



Directorate of Intelligence

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Third World Military and Economic Austerity: Implications for Political Stability



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A Research Paper

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Third World Military and Economic Austerity: Implications for Political Stability

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Many military establishments in debt-troubled Third World countries face financial constraints. In many instances, military-expansion programs have been cut back or postponed, and planned equipment purchases have been reduced, in some cases sharply

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In general, Third World countries ruled or tightly controlled by the military are witnessing military budget austerity as often as those under civilian governments. A rough indication of how the military is faring is the ratio of military spending to total government outlays. From 1980 to 1983, the military share of government spending declined in Argentina,

[Redacted]

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Although military concerns about morale and readiness are growing, the defense-spending cutbacks thus far have not resulted in regime-threatening instability. We have not observed much, if any, connection between military austerity measures and coup attempts or coup plotting.

[Redacted]

This is not to say that recent budget cuts have not concerned the military in key Third World countries:

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- In Argentina, budget issues have heightened military criticism of the administration, especially among middle- and lower-ranking officers.

[Redacted]

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It is not possible to determine whether or when this kind of military disgruntlement would lead to military actions against existing government authorities. We believe that the military by and large has been willing to accept austerity measures as part of a broader program aimed at economic stabilization. In our view, the military cuts most likely to trigger political instability would be those to military salaries and perquisites—moves that so far have been avoided or kept to a minimum.



