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**DPO (86) UNITED STATES-D/1**

**1986  
DEFENSE PLANNING REVIEW**

**UNITED STATES OF AMERICA**

**FINANCIAL AND ECONOMIC**

**ITEM V A: STATEMENT OF FINANCIAL AND ECONOMIC POLICY**

UNITED STATES OF AMERICA

RESPONSE TO

NATO DEFENSE PLANNING REVIEW QUESTIONNAIRE 1986

DPQ - 86

The United States response is bound in seventeen (17) separate documents as listed below.

- Item I A - Statement of Defense Policy
- Item I B - Response to Force Goals
- Item I C - Research, Production and Procurement Plans
- Item II A - Army Section: Responses to Special Questions
- Item II B - Army Section: Table I
- Item II C - Army Section: All Other Tables Including All Annexes
- Item II D - Army Section: Logistics Policy and Plans
- Item III A - Navy Section: Responses to Special Questions
- Item III B - Navy Section: Table I
- Item III C - Navy Section: All Other Tables Including All Annexes on Marine Corps
- Item III D - Navy Section: Logistics Policy and Plans
- Item IV A - Air Force Section: Responses to Special Questions
- Item IV B - Air Force Section: Table I
- Item IV C - Air Force Section: All Other Tables Including All Annexes
- Item IV D - Air Force Section: Logistics Policy and Plans
- Item V A - Financial and Economic Section: Statement of Financial and Economic Policy
- Item V B - Financial and Economic Section: Statistics

ITEM V A

FINANCIAL AND ECONOMIC SECTION

STATEMENT OF FINANCIAL AND ECONOMIC POLICY

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## FINANCIAL AND ECONOMIC SECTION

### INTRODUCTION

The narrative and tables in this portion of the U.S. submission respond to the Financial and Economic Section of the Questionnaire for the 1986 Defense Planning Review.

The Financial and Economic Section of the U.S. reply to DPQ(86) includes appropriation and expenditure data for the following programs which are covered by the NATO definition of defense expenditures: Military Functions of the Department of Defense, the Military Assistance Program (excluding the net FMS Trust Fund), the Defense portion of the Department of Energy, and the Coast Guard.

Financial data in this section of the report are actual for FY 1985 and estimated for FY 1986 and FY 1987. These data are consistent with the budget submitted by the President to the Congress in February 1986, which again emphasizes the priorities begun by this Administration in 1981. We plan to continue the military buildup by making the investments necessary to meet future risks, while also providing resources sufficient to support the force structure and improve the overall readiness and sustainability of our forces. We have made significant progress toward these ends. These successes, however, do not change our goals or allow us to deviate from our commitment.

On the NATO basis, the FY 1986 defense expenditure estimate of \$272.5 billion is \$14.3 billion, or 5.6% above actual FY 1985 expenditures of \$258.2 billion. The FY 1987 budget request of \$291.7 billion is \$19.2 billion, or 7.1%, greater than the FY 1986 estimate. After adjusting for inflation, there is real growth of 2.5% in FY 1986 and 3.3% in FY 1987.

## FINANCIAL AND ECONOMIC MATTERS

### OVERVIEW OF THE U.S. ECONOMY

The American economy is now in the fourth year of a robust expansion that has sustained the greatest advance in business fixed investment of any comparable period in the postwar era. Inflation has remained at less than a third of the rate in 1981. Employment has increased. Interest rates are at the lowest levels of this decade. Worldwide confidence in the vitality of the U.S. economy has been restored as reflected by the unprecedented inflow of foreign investment and the substantial appreciation of the dollar. The outlook is favorable for continuation of a healthy expansion. The recent moderate decline in the dollar bodes well for an eventual improvement in the trade balance. With appropriate economic policies, lower inflation and ultimately price stability are achievable goals for an economy that continues to grow and generate opportunities for all Americans.

Two central themes now dominate our economic policy. First, private enterprise--the free market system--is the best mechanism to organize efficient and full employment of the economy's resources. Government should limit itself to providing essential public services and avoid blunting or distorting economic incentives by high or uneven tax rates and unnecessary or inappropriate regulation.

Second, economic performance is seriously injured by macroeconomic instability associated with cycles of inflation and disinflation. The economic program initiated in 1981 is based on the belief that government policies can best foster economic prosperity and progress by allowing the private market system to function as freely as possible. Economic efficiency is maximized if inputs are put to their most productive uses, which is most likely to occur if market forces are free to direct resources and government does not interfere with the process. Within this framework, macroeconomic policy should provide a stable environment in which the market system can function freely.

Inflation in the 1970s had widespread effects on economic behavior. Market interest rates in the United States rose to levels unprecedented in modern times. Workers demanded ever-rising wages. Inflation and bracket creep eroded the real value of income. Profitability declined as producers faced rising costs, declining productivity, and higher effective tax rates.

The consequences of earlier inflation and disinflation are still felt in the problems afflicting the American economy. The present level of unemployment is partly the heritage of past inflation and actions necessary to control it. The decline of the dollar in the late 1970s contributed to a short-term rise in



the inflation rate and the rise in money growth and inflation also contributed to dollar depreciation. In the short-term, changes in both the value of the dollar and the price of oil helped increase the inflation rate. But those price shifts were related to a rising inflation rate and to the monetary policy that accommodated that rise.

Rising inflation imposes significant costs on an economy. In theory, an economy can adjust to anticipated inflation if no institutional or legal constraints prevent adjustment. In practice, evidence indicates that the variability of inflation rises with the inflation rate, so that it is likely to be more difficult to anticipate and adjust for higher inflation. In addition, many regulations, institutions, and laws are defined so that even if inflation is adequately anticipated, adjustment cannot be complete. To the extent that inflation is imperfectly foreseen or adjustment constrained, it is likely to distort price signals and economic incentives.

