

# foreign policy *in focus*



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## Warfare vs. Welfare: Subsidies to Weapons Exporters

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By Jon Lottman, The Campaign for New Priorities

Political leaders say the budget must be balanced by the year 2002, and this requires making tough choices. But in the rush to pass tough spending cuts, Congress and the Clinton administration are avoiding making an obvious choice: welfare over warfare.

### Key Points

- Subsidies for arms exports cost American taxpayers \$7.6 billion in 1995.
- In recent years, taxpayers have borne an increasing share of cost of the arms trade.
- American corporate interests, rather than diplomatic or security concerns, are playing a larger role in weapons export policies.

The 1996 welfare law (Personal Responsibility and Work Opportunity Act) cuts federal safety net programs by \$51.6 billion over five years (1998-2002). President Clinton says he wants to restore \$17 billion in welfare spending over this period. Even if Congress approves this plan, federal support for poor families will drop about \$7 billion annually over the next five years.

The government is spending that much every year to help U.S. weapons manufacturers market their wares around the world—plying everything from excess ammunition rounds to high-tech fighter jets. The U.S. is the world's leading arms exporter; and, in essence, U.S. taxpayers will be subsidizing the weapons industry's overseas sales with the "savings" from welfare cuts. Despite the end of the cold war and the demise of a global enemy, the U.S. weapons industry continues to fuel arms races around the world. U.S. weapons under foreign control add to the perils faced by U.S. troops stationed or fighting abroad (see *In Focus: Controlling U.S. Arms Sales*).

The rationale for U.S. government support for weapons exports varies. Along with the defense industry lobby, the administration—which by law must approve all weapons transfers overseas—emphasizes the need to keep defense industry production lines moving to be able to supply U.S. forces in the event of an unexpected crisis. And with defense industry jobs in nearly every congressional district and military contractors channeling millions in campaign contributions to both parties, lawmakers remain reluctant to

cut weapons industry subsidies.

Facing modest post-cold war reductions in military spending, the weapons industry has, for the most part, ducked the challenge of conversion to nonmilitary production (see *In Focus: Defense Conversion*) and looked increasingly to overseas weapons sales to bolster production lines and profit margins. This plan hasn't worked: Runaway costs for military equipment have priced most of the world out of the market, and demand has declined.

As a result, U.S. taxpayers have underwritten a growing share of the costs of military exports. In 1993 the U.S. authorized foreign military sales valued at a record \$36 billion, a level unprecedented even during the cold war. By 1995 the sales volume had fallen to \$12.6 billion. But over the same period, federal subsidies for weapons exports actually rose slightly—from \$7 billion to \$7.6 billion per year.

Much fanfare surrounds supposedly lucrative overseas weapons sales and the defense industry jobs they preserve. Yet the terms of these deals can negate any potential positive economic impact.

To the extent they are subsidized by the taxpayer, such sales amount to a transfer of funds from the U.S. treasury to the weapons industry. To the extent they pay cash for U.S. arms, foreign governments often raise the money by exporting goods to the United States. The Office of Management and Budget estimates that for every 100 jobs preserved by weapons exports, 41 others are lost by U.S. firms that cannot compete with imports from foreigners trying to pay for their weapons.

In addition, U.S. firms at times agree to sweeten weapons deals by providing overseas customers with valuable technologies or subcontracting opportunities, or both. These "offset" agreements, often worth more than the weapons sale, can lead to American job losses in the defense, high-tech, and manufacturing industries.

Most government support for weapons sales takes the form of grants and guaranteed loans to foreign governments to buy U.S.-built weapons. A new \$15 billion program approved by Congress in 1995 covers defense industry losses in export deals. Several other programs underwrite defaults or waive fees to exporters and overseas buyers. U.S. embassies worldwide help negotiate these deals, while U.S.-funded military expos and air shows promote the wares of weapons manufacturers to foreign buyers. In addition, giveaways of surplus military hardware, help hook foreign armies on U.S. equipment, paving the way for future sales. Currently, 6,500 full-time employees of the Commerce, State, and Defense departments work to promote and finance overseas military sales.

Subsidized weapons sales are just one part of an increasingly burdensome system of corporate welfare for the weapons industry. Escalating equipment costs argue for subsidized foreign sales. Foreign sales, in turn, induce funding for development of even more sophisticated and expensive weapons. A prime example is the current push to open foreign markets—including developing countries—to advanced tactical fighters like the F-15 and F-16 that have cost U.S. taxpayers \$1.8 billion and \$2.9 billion respectively to develop. Both models—which together form the backbone of U.S. air power—have been exported in

quantity (and with government subsidies) to our allies in Europe, Asia, and the Middle East.

But in the process the U.S. has forfeited part of its military technological “edge” over the rest of the world.

Pressure to regain this edge has led to new development programs like the “next generation” tactical fighter, the Lockheed Martin F-22. Developing the F-22, scheduled for initial production in 1998, has already cost taxpayers \$16 billion.

The Air Force chief of staff has already suggested arranging foreign sales to help finance the plane’s production. But due to the prohibitive cost of each plane (currently estimated at \$166 million), any overseas sale will cost taxpayers tens of millions in development, production, and export subsidies.

Furthermore, the F-22’s presence in foreign militaries would in all likelihood lead provoke yet another expensive “next generation” fighter program, costing taxpayers, once again, tens of billions of dollars.