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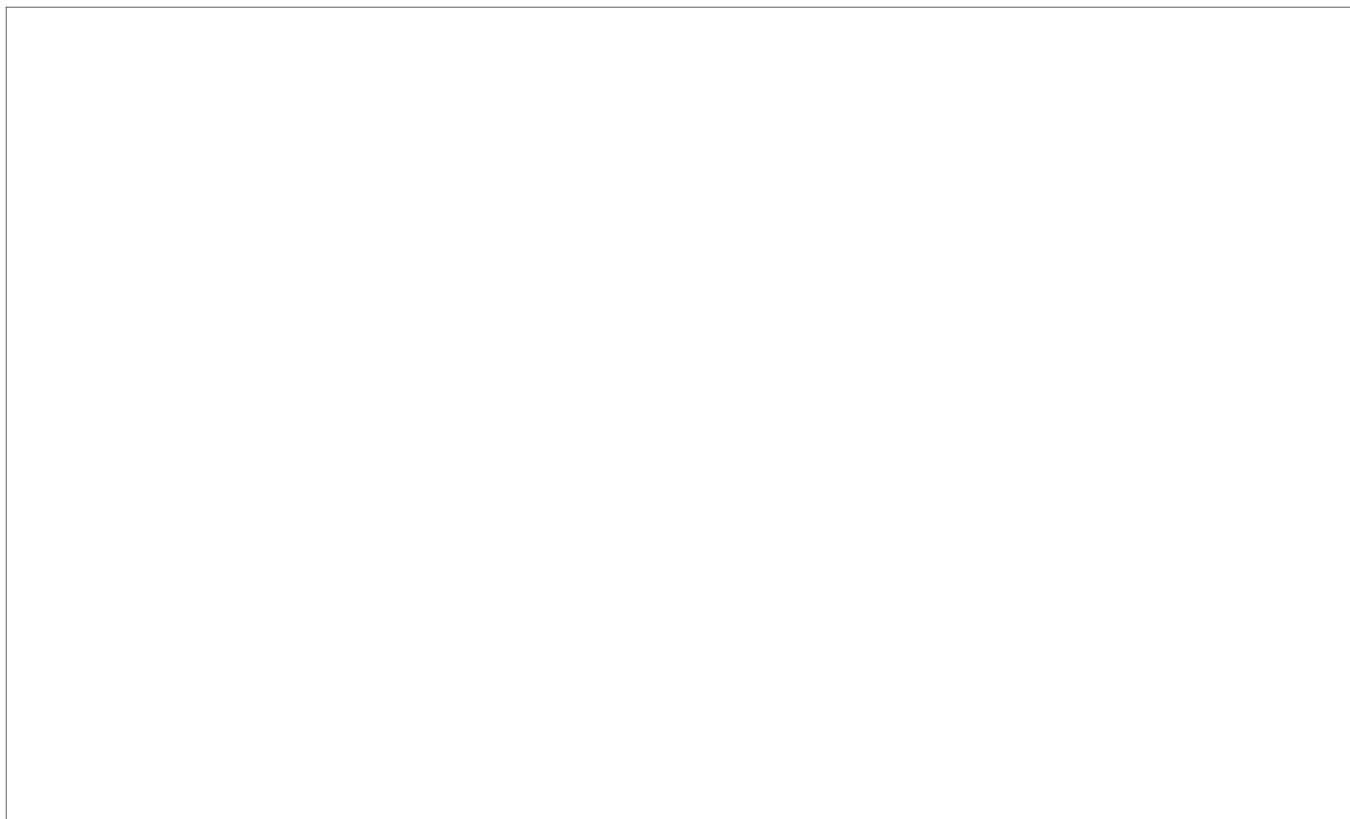
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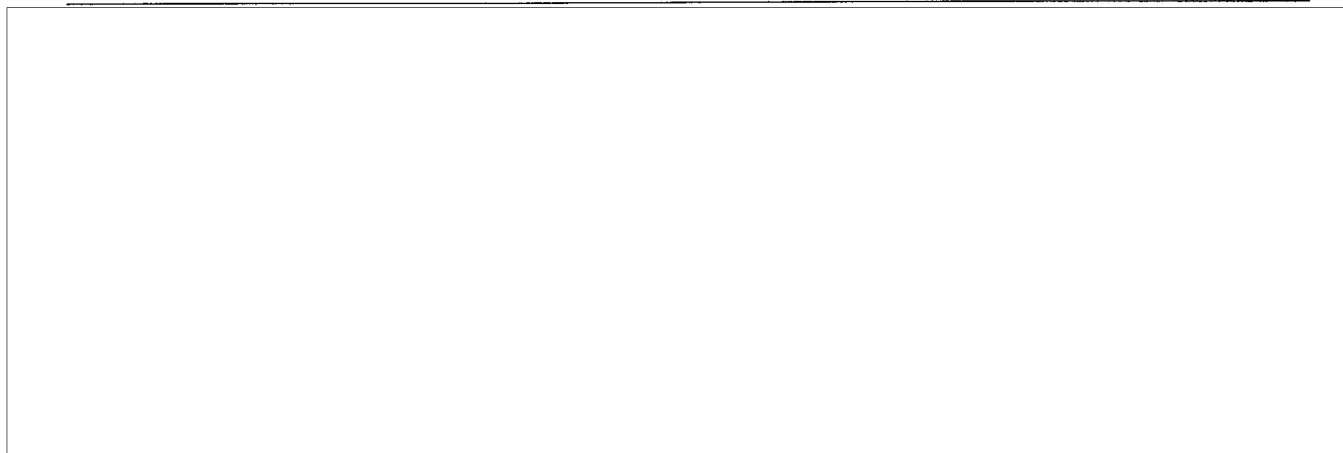
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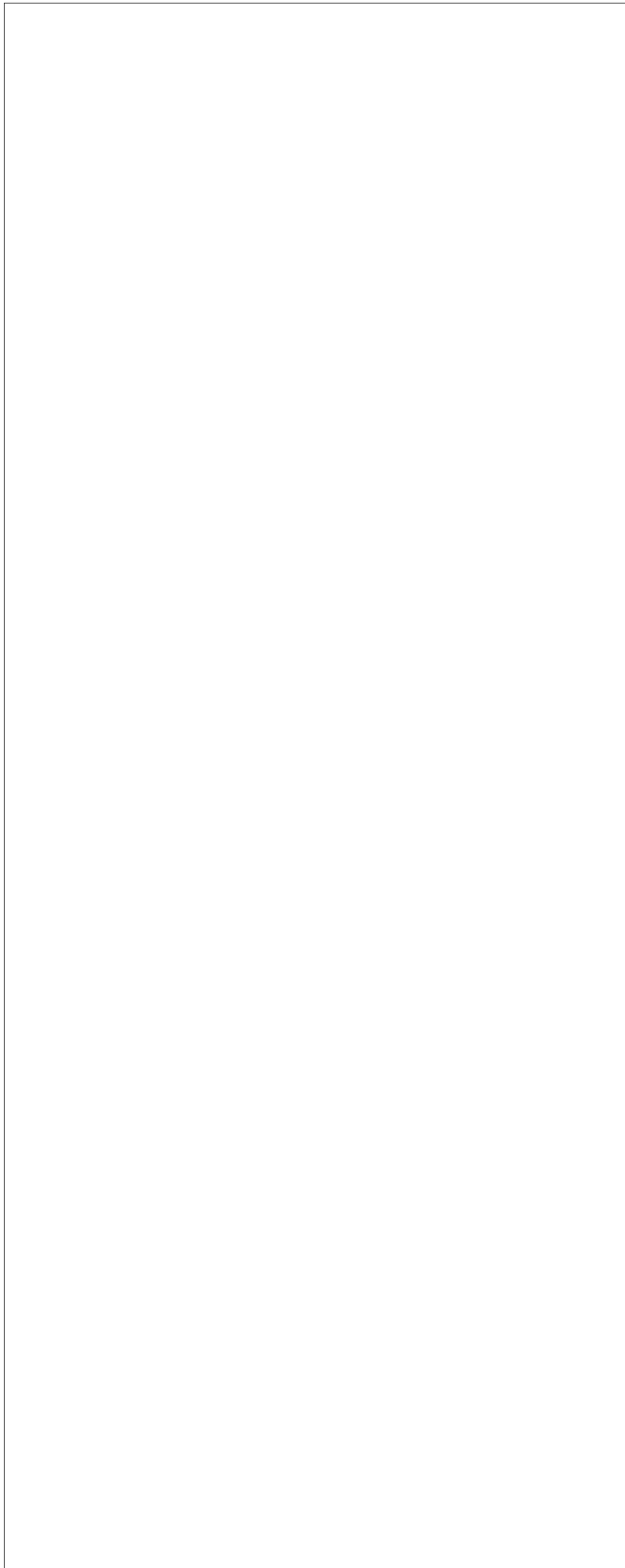
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Third World Democracy