The relative shift in prices of the 1970s that pushed the observed rate of inflation above its underlying rate was reversed during the 1980s. Deregulation has caused important price declines in some industries. These adjustments have had a favorable effect on the inflation rate, holding it temporarily below the rate implied by long-term money growth.

The current expansion began in November 1982 and marks an important departure from the pattern of persistently rising rates of inflation, interest, and unemployment that were characteristic of earlier expansions. Inflation has declined significantly relative to historical experience and is continuing to decelerate during the third year of the expansion. For every other postwar expansion a substantial reacceleration of inflation had been evident by the third year.

The growth of capital investment has been the strongest in the postwar period. Substantial appreciation of the U.S. dollar and strong growth in the United States relative to the rest of the world have contributed to an unprecedented trade deficit and capital inflow which are all symptomatic of renewed worldwide confidence in the U.S. economy and reflect the availability of attractive investment opportunities in the United States.

Strong employment growth is an outstanding feature of the current economic expansion. The total unemployment rate has fallen 3.8 percentage points, nearly double the decline recorded in an average postwar expansion. At the outset, unemployment was at a postwar high. As a result, the unemployment rate remains relatively high by historical standards despite the gains in employment.

Performance of some goods-producing industries has been especially weak, leading to concern that the United States is becoming a "two-tiered" economy where the services sector

expands at the expense of the goods-producing sector. Growth of the trade deficit has reinforced this view and raised concern that the U.S. economy will become predominantly a service producer. Long-term trends show no indication that overall production of goods is becoming less important in the U.S. economy. For the past 25 years, goods production as a share of real GNP has been remarkably stable, and in 1985 is slightly above mid-range and is higher than it has been in more than a decade.

With time and the appropriate policies, our remaining economic problems can be corrected. The cure does not lie in policies that would reignite inflation and once again inflict its debilitating effects on the American economy, but rather, with policies that will enhance private incentives for growth, while maintaining a stable macroeconomic environment.

The Gramm-Rudman-Hollings Act provides a mechanism for reducing federal spending and prescribes that Federal budget deficits cannot exceed targets that are gradually reduced until the budget is balanced in 1991. The President may not propose and the Congress may not consider budget resolutions that do not conform to these targets. If the Congress and the President fail to agree on a budget consistent with the deficit targets, the targets are attained by reducing the growth of government spending under a Presidential sequestering order which mandates across-the-board spending reductions. The law does not guarantee a continued balanced budget after 1991. In order to institutionalize fiscal restraint, the Administration strongly supports a balanced-budget constitutional amendment with tax limitation, line-item veto, and tax reform to reduce distortion of prices and rates of return that have constrained the economy's ability to grow.

The Administration's longer term projections are contingent on the following macroeconomic policies. First, the longer term inflation and real growth projections require a gradual deceleration of money growth consistent with restoring price stability and avoiding any policy-related disruption to the real economy. Second, the projections assume that the deficit reduction goals defined in the Gramm-Rudman-Hollings Act are achieved by a reduction in the growth of government spending. Third, a tax reform bill similar to the President's Tax Proposals for Fairness, Growth, and Simplicity is enacted. With a commitment to these policies, sustained growth and stable prices are not only possible, but probable.

#### MILITARY FUNCTIONS OF THE DEPARTMENT OF DEFENSE

National defense needs are met primarily by the military programs of the Department of Defense. Military functions of the Department of Defense comprise about 96% of the NATO definition of defense expenditures. Total outlays on this basis

are estimated to rise from \$245.4 billion in FY 1985 to \$258.4 billion in FY 1986 and \$274.3 billion in FY 1987.

All the tables in the questionnaire provide U.S. Defense data in terms of outlays in accordance with DPQ instructions. However, before the Department of Defense incurs outlays, the Congress provides Budget Authority for specific programs. Many programs are executed over a span of several years so outlays in any given year reflect expenditures in that year for programs requested and approved in the current year and several preceding years. For this reason it is more appropriate to address the Defense effort in terms of Budget Authority.

### MAJOR PROGRAMS

The improved status of our military personnel is one of the most dramatic results of our effort to revitalize the Nation's Armed Forces. Since 1980, we have met or exceeded our recruitment goals. Reenlistments have increased. Our military personnel are adequately compensated. Active force end strength has increased by over 85,000 and the Reserve and National Guard components have increased by more than 235,000 since FY 1981. The quality of our personnel has increased. These are our proudest achievements and are a result of continued improvements in incentives which make military service attractive to both the active and reserve components.

Manpower achievements, along with readiness and equipment improvements, demonstrate our commitment to the Total Force policy. Fully two-thirds of the support structure for our land forces in FY 1987 will be in the Reserve Components. Today, more reservists are training in joint and unilateral service exercises with their wartime units worldwide than ever before.

Guard and Reserve forces equipment upgrading has paralleled manpower increases. Army National Guard units have received the Abrams tank and Bradley Fighting Vehicles. Air Force Reserve and National Guard squadrons have F-16's and F-15's. In FY 1987 they will receive the C-5 and C-141 aircraft to continue the modernization of their strategic airlift. The Naval Reserve will have a total of 19 modern frigates. The first of two Reserve airborne mine helicopter squadrons will be established, and increased Naval Reserve ship operating tempo will continue.

