expenditures in Peru, Venezuela, and all Ibero-America, by sector, 1990

(percent of GNP)



Sources: Central Reserve Bank, Peru; Finance Ministry, Venezuela; IADB; own estimates.

ture that, perhaps, Mr. McNamara left these figures out *on purpose,* because he did not want people to compare military and other budget expenditures with debt payments? Could it be that he did this because the full figures show that, contrary to McNamara's Three Big Lies:

1) Military expenditures are *not* the lion's share of the budget. In 1990, Ibero-America spent almost *seven* times as much on debt service (a whopping $52 billion) as it did on the military (a mere $7.8 billion).

2) Military spending is *not* growing. Over the 1980s, military spending collapsed in Ibero-America (by two-thirds in Peru; by 36% in Chile; by 70% in Argentina).

3) The military budget is *not* the reason that spending for health and education is low. Rather it is the dramatic reduction of overall government spending, along with a rise of debt payments—both of which have occurred on the orders of Washington, the IMF, and the creditor banks—which has led over the course of the 1980s to the decimation of spending on health and education, by over 50% per capita in countries like Peru and Mexico.

It is IMF policies, enforced with an iron hand by Bush's New World Order, which are destroying health, education, and the military in Ibero-America—all for the purpose of salvaging Wall Street's failing banks.

Dissecting the fraud

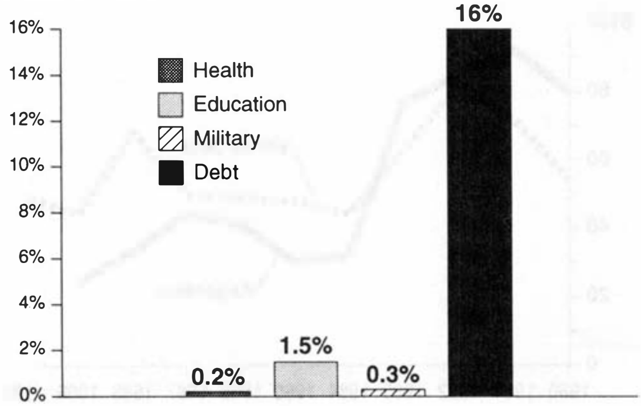
McNamara's lies are exposed by simply looking at *official government budget statistics* in some detail (see box).

Figures 1 and **2** show the nature of McNamara's lies most directly. For each of the countries shown, the first three categories correspond to those presented by McNamara: health, education, and military expenditures, as a percentage of GNP. McNamara uses those three sectors to point to the allegedly horrifying spectacle of a country like Argentina spending three times as much on the military (0.9% of GNP) as it does on health (0.3% of GNP), and more than on education (0.8% of GNP). But the missing category, which is nowhere to be found in McNamara's entire analysis, is expenditures on the debt, which in the case of Argentina are at least 1.5% of GNP, i.e., two-thirds greater than defense expenditures. Colombia and Brazil each spend three times as much on debt than they do on defense, as a share of GNP, whereas Peru and Venezuela each spend in the range of four times as much. The average for Ibero-America as a whole, shows that less than 1% of GNP is spent on the military, whereas over 6% is spent on servicing the debt of McNamara and his banker friends. If they are so concerned about health and education expenditures in Ibero-America, which are admittedly pathetically low, why don't McNamara and the IMF call for slashing debt expenditures by the governments of the continent?

The case of Mexico is singled out in **Figure 3** because it is so dramatic. That country, which is constantly cited by the Bush administration and the IMF as the model for the rest of the continent, channels 16% of its entire GNP into usurious interest payments to the banks—leaving a criminal 0.2% for health and 1.5% for education. Needless to say, the Mexican military also gets the short end of the stick—about 0.3% of GNP.