Economic crisis is not good for democracy in the Third World. States that maintain democratic institutions in good times may bypass these institutions when times are hard. Labor unions or local governments may be intervened by the central government. Martial law or a state of siege may be declared. Elections may be postponed. Real or imagined "economic criminals" may be punished with little regard for human rights or legal niceties. Strikes, demonstrations, and food riots may be put down brutally. If an elected government appears unable to cope with the crisis, there may be a public demand that the military take over. This has happened repeatedly in Argentina as well as in



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[Redacted]

Brazil in 1964. Inability to solve economic problems

[Redacted]

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Sometimes, however, severe economic problems may push a country toward democracy. Military or authoritarian regimes may find themselves so overwhelmed with economic problems that they will institute elections to rid themselves of the problems of government. Economically inept military governments have repeatedly used this tactic in Argentina. [Redacted]

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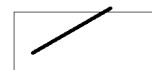
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The Argentine Military: Impact of the Economic Crisis

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The Argentine military, traditionally insulated from fluctuations in economic performance, faces severe budget cuts over the next several years as President Alfonsin tries to reorder the country's shattered economy and bring the military under closer civilian supervision. As a result, after considerable hesitation—inspired partly by concerns over the military's reaction—Alfonsin has reduced armed forces expenditures to about 60 percent of 1983 levels. In this way he hopes to increase the funds for economic reactivation and social programs while making his economic policies more palatable to foreign creditors. In addition, Alfonsin has implemented other reforms to promote interservice cooperation, which he believes will lead to further economies and make the services more responsive to civilian authority.