Readiness is evaluated in four areas: availability of equipment, equipment condition, number of personnel, and unit training. None of these can be expanded rapidly. We are procuring the most urgently needed equipment items for the near-term. The new equipment is experiencing higher levels of reliability and maintainability. The supply of repair parts and other components, as well as the availability of trained maintenance personnel, contribute to the improved condition of military equipment.

We seek to preserve the improvements in readiness and sustainability made over the past several years and to make further gains by providing resources to support the major weapon systems currently entering the force as well as those planned for delivery during the year. The planned zero financial backlog in ship overhauls will increase our ability to deploy and redeploy ships worldwide as the need arises.

Military personnel proficiency is critical to the successful operation of today's sophisticated weapon systems. Army land forces training will improve while the program mix continues to shift from force modernization and support of new equipment to a larger proportion of sustainment costs. We plan improvements in warrant officer training, the Ranger school, special operations forces components, and flying hours for the Army and Navy.

We have continued the modernization of the general purpose and mobility forces, including the procurement of M-1 Tanks, Bradley Fighting Vehicles, M577A2 Armored Command Post Carriers, selected tracked vehicles, trucks, communications items, and materiel handling equipment.

Modernization of naval forces continues toward the goal of a 600 ship Navy. Funds are requested for 21 new ships and three conversions, including Attack and TRIDENT Ballistic Missile Submarines, AEGIS Cruisers, DDG-51 AEGIS Guided Missile Destroyers, Oilers, and Fast Combat Support Ship.

Our responsibilities require us to acquire and maintain sufficient tactical air forces to meet global commitments. We plan to expand the Air Force's 37 fighter wings to 40 by 1991. We have requested the F-15 and F-16 aircraft for the Air Force. The F/A-18, A-6E, EA-6B, and the F-14A with the new F-100-GE-400 engine will greatly enhance the aircraft inventory for the Navy and Marine Corps. Investment in strategic mobility forces continues with the acquisition of C-5 and KC-10 airlift aircraft and additional ships for the Ready Reserve Force.

The success of our modernization efforts is in part dependent on comparable efforts by our allies. Our NATO partners have increased their financial commitment to the modernization and improvement of their conventional defenses. By strengthening our conventional forces, the United States and its allies have sought to restore a balanced and vigorous deterrent to Soviet adventurism. We and our NATO allies field the same weapon systems in the European theater. We recently joined weapon system partnerships with NATO allies for PATRIOT and the Multiple Launch Rocket System and are pursuing similar arrangements for TOW. We are also working toward consolidated procurement of common NATO munitions.

We are continuing the development of an Advanced Cruise Missile, a Short-Range Attack Missile, and the Advanced Technology Bomber, while continuing to work on improvements to the command, control, communications, and intelligence systems necessary for the effective use of these weapons. Growth in tactical programs is focused on the Advanced Tactical Fighter, C-17 Airlifter, V-22 Tilt Rotor Aircraft, F-14D/A-6F upgrades, and the SSN-21 Submarine.

The antisatellite (ASAT) program is our primary effort to improve defensive capabilities in space. Successful completion of this program will deter the Soviets from using their ASAT weapons, which are already operational, while denying them unrestricted use of space for targeting NATO forces in wartime. Known as the Air-Launched Miniature Vehicle, the ASAT missile is designed to be carried by specially configured F-15 aircraft for use against low-altitude satellites. We plan to continue the research, development, test and evaluation phase of the ASAT program and to begin procurement of long lead-time materiel.

We continue the construction of new and modernized facilities to improve the living and working conditions of service members and their families. The introduction of new weapon systems requires corresponding investment in facilities. Examples of major improvements include facilities for stationing the new Light Infantry Division at Fort Drum, New York, construction of the East Coast TRIDENT Base at Kings Bay, Georgia, and projects supporting deployment of the B-1 Bomber, Ground Launched Cruise Missile, and PEACEKEEPER systems.

Procurement of the Ground-Launched Cruise Missile continues in support of the gradual deployment of these missiles in Europe. Procurement of PERSHING II missiles was completed in FY 1986. Both these programs have been important in our efforts to maintain a strong cooperative effort in the NATO context.

We have come too far in the revitalization of the defense program over the last five years to abandon the gains made to date. The commitment we have made to our allies and to ourselves as a free nation is the basis for our defense program. As a result, our alliances are stronger and the Soviet Union has returned to the arms negotiations.

#### STRATEGIC INITIATIVES

In March 1983, the President announced a Strategic Defensive Initiative (SDI) designed to enhance deterrence through defenses. Our research and development request continues to emphasize the SDI, which increases from \$2.75 billion in FY 1986 to \$4.8 billion in FY 1987 as we seek to maintain the momentum of the various technologies encompassed within the program.

Many of our allies have indicated support for SDI research and, in some cases, interest in participating in the program. The United States and the United Kingdom signed a memorandum establishing the framework for British participation in the SDI program. Discussions with the Federal Republic of Germany began in January 1986, and the possibility of an agreement similar to the U.K. agreement is promising.

The President's strategic modernization program continues to support the requirements of the Strategic TRIAD, consisting of land-based Intercontinental Ballistic Missiles, Bombers, and Submarine-Launched Ballistic Missiles, including the TRIDENT-equipped nuclear submarine, the TRIDENT II missile, and the Advanced Technology Bomber. The TRIDENT II Submarine-Launched Ballistic Missile with greater range/payload capability and improved accuracy than the TRIDENT I missile, begins production with a buy of 21 missiles. The President has resolved to continue the PEACEKEEPER program and has requested funds to procure an additional 21 test missiles as well as to investigate alternative basing modes for the second 50 operational missiles.