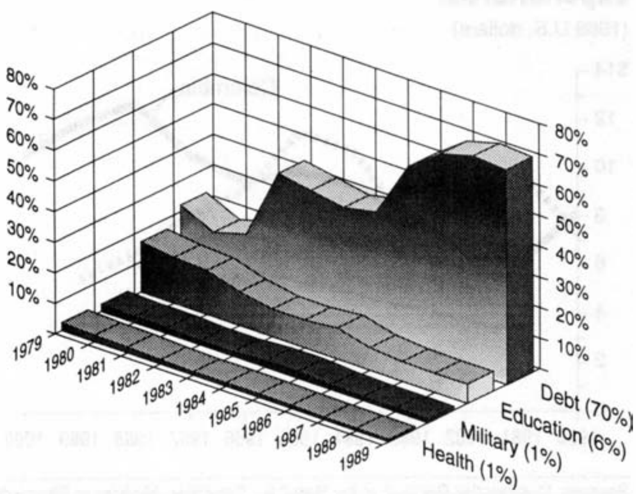
Figure 4 looks at the Mexican picture over the course of the last decade. Here the reader can see that debt expenditures

FIGURE 3
Government expenditures in Mexico, by sector, 1990
(percent of GNP)



Sources: Ministry of Planning and Budget, Mexico; IADB.

FIGURE 4
Mexico: government expenditures, by sector
(percent of total government expenditures)

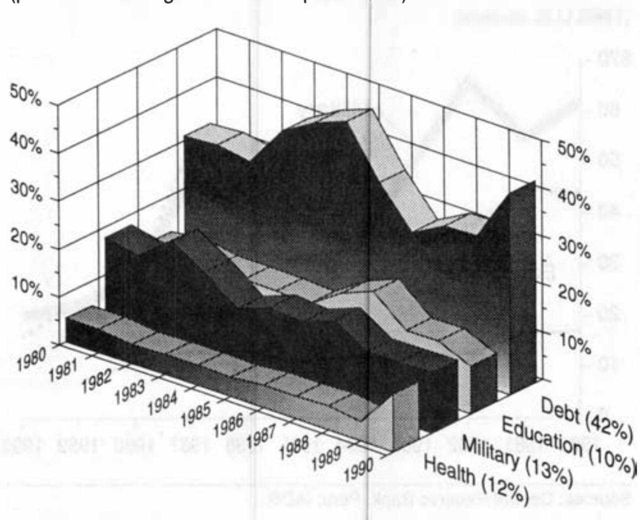


Source: Ministry of Planning and Budget, Mexico.

have zoomed over the 1980s, to the point where they today consume 70% of the entire government budget. Unless this cancer is removed, there is no way that there will be any money left over for productive expenditures by the Mexican government.

Figure 5 shows the same parameters for the case of Peru. Here the debt line does not take up as much of the budget as in the case of Mexico ("only" 42%, compared to Mexico's 70%), but it clearly overshadows every other expenditure

FIGURE 5
Peru: government expenditures, by sector
(percent of total government expenditures)



Source: Central Reserve Bank, Peru.

area. Also note its sharp relative increase over the last few years.

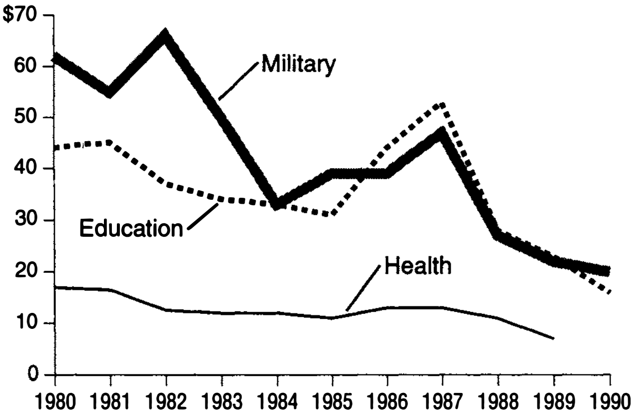
But the real story of the Peruvian budget, in particular, cannot be seen by looking at relative shares of the budget alone. This is because the absolute amount of that budget has collapsed over the course of the 1980s: In 1980, it was $349 per capita, and by 1990 it had plummeted to $157 per capita, a decline of 55%. Within this overall total, defense spending dropped by 68% (a bigger decline than the average for the whole budget); education fell by 65%; and health dropped by 59%, down to the scandalous level of only $7 per capita spent in 1989 (see **Figure 6**). Is it any wonder that the cholera epidemic struck Peru like a thunderbolt in February 1991?