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During the first four months of 1984, the cuts appeared to have little impact on military operations. Since then, however, constraints have exacerbated interservice rivalries, reduced morale, and diminished military capabilities.

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Moreover, the budget cuts have been a major cause of growing military dissatisfaction with the government. Disgruntled noncommissioned officers have formed organizations on several military bases, and officers from all three services have done so as well, despite ongoing interservice rivalries. Such opposition, however, is still relatively isolated and no clear figure has emerged around whom dissident commanders are likely to rally.

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We estimate that any major near-term confrontation between the government and the armed forces would be preceded by a sharp deterioration in the economy, which would generate widespread social unrest and renewed terrorism. Executive or legislative policies that appear to threaten the military, especially in the area of human rights investigations, could also spark a showdown. Even then, in our view, divisions between and within each of the services and the current lack of broad popular support would make a successful coup difficult.

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Political and Economic Backdrop

Argentine military officers tend to be fiercely nationalistic and in general share a deep distrust of civilian government. The armed forces have moved against elected officials, however, only when civilians, themselves concerned about economic political instability, have convinced the military that the majority of Argentines backed intervention. Thus, with civilian connivance, the military has overthrown elected governments six times since 1930, most recently in 1976.

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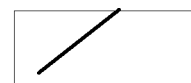
Until the 1976 intervention, military officers played the role of arbiter, holding power only long enough to assure a smooth return to civilian rule. Following the 1976 coup, however, the armed forces were not only guarantors of peace, but became reformers bent on rooting out what they saw as the source of Argentina's chronic instability—leftist subversion, a corrupt labor and political leadership, and economic mismanagement.

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The military assumed office in 1976 amid 400-percent inflation and widespread terrorism. The regime adopted measures to stabilize the economy and restore international investor confidence. Exports increased, the public deficit as a share of the GDP dropped, and soaring inflation was slowed dramatically. The economic measures, however, were at a high cost to workers, who saw their living standards drop sharply. At the same time, the security forces defeated the leftist guerrillas in the so-called dirty war, during which thousands of suspects were detained and subsequently killed.

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By 1981, pressure for a return to civilian rule had started to build. Economic mismanagement and rapidly accumulating foreign debt, combined with the onset of the worldwide recession, led to an economic downturn. This, combined with the growing realization of the widespread abuses of human rights, had all



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but discredited the military. The 1982 Falklands war further damaged the economy and convinced many senior commanders that they should return to the barracks and focus on correcting the serious military deficiencies highlighted during the conflict. Left without civilian support, the armed forces scheduled elections for October 1983. By mid-1983, the inflation rate had surpassed 300 percent, and an IMF program, negotiated only months earlier to stave off default on the foreign debt, unraveled. [REDACTED]

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Spending Spree

Following the 1976 coup, the military undertook a major weapons modernization program that was largely unaffected by variations in overall economic performance. The share of the national budget claimed by defense and internal security climbed steadily between 1976 and the onset of worldwide recession in 1982. At its peak in 1981, military expenditures were 22 percent of the budget, slightly less than the combined outlays for health, education, and social welfare. Moreover, these figures exclude the massive expenditures by the vast network of military-owned industries that expanded during this period and include such diverse businesses as steel mills, arms factories, nuclear research facilities, lumber mills, resort hotels, and gambling casinos. Some academics and other observers estimate that the military's holdings may produce nearly half of GDP.

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The massive purchases of weapons began after the Argentines narrowly averted war with Chile in 1978 over the disputed Beagle Channel. Buenos Aires was determined to maintain a large margin of strength over Santiago in preparation for any confrontation. The US Defense Department estimates that during 1978-81 the Argentine armed forces contracted for slightly more than \$3 billion in arms. (S NF)

The Military and Alfonsin

Raul Alfonsin captured the presidency last October largely because of his antimilitary campaign platform. Although reaffirming his commitment to a strong defense establishment during the campaign, he called for an end to the political role of the military

and vowed to slash defense spending to provide more funds for social programs and public works. Alfonsin argued that savings could be achieved without diminishing capabilities by improving interservice cooperation, ending redundancy in purchasing, and reducing manpower levels. He also hinted publicly and privately that reducing tensions with Chile over the Beagle Channel and with the United Kingdom over the Falklands would diminish the need for additional arms purchases. [REDACTED]