Deployment of the E-6A manned airborne relay aircraft is an essential element of our program to improve strategic command and control. Production of this aircraft, which will provide survivable communications connectivity between the National Command Authority and TRIDENT submarines, continues with the procurement of three aircraft.

#### MILITARY RETIREMENT SYSTEM

The FY 1984 Defense Authorization Act (P.L. 98-94) provided for the establishment of accrual accounting for the military retirement system beginning in FY 1985. Under this accrual concept, the defense budgets after FY 1985 reflect payments to a Military Retirement Trust Fund for the accruing liability for retirement payments to the active duty force. Payments from this trust fund to the retired individuals will appear under the Income Security function of the federal budget at the time the payments are made. As a result of this change, the defense budget now gives a truer picture of the cost of today's defense by reflecting the retirement costs of the active duty force.

#### OUTLAYS

FY 1986 outlay estimates are about \$21.2 billion below the \$293.7 billion estimated in the 1985 DPQ. This level reflects reductions made to our FY 1985 and FY 1986 requests by the Congress and in accordance with the Gramm-Rudman-Hollings legislation. The FY 1987 defense request reflects Presidential determination to control the federal deficit without sacrificing essential military strength.

The following table provides a financial summary of DoD outlays by appropriation title for FY 1984-86 in current dollars.

<u>DoD Outlays in Billions of U.S. Dollars</u>			
	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Military			
Personnel *	67.8	71.7	76.2
Operation & Maintenance	72.3	77.1	82.3
Procurement	70.4	76.6	78.8
RDT&E	27.1	29.6	32.4
Military			
Construction	4.3	4.6	4.8
Family Housing	2.6	2.5	2.5
All Other	<u>0.8</u>	<u>1.4</u>	<u>1.1</u>
TOTAL	245.4	263.6	278.0
PL 99-177	-	-5.1	-3.8
NET TOTAL	245.4	258.4	274.3

\* Includes estimate for Military Retired Pay on an accrual basis.

The DoD long range outlay forecast grows at an average of 3.2% per year in real terms for the next five years.

#### MILITARY ASSISTANCE

The U.S. International Security Assistance Program includes (1) grants to finance defense articles, defense services, and design and construction services to assist selected countries to improve their defensive capabilities; (2) International Military Education (IMET); (3) Peacekeeping Operations; (4) Foreign Military Credit Sales; and (5) several other programs which provide foreign assistance.

The Military Assistance Program provides grants of defense articles, defense services, and design construction services to assist certain countries to improve their military capabilities. Assistance is provided through the U.S. military departments which are reimbursed from this account.

The International Military Education and Training (IMET) account underscores the importance of this form of contract between the defense establishments in foreign countries and U.S. military departments. Training is conducted in both the United States and abroad.

The Foreign Military Sales Credit appropriation provides funds to finance credit sales of defense articles, defense services and design and construction services to foreign countries and international organizations.

Other items include assisting international efforts to monitor and maintain the peace in areas of special concern to the United States. In 1987, contributions will be made to the Multinational Force and Observers in the Sinai and to the United Nations Force in Cyprus.

For all these accounts combined and net of receipts, outlays were \$3.2 billion in FY 1985, and are estimated at \$4.5 billion in FY 1986, and \$7.2 billion in FY 1987.

#### DEPARTMENT OF ENERGY

The Department of Energy is responsible for the research, development, engineering, testing, and production of all United States nuclear weapons; maintenance of reliable weapons for their stockpile life; and retirement and disposal of nuclear weapons from the stockpile. They provide for the design, development, and testing of improved naval nuclear propulsion plants and reactors for a variety of military requirements. These programs support the conduct of research activities directed toward the advancement of verification technology related to nuclear weapons treaties and arms control measures as well as improving methods for safeguarding nuclear materials. Total outlays were \$7.1 billion in FY 1985 and are estimated to be \$7.2 billion in FY 1986 and \$7.7 billion in FY 1987.

#### COAST GUARD

The Coast Guard operates as a service in the Navy in time of war or national emergency at the direction of the President. During peacetime, an effective state of military preparedness is maintained through individual and unit training, by joint naval training exercises, and by Coast Guard single and multiship operations. The Coast Guard employs multipurpose vessels, aircraft, and shore units, strategically located along the coasts and inland waterways of the United States and in selected areas overseas. The Coast Guard also maintains a nationwide system of boats, aircraft, cutters and rescue coordination centers on 24-hour alert capable of responding to notice of a distress incident. Loran stations are operated in the United States and abroad to serve the needs of the armed services and marine and air commerce. Outlays for this function were \$2.5 billion in FY 1985 and are estimated at \$2.4 billion in FY 1986 and \$2.6 billion in FY 1987.



## EXCLUSIONS

Defense expenditure data in this report do not include the value of goods and services provided by the Berlin Magistrat for the "Occupation and Mandatory Expenditures" program. The following table shows the dollar equivalent of these goods and services received and anticipated from the Federal Republic of Germany under current agreements:

GFY 1985 \$212.8 million (actual)

GFY 1986 \$237.3 million (Estimate)

GFY 1987 \$284.7 million (Estimate)

## ECONOMIC ASSUMPTIONS

Current Defense budget projections are consistent with the current economic outlook for the overall economy.

The following table provides pay and purchase inflation assumptions used in preparing the current DoD budget and long range projections. Rates shown under the "Major Systems" heading are used to price the major weapons systems that are bought by the Department. This category of equipment includes all aircraft, tracked combat vehicles, missiles, and ships. All other purchases made by the Department are priced with the rates shown in the "Other" category except for fuel which was priced with the separate rate as shown.