Nor is Peru the only country in Ibero-America whose military expenditures plummeted over the 1980s as a result of IMF policies. In fact, virtually every single nation has undergone the same process, as **Figures 7, 8** and **9** demonstrate. This directly disproves McNamara's lie that military spending is on the rise in Ibero-America.

Take the case of Chile, which supposedly has one of the more protected military budgets in the continent (**Figure 7**). Defense spending there dropped from $86 per capita in 1980, to $55 per capita in 1988—a 36% decline. Similarly in Brazil, a favorite target of the demilitarization crowd, military expenditures are estimated to have fallen by a third, from $37 to $25 per capita, between 1980 and 1989. (Data covering the intervening years between 1985 and 1989 was unavailable).

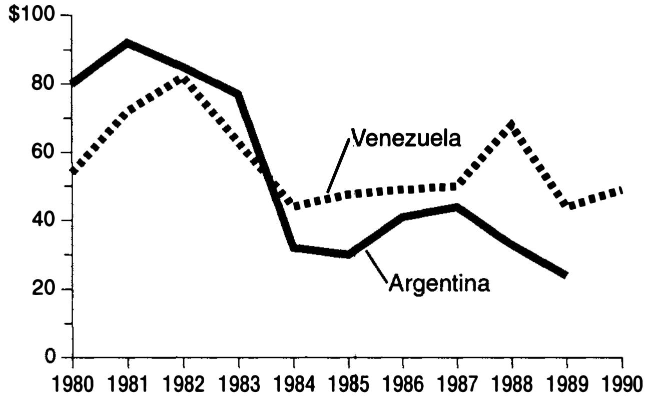
Oil-rich Venezuela is also spending less per capita on the military today than it was in 1980 (**Figure 8**). And the nation of Argentina leads the continent in the relative collapse of its

FIGURE 6
Peru: per capita expenditures on health, education, and military
(1988 U.S. dollars)



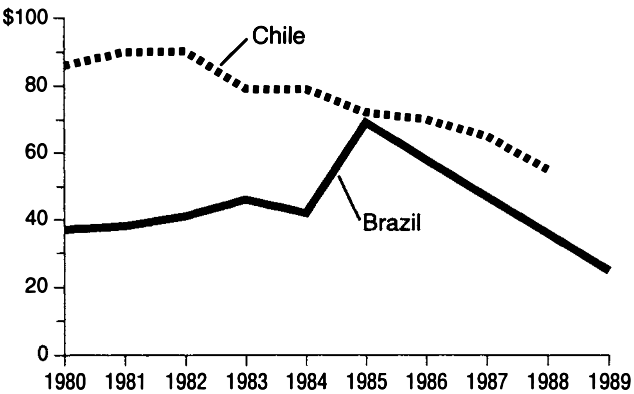
Sources: Central Reserve Bank, Peru; IADB.

FIGURE 8
Argentina and Venezuela: per capita military expenditures
(1988 U.S. dollars)



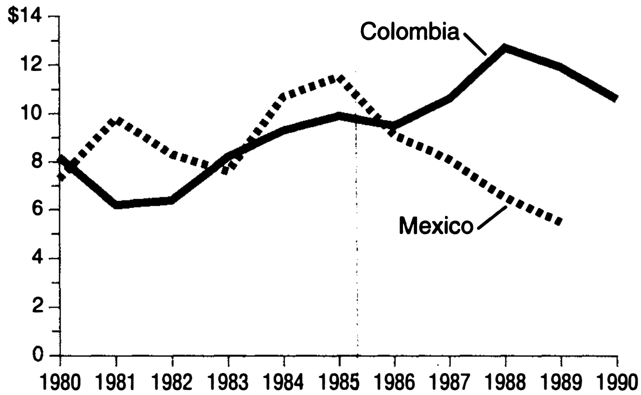
Sources: ADLA, Argentina; Finance Ministry, Venezuela; IADB.