## Key Problems

- The current push to sell advanced weapons—especially to developing countries—will increase subsidy costs in the near future.
- Weapons exports erode the US military’s technological advantage over the rest of the world, leading to greater taxpayer expense down the road.
- Export of advanced weapons can increase the danger to U.S. troops overseas when weapons outlast friendships.
- Subsidized weapons exports result from and contribute to the high costs the U.S. pays for military equipment.

## U.S. Government Support for Arms Sales

- **Foreign Military Financing Program:** Administered by the Defense Department, this program provides grants to foreign countries to buy American military equipment. Since 1994 more than two dozen countries have received FMF grants. Cost in 1995: \$3.2 billion.
- **Excess Defense Articles:** This Defense Department program gives away surplus weapons stocks or sells them at deep discounts. The cost calculation is based on the difference between the market value of the items and their eventual selling prices. Cost in 1995: \$200 million
- **Defense Export Loan Guarantees:** The newest subsidy program. A \$15 billion program approved by Congress in 1995, it covers defense industry losses when foreign customers can’t afford to honor weapons sales agreements. Cost in 1995: Not used.
- **Economic Support Funds:** Administered by USAID and ostensibly a fund for balance of payments supports, 90% of the program’s funds go to major U.S. weapons clients Israel, Egypt, and Turkey, to help them offset the costs of arms purchases. Cost in 1995: \$2.1 billion.
- **Eximbank Loan Subsidies:** The Commerce Department subsidizes the costs of outstanding military-related Eximbank loans (see *In Focus, Targeting Eximbank Subsidies*). Cost in 1995: \$125 million.
- **Forgiven/Bad Loans:** Costs incurred on defaulted military-related loans. Cost in 1995: \$1 billion.
- **Waiver of Recoupment Fees:** Congress decided in 1995 to allow the Pentagon, at its discretion, to waive a 3% to 25% fee once required on weapons exports. Recoupment fees were intended to reimburse the government for development costs of the weapons sold. Cost in 1995: \$500 million.
- **Air Shows and Expos:** The Pentagon subsidizes overseas promotional events and demonstrations for potential weapons buyers. Cost in 1995: \$27 million.
- **Personnel Costs:** Currently, there are 6,500 full-time federal workers engaged in promoting and financing weapons exports. Cost in 1995: \$451 million.

**Grand Total for 1995: \$7.6 billion**



# *sources for more information*

## Organizations

**Arms Trade Resource Center**  
65 Fifth Ave., Suite 413  
New York, NY 10003  
Voice: (212) 229-5808  
Fax: (212) 229-5579  
Email: hartung@newschool.edu  
Contact: Bill Hartung

**Arms Sales Monitoring Project**  
307 Massachusetts Avenue NE  
Washington, DC 20002  
Voice: (202) 546-3300  
Fax: (202) 675-1010  
Website: <http://www.fas.org/asmp/>  
Contact: Lora Lumpe

**Center for Defense Information**  
1500 Massachusetts Avenue NW  
Washington, DC 20005  
Voice: (202) 862-0700  
Website: <http://www.cdi.org>  
Contact: David Isenberg

**Campaign for New Priorities**  
424 C Street NE Lower Level  
Washington, DC 20002  
Voice: (202) 544-8222  
Fax: (202) 544-8226  
Website: <http://www.newpriorities.org>  
Contact: Jon Lottman

**Demilitarization for Democracy**  
2001 S Street NW, Suite 630  
Washington, DC 20009  
Voice: (202) 319-7194  
Fax: (202) 319-7194  
Website: <http://www.fas.org/pub/gen/pdd/>  
Contact: Caleb Rossiter

**Project on Government Oversight**  
2025 I Street NW, Suite 1117  
Washington, DC 20006  
Voice: (202) 466-5539  
Website: <http://www.mnsinc.com/pogo/>  
Contact: Marcus Corbin

**Center for Budget and Policy Priorities**  
820 First Street N.E., Suite 510  
Washington, DC 20002  
Voice: (202) 408-1080  
Fax: (202) 408-1056  
Website: <http://www.cbpp.org>

**National Commission for Economic Conversion & Disarmament**  
733 15th Street NW, Suite 1012  
Washington, DC 20005  
Voice: (202) 234-9382  
Fax: (202) 319-3558  
Email: [ncecd@igc.apc.org](mailto:ncecd@igc.apc.org)

## Publications

William Hartung, "Welfare for Weapons Dealers: The Hidden Costs of the Arms Trade," *World Policy Institute* (June 1996).

Project on Government Oversight, *Corporate Welfare for Arms Merchants: U.S. Subsidies Benefit Our Adversaries —Not Ourselves* (June 1995).

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Government Accounting Office, *Military Exports: Concerns over Offsets Generated with U.S. Foreign Military Financing Program Funds*, GAO/NSIAD-94-127 (Washington, June 1994).

Paul Pineo and Lora Lumpe, *Recycled Weapons: American Exports of Surplus Arms, 1990-1995* (Federation of American Scientists: May 1996).

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David Super, et al, *The New Welfare Law* (Center for Budget and Policy Priorities: August 1996).

"Selling Our Jobs," on-line transcript of television program on "offsets."  
<http://www.cdi.org/adm/transcripts/835>

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