### OUTLAY PAY AND INFLATION ASSUMPTIONS

FY 1985-FY 1991

#### ANNUAL PERCENTAGE CHANGE

<u>CATEGORY</u>	<u>1985 to</u> <u>1986</u>	<u>1986 to</u> <u>1987</u>	<u>1987 to</u> <u>1988</u>	<u>1988 to</u> <u>1989</u>	<u>1989 to</u> <u>1990</u>	<u>1990 to</u> <u>1991</u>
<u>PAY:</u>						
Military *	3.0	4.0	4.8	5.1	4.9	4.5
Civilian **	0	3.0	3.0	3.0	3.0	3.0
<u>PURCHASES:</u>						
Major Systems	4.1	4.1	3.9	3.4	2.9	2.3
Fuel	-7.3	-4.3	-1.9	1.5	3.0	2.3
Other Purchases	3.2	4.1	3.9	3.4	2.9	2.3
COMPOSITE DoD	3.0	3.6	3.9	3.7	3.4	2.8
CPI	3.3	4.0	3.9	3.4	3.0	2.3
GNP Deflator	3.2	4.1	3.9	3.4	2.9	2.3

\* FY 1985 military pay raise effective on January 1. All other military raises are effective October 1.

\*\* All civilian pay raises effective January 1.

The following table providing deflators for DoD personnel compensation, industry purchases, and total outlays is in response to efforts by the NATO Economic Committee to develop an improved deflator for Defense expenditures.

Department of Defense Deflators  
(Outlays)

	<u>Total Pay &amp; Allowances</u>	<u>Total Non-Pay</u>	<u>Total Outlays</u>
1970	31.30	31.25	31.28
1971	33.83	32.71	33.28
1972	37.80	34.22	36.05
1973	41.22	35.40	38.45
1974	44.44	38.31	41.49
1975	48.01	44.19	46.21
1976	51.38	47.41	49.54
1977	54.87	51.21	53.12
1978	58.81	54.89	56.92
1979	62.70	59.66	61.19
1980	67.68	69.38	68.54
1981	76.52	77.25	76.90
1982	83.57	84.24	83.93
1983	87.38	87.39	87.39
1984	90.09	90.56	90.36
1985	93.92	93.54	93.69
1986	96.64	96.38	96.48
1987	100.00	100.00	100.00

U.S. INTERNATIONAL TRANSACTIONS

For 1985, the current account was in deficit by a record \$117.7 billion compared to a deficit of \$107.4 billion in 1984. The increase was accounted for by the merchandise trade deficit which rose from \$114.1 billion in 1984 to \$124.3 billion. Limited economic growth abroad continued to restrain exports, and a decline in U.S. economic growth slowed the increase in imports. The impact of earlier dollar appreciation continued to affect merchandise trade flows in much of 1985.

U.S. claims on foreigners reported by U.S. banks increased by \$5.9 billion in 1985 reflecting moderate demand for U.S. bank credit and the reluctance of U.S. banks to make major new extensions of credit abroad. Net capital outflows for U.S. direct investment abroad were \$19.1 billion in 1985, compared with \$4.5 billion in 1984. This increase reflected a large decline in intercompany debt inflows and an increase in reinvested earnings, in part due to capital gains from the appreciation of foreign currencies against the dollar.

U.S. liabilities to private foreigners reported by U.S. banks increased \$40.6 billion in 1985. Early in the year, a strong interest rate incentive favored placement of funds in the U.S. while late in the year, agencies and branches of foreign banks financed an expansion in credits with funds from abroad. Net foreign purchases of securities other than U.S. Treasury securities were \$50.7 billion as U.S. corporations borrowed \$37.6 billion in the Eurobond market. Foreigners also purchased \$4.7 billion in U.S. stocks. Net foreign purchases of U.S. Treasury securities were \$20.9 billion due to the higher yields on U.S. Treasury bonds relative to most foreign bond rates.

From December 1984 to December 1985, the dollar depreciated 19 percent and 5 percent on a trade-weighted average basis against the currencies of 10 industrial and 22 OECD countries, respectively.