FIGURE 7
Brazil and Chile: per capita military expenditures
(1988 U.S. dollars)



Sources: Planning Ministry, Brazil; Army Newspaper, Brazil; Finance Ministry, Chile; IADB.

FIGURE 9
Colombia and Mexico: per capita military expenditures
(1988 U.S. dollars)



Sources: Comptroller General of the Republic, Colombia; Ministry of Planning and Budget, Mexico; IADB.

per capita defense expenditures (by 70%), principally in the aftermath of the Malvinas War. Of the countries studied, only Colombia had an increase in its per capita military expenditures between 1980 and 1990—but its absolute level remains among the lowest on the continent ($10.6), rivaling even Mexico in this regard (**Figure 9**). The reader should recall that Colombia is a country where there has been a shooting war going on for a decade between narco-terrorist guerrilla movements and the nation's military. Outside of Peru, it is the country that perhaps most requires hefty military expenditures in order to be able to defeat the well-organized and well-financed forces of narco-terrorism.

A menace to national sovereignty

These graphs should not be considered as cold statistics. The cutbacks already imposed on the military insitutions of Ibero-America have brought some of them to the edge of extinction as fighting bodies, and have thereby endangered the very national sovereignty of these countries—which is of course precisely the objective sought by McNamara and the

Bush administration.

One of the areas hardest hit has been that of purchases of military hardware. According to an April 5 *New York Times* analysis, Ibero-American spending in this area is less than $1 billion today, down from $3 billion in the 1970s. Colombia, for example, now purchases only light weapons to fight the heavily armed narco-guerrillas. The Peruvian Armed Forces report that they have only four helicopters capable of flying over the Andes Mountains—i.e., which are of any use in the war against Shining Path. And Argentina can't even afford spare parts for its existing equipment, leaving half its fighter aircraft, 20 helicopters, 250 armored personnel carriers, and its one aircraft carrier out of commission.

Even worse is the impact that wage cutbacks have had on army personnel and morale. In Venezuela, real wages for the military have fallen 30% in five years; in Brazil, by over 25%; and in Argentina, officers today earn less than half of what they did in the early 1980s. In Bolivia, military wages have also plummeted by half. The situation in this country is so bad, according to the Mexican daily *Excélsior*, that, henceforth, officers from sergeant on up will have to purchase their own uniforms, and will soon have to pay for their own meals.

The situation in Argentina is equally bad. Since wages have declined so sharply, it is estimated that 50% of the officers and non-commissioned officers of the Argentine

The method used in EIR's study

The primary statistics employed in this study came from official government sources in the respective Ibero-American countries—from central banks, finance ministries, and so forth. In all cases, these official budgets are reported in current units of the local currency. Thus, to make them comparable, it was necessary to convert them to constant dollar terms.

An exercise was done employing the IMF's published average exchange rates for each year for each country, but the results were considered unreliable and in some cases contained unexplained anomalies. This is probably due to problems introduced by applying average exchange rates in cases where there were frequent massive devaluations, changes in the name and value of the national currency, etc.

An alternative method was applied, in which the Inter-American Development Bank's published figures for each country's annual government budget as a percentage of GNP were taken, and applied to the IADB's constant dollar values for GNP. This produced a constant dollar value for the total government budget in each year. Then, the official national sources were used to obtain the annual expenditures on health, education, military, and debt, as percentages of total expenditures in that year. These percentages were then applied to the total constant dollar budget, as derived above, to obtain constant dollar values for each of the indicated categories.

We consider the results to be an acceptable first approximation, but also find some areas that raise some doubts.

First of all, each country provides numbers that are sometimes inconsistent or hard to believe. For example, the figures for Argentina's total debt payments are surprisingly low, and indicate that the official budget numbers used may not reflect the totality of debt payments actually made. As a result of such problems, even the IADB, the IMF, and the World Bank have thrown up their hands, despairing in some instances of getting usable numbers. In this connection, it should also be pointed out that McNamara's numbers often differ from those employed by *EIR*, including significant anomalies for military expenditures, *in both directions*—i.e., his numbers are higher than ours in some cases, and they are lower in others.