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The new President moved quickly in the weeks following his inauguration to subordinate the military to civilian authority. He decreed changes in the high-command structure that placed the three service chiefs under the civilian defense minister and created a joint-chiefs system to centralize control. Moreover, he moved the intelligence and internal security services and many of the military-owned industries under civilian control. [REDACTED]

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Shifting Policy on Military Spending

Despite his campaign promises to cut deeply into defense spending this year, Alfonsin was reluctant to make massive reductions during the first few months of his administration. Evidence suggests he realized that military leaders, though weak and divided, posed the most serious long-term threat to his government.

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Moreover, Argentine officials told US Embassy personnel that they saw little room for significant savings, given the large portion of the military budget that went for fixed items—personnel costs and the completion of outstanding contracts. Other evidence indicates that the administration lacked the expertise and staff to dissect defense-related expenditures. Some \$3 billion in foreign debt incurred by the military, for example, went undiscovered until late February. [REDACTED]

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**Argentina: Selected Deliveries of or Contracts Signed
for Major Equipment, 1978-83**

	Quantity	Approximate Value (million US \$)		Quantity	Approximate Value (million US \$)
France		587.2	United Kingdom		187.0
Exocet missiles	13	7.0	Type-42 destroyers ^a	2	70.0
Mirage III fighters	6	70.0	Blowpipe SAMs	Unknown	4.0
Antisubmarine warfare frigates	3	120.0	Unspecified equipment	Unknown	107.0
Panhard armored vehicles	127	112.0	Lynx helicopters	2	6.0
Super Etendard naval jets	14	160.0	Austria		58.0
Roland I SAMs	12	50.0	PJK self-propelled antitank guns	58	58.0
Exocet missile system	Unknown	8.2	PJK self-propelled antitank guns (including ammunition)	57	Unknown
Crotale SAM unit	1	10.0	Israel		270.3
Mirage V fighters	14	50.0	Patrol boats	7	5.3
Italy		115.9	Mirage V fighters (with air-to- surface missiles)	37	265.0
Mamba antitank missiles	500	0.5	Peru		50.0
105-mm towed howitzers	10	1.2	Mirage V fighters	10	50.0
A-109 helicopter gunships	9	30.0	Brazil		75.0
105-mm howitzers	Unknown	1.2	Xavante jets	19	75.0
MB-339 jet aircraft	10	30.0	Netherlands		6.6
Albatross missile system (with Aspide missiles)	4	3.0	Flycatcher antiaircraft defense system	4	6.6
35-mm antiaircraft guns (with associated fire-control radars)	18	50.0	Switzerland		Unknown
West Germany		1,872.2	Skyguard air defense system	1	Unknown
Submarines	6	464.0	Skybat air defense system	6	Unknown
MEKO destroyers/escorts	10	1,286.0			
Cobra antitank missiles	780	1.0			
Patrol boats	20	110.0			
20-mm antiaircraft artillery guns	40	11.2			

^a Ordered in 1970, delivered in 1981.

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As a result, Alfonsin decided to implement cuts gradually—relying on attrition, for example, to reduce manpower costs. The Defense Minister in February openly admitted that attacking the military budget was akin to moving a mountain and controlling the process would take years.