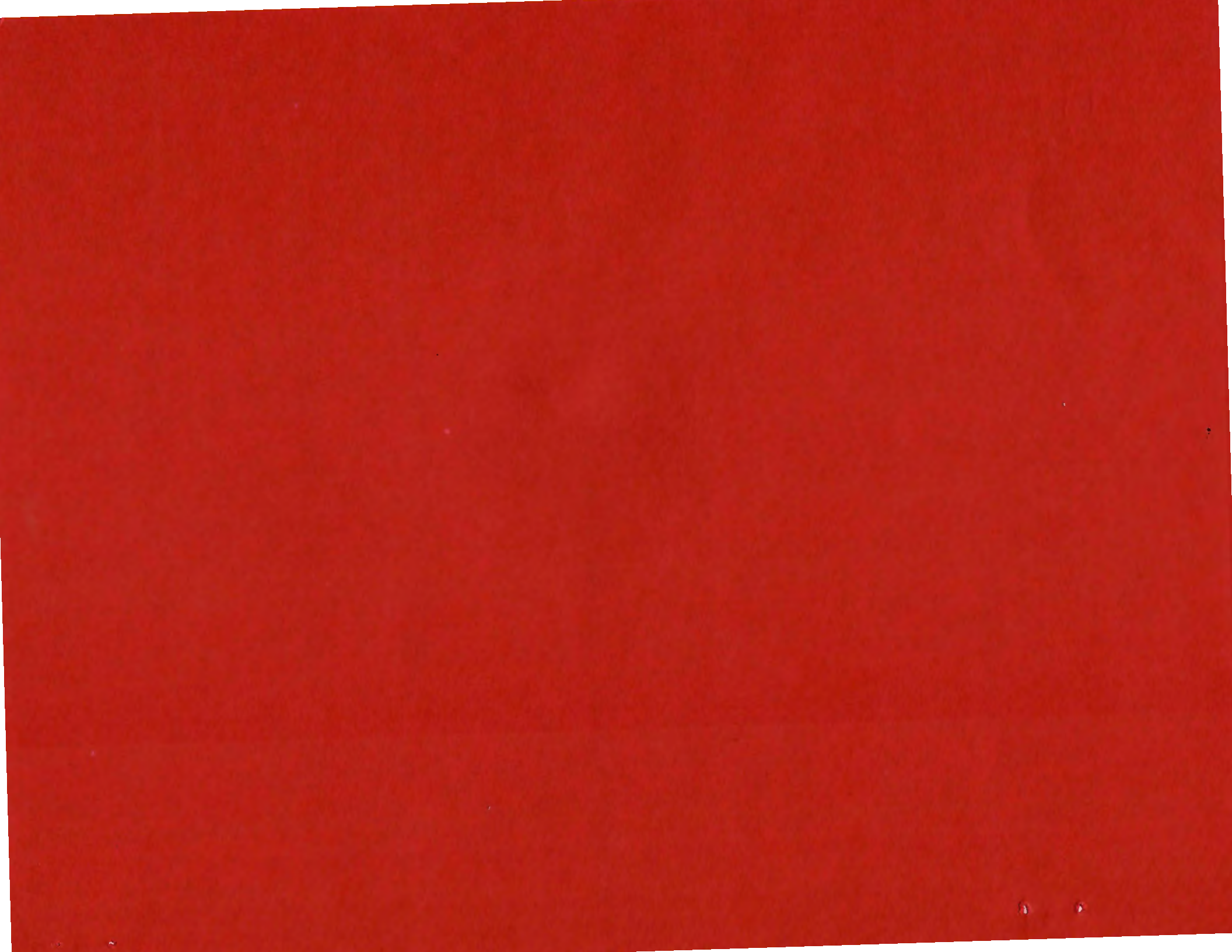
U.S. INTERNATIONAL TRANSACTIONS  
Selected Balances 1984 and 1985  
(\$ Millions)

	<u>1984</u>	<u>1985</u>
Balance on Merchandise Trade	-114,107	-124,289
Balance on Goods & Services	-95,945	-102,880
Balance on Goods & Services & Remittances	-98,836	-106,418
Balance on Current Account	-107,358	-117,664

DEFENSE AND INTERNATIONAL TRANSACTIONS

In FY 1985, U.S. Defense expenditures entering international transactions were \$12.0 billion and are estimated to be \$13.4 billion in FY 1986 and \$14.4 billion in FY 1987. Direct defense expenditures in FY 1985 are relatively unchanged over the level in FY 1984. Increases in expenditures by U.S. personnel stationed abroad were offset by a decline in expenditures for petroleum products due to continuing lower oil prices.

Total receipts from transfers under U.S. military sales contracts were \$7.7 billion in FY 1985, \$0.6 billion lower than in FY 1984. This decrease was due primarily to lower deliveries of military equipment to our NATO allies. Differences between cash receipts and deliveries are attributed to timing or credit sales.



**DPO (86) UNITED STATES-D/1**

**1986  
DEFENSE PLANNING REVIEW**

**UNITED STATES OF AMERICA**

**FINANCIAL AND ECONOMIC**

**ITEM V B: STATISTICS**

UNITED STATES OF AMERICA

RESPONSE TO

NATO DEFENSE PLANNING REVIEW QUESTIONNAIRE 1986

DPQ - 86

The United States response is bound in seventeen (17) separate documents as listed below.

Item I A - Statement of Defense Policy  
Item I B - Response to Force Goals  
Item I C - Research, Production and Procurement Plans  
Item II A - Army Section: Responses to Special Questions  
Item II B - Army Section: Table I  
Item II C - Army Section: All Other Tables Including All Annexes  
Item II D - Army Section: Logistics Policy and Plans  
Item III A - Navy Section: Responses to Special Questions  
Item III B - Navy Section: Table I  
Item III C - Navy Section: All Other Tables Including All Annexes on Marine Corps  
Item III D - Navy Section: Logistics Policy and Plans  
Item IV A - Air Force Section: Responses to Special Questions  
Item IV B - Air Force Section: Table I  
Item IV C - Air Force Section: All Other Tables Including All Annexes  
Item IV D - Air Force Section: Logistics Policy and Plans  
Item V A - Financial and Economic Section: Statement of Financial and Economic Policy  
Item V B - Financial and Economic Section: Statistics

ITEM V B  
FINANCIAL AND ECONOMIC SECTION  
STATISTICS

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**DPQ 86 FIN. & ECO.**

Country: United States

**TABLE 1 - DEFENSE APPROPRIATIONS AND EXPENDITURES**

Currency Unit: Millions of U.S. Dollars                      National Fiscal Year: 1 Oct to 30 Sept