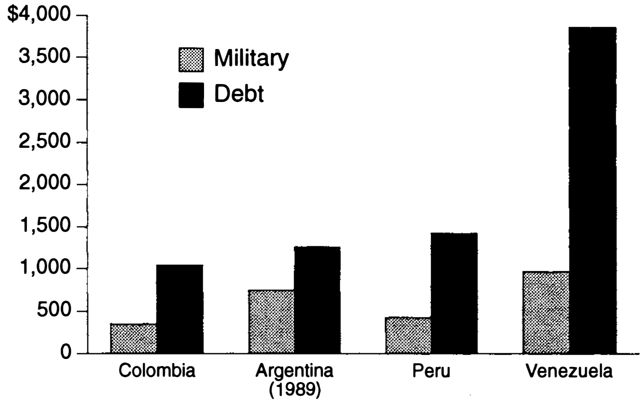
Finally, we should note that the "debt expenditure" category used in this study is *not* the same as measures of "foreign debt service payments" that are normally used in studies of a country's foreign debt. Specifically, the government's debt expenditures reported in this study *include* payments on both its foreign and its domestic debt (i.e., debt owed to domestic creditors), and they *exclude* debt payments made by private creditors, even when these are guaranteed by the government. "Foreign debt service" normally includes only payments made to foreign creditors, by both the government and private debtors in the nation. To put it schematically, total debt payments consist of:

1) Foreign debt
   a) government debt
   b) private debt
2) Domestic debt
   a) government debt
   b) private debt

and

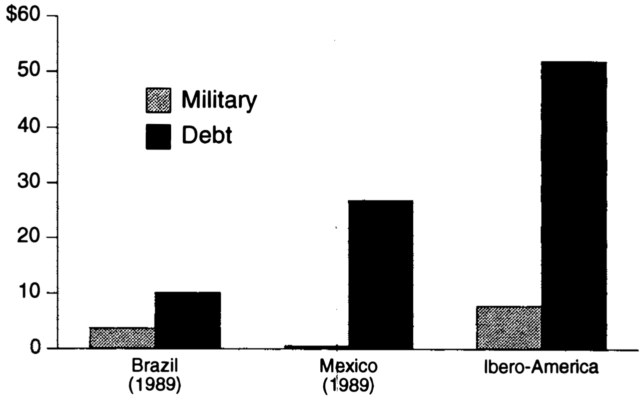
"Foreign debt service payments" = 1a + 1b
"Government debt expenditures" = 1a + 2a

FIGURE 10
Military versus debt expenditures in Colombia, Argentina, Peru, and Venezuela, 1990
(millions U.S. dollars)



Sources: Comptroller General of the Republic, Colombia; ADLA, Argentina; Central Reserve Bank, Peru; Finance Ministry, Venezuela; IADB.

FIGURE 11
Military versus debt expenditures in Brazil, Mexico, and all Ibero-America, 1990
(billions U.S. dollars)



Sources: Planning Ministry, Brazil; Army Newspaper, Brazil; Ministry of Planning and Budget, Mexico; IADB; own estimates.

Army have had to find a second job just to make ends meet. This is in violation of regulations, but the military brass have had to look the other way while a virtual "part-time" army has come in to existence. Needless to say, "discipline has fallen in proportion to the decline in wages," according to the Buenos Aires newspaper *Página 12*.

The situation in Brazil is also a disaster. Spain's EFE wire service reported earlier this year that the budget for the Armed Forces is so low that they can scarcely feed their troops, and that as a result, it was recently decided to give the troops Mondays and Fridays off during the month of June, in order to not have to provide lunches for the personnel. The Brazilian newspaper *Jornal do Commercio* confirmed on April 10, that food is already scarce in the Army barracks.