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By April, however, it had become apparent that Alfonsin's efforts to curb soaring inflation were not succeeding. Crucial negotiations with the IMF were stalled on, among other issues, the size of the public

deficit. Alfonsin, loath to make politically sensitive cuts in social spending, reexamined the military budget and decided to proceed with much larger reductions to reduce the deficit. The decision reportedly followed intense debates within the government between the Defense Minister, who was intent on assuaging officers' concerns about Alfonsin's attitude

toward the military, and the Minister of Economy, who was equally intent on using the cuts as a central part of his formula for meeting Western bankers' lending criteria without reducing social expenditures or slowing economic reactivation. Ultimately, Alfonsin opted for reduction of about 40 percent in military expenditures below 1983 levels. [redacted]

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The Military's Response

The budget cuts have aggravated traditional rivalries between the services as competition for scarce funds has intensified. In March, for example, a senior Air Force officer was retired and then arrested for criticizing the new command structure, which he claimed gave the Army and Navy too much of the budget. More recently, the Navy and Air Force have been squabbling over control of a squadron of A-4 fighter aircraft purchased from the Israelis but not yet delivered because of US arms sales restrictions. [redacted]

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Moreover, the cutbacks have driven sizable segments of the officer corps firmly into the antigovernment camp. Reporting [redacted] sources [redacted] mounting concerns among officers over a range of government policies. In early September, [redacted]

[redacted] nearly 100 active duty and retired officers from all three services had set aside their differences to form a grouping to discuss the internal situation, including the impact of the economic crisis on the military. Noncommissioned officers, severely affected by the cuts, have organized on several military bases. They have carried out printed propaganda campaigns against government and have criticized their officers for not presenting their case more forcefully to the administration. [redacted]

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A range of sources indicates that Alfonsin is keenly aware of the economic difficulties facing the services and has tried to assuage their concerns. He has, for example, assured officers that the military is not being singled out for cutbacks and that funds will be restored as the overall economic situation improves. To demonstrate good will he has granted special wage increases to officers, especially in the lower ranks. Further, according to press reports, he has agreed to continue funding the Air Force's costly advanced

missile research program, and he has allowed the military to maintain direct control over a number of key defense industries. Indeed, a variety of evidence suggests that he is encouraging arms exports from these plants to reduce their drain on the treasury. [redacted]

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Impact on Capabilities

The reductions have seriously affected morale and manpower levels. Reporting over the past several months has underscored steadily eroding morale in all the services and consequent increases in discipline problems, including absenteeism and poor performance. By June, largely as a result of the services' growing economic difficulties, nearly 10 percent of the Army's NCOs had requested retirement. The Navy was losing petty officers and technicians at a similar rate. Many officers have been compelled to take extended leave to reduce operating expenses, resulting in what one senior commander called a "nine-month military." Applicants for the Argentine Air Force and Naval academies have significantly slackened. Conscription has been sharply reduced, with draftees, who have accounted for nearly 50 percent of the Navy's and 80 percent of the Army's manpower, serving only abbreviated portions of their normal one-year requirement. [redacted]

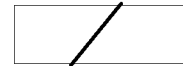
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Training has also been affected. The US defense attache reports that schedules have been cut back and that a shortage of basic equipment, including uniforms, has further slowed training. In the Navy, fuel shortages have arisen, forcing reductions in time at sea, and naval pilots are having difficulty maintaining proficiency. Many of those who have left the Navy were instructors, thus slowing the integration of new manpower. Most recently, the Argentines almost had to postpone naval joint maneuvers with Brazil because of shortages of funds. Air Force pilots and trainees face similar difficulties. [redacted]

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There are mounting indications that the funding cutbacks are taking their toll on operational capabilities. The US defense attache reports that shortages of



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Making Improvements Since the Falklands

The three services have tried to learn from the 1982 Falklands defeat. The Navy, shocked by the sinking of the cruiser Belgrano and its inability to counter the British exclusion zone around the islands, has worked the hardest to improve capabilities. The addition of eight previously ordered ships will enhance antisubmarine warfare capabilities, and delivery of the last of the Super Etendards will improve the Argentines' ability to challenge war vessels. Other Navy measures include: expanding air refueling capabilities, reconfiguring commercial aircraft for maritime patrol missions, and more frequent and realistic exercises to enhance operational readiness.