Serial No.	Item	National Fiscal Year			
		FY 1985	FY 1986	FY 1987	
	(0)	(1)	(2)	(3)	
1	<u>Appropriation for Defense</u> (Budget of Defense Department) -----	286,802	278,412	311,600	
2	minus : Appropriations included in Item 1 but not covered by NATO definition -----	-	-	-	
3	plus : Appropriations not included in Item 1 but covered by NATO definition -----	15,667	15,278	17,325	
4	<u>Appropriations for Defense, adjusted</u> to NATO definition (1 - 2 + 3) -----	302,469	293,690	328,925	
5A	plus : Transfers from previous year's budget (5B in preceding column) -----	211,538	253,624	272,839	
5B	minus : Transfers to following year's budget (5A in following column) -----	253,624	272,839	309,993	
6	minus : Appropriations cancelled or expired (minus) or restorations (plus) -----	2,218	1,976	30	
7	<u>Expenditures charged to current</u> year's budget (4 + 5A-5B-6) -----	258,165	272,499	291,741	
8A	plus : Payments made during current year but charged to previous year's budget (8B in preceding column) -----				
8B	minus : Payments charged to current year's budget but made during following year (8A in following column) -----				
9	plus : Other additions -----				
10	minus : Other deductions -----				
11	<u>Payments during fiscal year (7 + 8A-8B + 9-10)</u> (equal to Table II; Adjusted Total) -----	258,165	272,499	291,741	
11A	Payments from beginning of fiscal year to 31 December -----	61,688	69,322	74,037	
11B	Payments after 31 December to end of fiscal year -----	196,477	203,177	217,704	
12	<u>Payments during calendar year (11B from</u> preceding column + 11A from same column) ----		<u>1985</u> 265,799	<u>1986</u> 277,484	<u>1987</u> 296,084

DPQ(86) FIN. & ECO.

Country : United States

ANNEX TO TABLE I

DETAILS OF APPROPRIATIONS SHOWN IN ITEMS 1, 2, AND 3 OF TABLE I

Currency Unit: Millions of U.S. Dollars

Budgetary Source	Amounts Appropriated for Defense in Fiscal Year:		
	<u>FY 1985</u> (a)	<u>FY 1986</u>	<u>FY 1987</u>
	(1)	(2)	(3)
Item 1 of Table I - Appropriations for Defense (Budgets of Defense Departments)			
Army	74,270	72,363	81,528
Navy	99,015	94,766	104,503
Air Force	99,420	94,396	105,192
Defense-Wide	14,096	16,887	20,377
Total (b)	286,802	278,412	311,600
Item 2 of Table I - Appropriations included in Item 1, but not covered by NATO definition			
Army			
Navy			
Air Force			
Defense-Wide			
Total (b)			
Item 3 of Table I - Appropriations not included in Item 1, but covered by NATO definition Departmental budgets concerned (specify)			
Military Assistance	5,801	5,767	6,726
DOE	7,325	7,232	8,230
Coast Guard	2,541	2,279	2,369
Total (b)	15,667	15,278	17,325

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: TOTAL

TABLE II

## ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,

## NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
	(0)	(1)	(2)	(3)
1	MILITARY PERSONNEL	67,842	71,440	76,178
11	PAY AND ALLOWANCES	57,260	60,295	64,295
12	CLOTHING	801	844	899
13	FOOD	5,042	5,309	5,661
19	OTHER	4,739	4,992	5,323
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)	55,773	58,775	59,767
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT	27,301	30,317	30,351
22	ARTILLERY			
23	COMBAT VEHICLES	3,801	3,768	3,736
25	ELECTR. AND COMM. EQUIPMENT			
26	WEAPONS AND SMALL ARMS	15,526	15,543	16,255
27	ENG. AND MIL. RY EQUIPMENT			
28	TRANSP. AND NON-COMBAT VEHICLES			
29	SHIPS AND HARBOUR CRAFT	9,145	9,147	9,425
24	AMMO. AND EXPLOSIVES AND MSLS.	14,529	16,638	16,312
241	AMMO. AND EXPLOSIVES	4,003	4,273	4,106
242	MISSILES (A) (B)	10,526	12,365	12,206
3X	NATO COMMON INFRASTRUCTURE	125	143	139
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES	125	143	139
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION	4,135	4,403	4,464
4	OTHER EQUIP., SUPPL. AND OPER.	102,965	107,026	117,405
41	NON-CONCURRENT SPARE PARTS			
44	PETROLEUM PRODUCTS	46,808	49,118	54,953
45	OTHER EQUIP. AND SUPPLIES			
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	29,053	29,205	30,797
49	OTHER OP. AND MAINT. (R+D)	27,104	28,703	31,655
5	OTHER DEFENSE EXPENDITURES	12,795	14,074	17,476
	ADJUSTED TOTAL DEFENSE EXPENDITURES	258,164	272,499	291,741

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: ARMY

TABLE II

## ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,

## NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
	(0)	(1)	(2)	(3)
1	MILITARY PERSONNEL	26,211	27,492	29,311
11	PAY AND ALLOWANCES	22,123	23,203	24,739
12	CLOTHING	309	325	346
13	FOOD	1,948	2,043	2,178
19	OTHER	1,831	1,921	2,048
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)	10,663	10,807	10,706
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT	2,705	2,952	2,910
22	ARTILLERY )			
23	COMBAT VEHICLES )	3,801	3,768	3,736
25	ELECTR. AND COMM. EQUIPMENT )			
26	WEAPONS AND SMALL ARMS )	4,157	4,087	4,060
27	ENG. AND MIL. RY EQUIPMENT )			
28	TRANSP. AND NON-COMBAT VEHICLES )			
29	SHIPS AND HARBOUR CRAFT			
24	AMMO. AND EXPLOSIVES AND MSLS.	4,482	4,571	4,341
241	AMMO. AND EXPLOSIVES	2,080	2,242	2,012
242	MISSILES (A) (B)	2,402	2,329	2,329
3X	NATO COMMON INFRASTRUCTURE			
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES			
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION	1,133	1,265	1,392
4	OTHER EQUIP., SUPPL. AND OPER.	24,219	25,709	28,057
41	NON-CONCURRENT SPARE PARTS )			
44	PETROLEUM PRODUCTS )	11,122	12,664	14,273
45	OTHER EQUIP. AND SUPPLIES )			
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	9,147	8,957	9,444
49	OTHER OP. AND MAINT. (R+D)	3,950	4,088	4,340
5	OTHER DEFENSE EXPENDITURES			
	ADJUSTED TOTAL DEFENSE EXPENDITURES	66,708	69,844	73,807