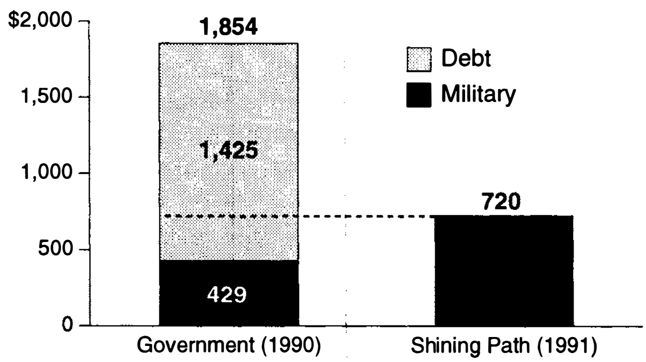
But perhaps what has caused most concern of all among the Brazilian high command, is a report prepared by active duty officers which documents, according to the April 29 issue of *Veja* magazine, that Rio de Janeiro military personnel are so impoverished that one in four, or 25%, are forced to live in "favelas" or shantytowns. In the favela of Jacarezinho, a slum that is particularly drug- and crime-ridden, some 58 military personnel of various ranks were discovered to have their residences there.

Winning the war

Figures 10 and **11** provide the answer to Finance Minister Boloña's sarcastic question reported above: If you want to increase the military budget, what shall we cut, gentlemen?

What can be cut, Mr. Boloña, are the usurious debt payments, which are destroying the nations of Ibero-America in every sense.

FIGURE 12
Peru: Shining Path's military expenditures are bigger than the government's
(millions U.S. dollars)



Sources: Central Reserve Bank, Peru; IADB; own estimates.

The Colombian government, for example, which in 1990 gave its military only $350 million to do battle against the narco-terrorists, that same year spent three times that amount, $1.044 billion, in payments on the public debt. By cutting debt payments by only a third, the military budget could be *doubled!*

Venezuela in 1990 spent $970 million on its military, but its debt payments were four times that amount, at $3.871 billion. And Brazil, whose military is being decimated through an inadequate budget, dangerously low wage levels to its soldiers and officers, and an all-out assault on its acquisition of modern technology, spent $10.1 billion on debt payments, compared to the meager $3.7 billion deployed to the military. The next time President Fernando Collor's government, or his Finance Minister Marcilio Marques Moreira, tells the Brazilian military that "there is just no money" to cover their requirements, the officers should point to the debt payments and explain that the military budget could grow by 135% if the debt payments were simply cut in half. This might anger Brazil's bankers, but it would at least leave the country in a position to defend its sovereignty.

When we look at Ibero-America as a whole (**Figure 11**), the nations of the continent in 1990 paid almost seven times as much for debt service ($52.0 billion) as they spent on all military expenditures ($7.8 billion). This goes a long way toward explaining why McNamara "forgot" to include these debt figures in his analysis. Once they are considered, it makes it impossible to justify the destructive cutbacks being imposed on the continent's military institutions, as a "necessary economy."

In the final analysis, what is at issue is a fundamental issue of national security.

Take the case of Peru, as shown in **Figure 12.** In 1990 the government found the resources to pay its domestic and foreign creditors $1.425 billion in debt payments, but could only muster $429 million for its military, which is at war—all-out war—against the Shining Path butchers. The horrible irony of this situation is that Sendero's sponsors, the international drug cartels and the bankers who back them, were not so miserly: Shining Path received an estimated $720 million in 1991, in order to prosecute its total war against civilization in Peru. This is 68% *more* than the corresponding military budget of the national Army!

What would it take just to give the Peruvian Army a budget comparable to Sendero's? A mere $291 million, which could come by declaring a moratorium on only 20% of the government's annual debt payments of $1.425 billion. In other words, if the Alberto Fujimori government—which claims to have declared all-out war against Shining Path—also declared a war *economy* and stopped paying only a fifth of its debt service, the Peruvian military could at least get as much money as Sendero does.

Actually, it would be far more appropriate for the government to declare a total moratorium on all debt service payments for the duration of the war, and to use the saved resources ($1.425 billion per year) to double or triple the country's military expenditures, and to simultaneously channel resources to begin lifting the economy out of the devastation which IMF policies have visited upon that nation.

This would surely be the best way to answer Robert McNamara's Three Big Lies.