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Air Force commanders have made no major aircraft purchases other than the \$110 million worth of Mirages acquired from the Israelis and Peruvians in 1982. Last year the Air Force publicly announced it would not buy any advanced fighter aircraft, ostensibly because of the national financial crisis. Nevertheless, they have requested A-4 fighter aircraft from the United States—now that the arms embargo has been lifted—to replace those lost during the fighting. Like their naval counterparts, commanders have focused on upgrading the capabilities of aircraft already in

inventories, including expanding air refueling capabilities, enhancing onboard avionics, improving weaponry, and giving pilots more realistic training.

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Although the Army's Falklands war performance was the worst of the three services, commanders have been embroiled in the transition to civilian rule and have taken only tentative steps to address shortcomings. An enhanced air defense capability has been identified as a major need and has been partially fulfilled with the purchase of several Skyguard and Skybat fire-control units and French-made Roland anti-aircraft missiles.

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The inability to obtain needed armaments during and after the war reinforced the military's determination to produce domestically some essential equipment. Senior officers hope to improve in-country manufacturing capabilities and to move forward with current and new coproduction and development agreements with West European firms. The military believes enhanced manufacturing capabilities are critical to increasing export sales that would help offset capital investment, research, and development costs.

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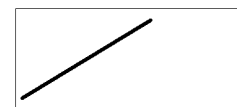
technicians, and spare parts have considerably reduced the readiness of Air Force and Navy combat aircraft. The Air Force is unable to purchase more advanced fighter aircraft to replace its rapidly aging inventory. For its part, the Navy has sharply reduced flight time in its Super Etendard strike aircraft because of the cost—\$40,000 per hour—of operating them. The Navy reportedly is also considering selling most of its new surface combatants and submarines because it cannot provide adequately trained crews or afford maintenance. All three services, while continuing their post-Falklands equipment upgrading, have been forced to stretch out the programs, and there have been reports of difficulties in meeting deadlines for payments to suppliers.

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Outlook

We expect the new economic realities to continue to cause near-term difficulties for the services. As the impact of funding cutbacks spreads, interservice rivalries are likely to continue and may intensify, diminishing prospects for implementing more cost-effective administrative and procurement practices. Maintaining manpower levels is also likely to be difficult as ongoing cutbacks in funds discourage enlistments and prompt more key personnel to retire. Foreign exchange restrictions will continue to complicate purchases of spare parts, reducing maintenance operational capabilities.

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There are some signs of efforts by military leaders to adjust to the cutbacks. Many recently appointed senior commanders are sympathetic to Argentina's financial plight and appear willing to make sacrifices. Moreover, most commanders agree that considerable room exists for eliminating waste. Recent reporting indicates that the services are making cuts in nonessential areas to devote more funds to maintaining capabilities. As a result, key programs to upgrade equipment started after the Falklands war are likely to continue. Other reporting indicates that the Army, at least, is assuming that similar budget constraints will persist next year, and commanders are planning accordingly. Further, the government's arms exports drive could help compensate for planned cutbacks.

Should Alfonsin be overthrown as a result of the economic crisis, we believe a successor military government will be far more nationalistic. Such a government—whether of the right or left—is likely to blame the United States and other Western countries for failing to provide Argentina with sufficient support and will be difficult to deal with on bilateral issues.

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We do not believe that budget cuts alone will prompt a coup. Nevertheless, they will continue to serve as a useful rallying point for military opponents of Alfonsin. The greater threat to the Alfonsin government by the military, both this year and over the longer term, in our view would be a further sharp decline in the domestic economy that sparked widespread labor unrest and rekindled terrorism. Alfonsin has committed himself to preventing a revival of mass worker unrest and insurgency. Should the military believe him incapable of maintaining order, officers could begin to reassert themselves to force the President to quell the unrest or face removal from office.

Implications for the United States

Argentina's current economic difficulties will have little impact on potential arms transfers from the United States. Buenos Aires had been unable to make purchases from the late 1970s until late last year because of restrictions imposed for human rights violations. Certification on human rights last December did not significantly change our military relationship with Buenos Aires. US support for the United Kingdom during the Falklands war only reinforced Argentine beliefs that Washington could not be counted on to fulfill arms contracts. Instead, the military found what it believes are more reliable suppliers in France, West Germany, Italy, and Israel.

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