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: NAVY

TABLE II

## ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,

NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
(0)		(1)	(2)	(3)
1	MILITARY PERSONNEL	22,259	23,529	25,245
11	PAY AND ALLOWANCES	18,787	19,858	21,307
12	CLOTHING	263	278	298
13	FOOD	1,654	1,749	1,876
19	OTHER	1,555	1,644	1,764
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)	22,150	23,933	24,126
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT	8,977	10,225	10,145
22	ARTILLERY )			
23	COMBAT VEHICLES )			
25	ELECTR. AND COMM. EQUIPMENT )			
26	WEAPONS AND SMALL ARMS )	4,028	4,561	4,556
27	ENG. AND MIL. RY EQUIPMENT )			
28	TRANSP. AND NON-COMBAT VEHICLES )			
29	SHIPS AND HARBOUR CRAFT	9,145	9,147	9,425
24	AMMO. AND EXPLOSIVES AND MSLS.	3,600	4,505	4,418
241	AMMO. AND EXPLOSIVES	885	1,082	1,031
242	MISSILES (A) (B)	2,715	3,423	3,387
3X	NATO COMMON INFRASTRUCTURE			
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES			
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION	1,267	1,355	1,354
4	OTHER EQUIP., SUPPL. AND OPER.	34,921	35,765	37,433
41	NON-CONCURRENT SPARE PARTS )			
44	PETROLEUM PRODUCTS )	16,736	17,229	18,305
45	OTHER EQUIP. AND SUPPLIES )			
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	10,131	10,012	10,556
49	OTHER OP. AND MAINT. (R+D)	8,054	8,524	8,572
5	OTHER DEFENSE EXPENDITURES			
	ADJUSTED TOTAL DEFENSE EXPENDITURES	84,197	89,087	92,576

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: AIR FORCE

TABLE II

ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,  
NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
	(0)	(1)	(2)	(3)
1	MILITARY PERSONNEL	19,372	20,419	21,622
11	PAY AND ALLOWANCES	16,350	17,234	18,249
12	CLOTHING	229	241	255
13	FOOD	1,440	1,517	1,607
19	OTHER	1,353	1,427	1,511
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)	21,998	22,971	23,829
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT	15,619	17,140	17,296
22	ARTILLERY )			
23	COMBAT VEHICLES )			
25	ELECTR. AND COMM. EQUIPMENT )			
26	WEAPONS AND SMALL ARMS )	6,379	5,831	6,533
27	ENG. AND MIL. RV EQUIPMENT )			
28	TRANSP. AND NON-COMBAT VEHICLES )			
29	SHIPS AND HARBOUR CRAFT			
24	AMMO. AND EXPLOSIVES AND MSLS.	6,447	7,562	7,553
241	AMMO. AND EXPLOSIVES	1,038	949	1,063
242	MISSILES (A) (B)	5,409	6,613	6,490
3X	NATO COMMON INFRASTRUCTURE			
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES			
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION	1,524	1,529	1,463
4	OTHER EQUIP., SUPPL. AND OPER.	32,647	32,970	36,340
41	NON-CONCURRENT SPARE PARTS )			
44	PETROLEUM PRODUCTS )	14,633	14,980	16,630
45	OTHER EQUIP. AND SUPPLIES )			
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	6,441	6,719	7,084
49	OTHER OP. AND MAINT. (R+D)	11,573	11,271	12,626
5	OTHER DEFENSE EXPENDITURES			
	ADJUSTED TOTAL DEFENSE EXPENDITURES	81,988	85,451	90,807

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: ESTABLISHMENT-WIDE

TABLE II

ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,  
NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
	(0)	(1)	(2)	(3)
1	MILITARY PERSONNEL			
11	PAY AND ALLOWANCES			
12	CLOTHING			
13	FOOD			
19	OTHER			
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)	962	1,064	1,106
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT			
22	ARTILLERY )			
23	COMBAT VEHICLES )			
25	ELECTR. AND COMM. EQUIPMENT )			
26	WEAPONS AND SMALL ARMS )	962	1,064	1,106
27	ENG. AND MIL. RV EQUIPMENT )			
28	TRANSP. AND NON-COMBAT VEHICLES )			
29	SHIPS AND HARBOUR CRAFT			
24	AMMO. AND EXPLOSIVES AND MSLS.			
241	AMMO. AND EXPLOSIVES			
242	MISSILES (A) (B)			
3X	NATO COMMON INFRASTRUCTURE	125	143	139
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES	125	143	139
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION	211	254	255
4	OTHER EQUIP., SUPPL. AND OPER.	11,178	12,582	15,575
41	NON-CONCURRENT SPARE PARTS )			
44	PETROLEUM PRODUCTS )	4,317	4,245	5,745
45	OTHER EQUIP. AND SUPPLIES )			
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	3,334	3,517	3,713
49	OTHER OP. AND MAINT. (R+D)	3,527	4,820	6,117
5	OTHER DEFENSE EXPENDITURES			
	ADJUSTED TOTAL DEFENSE EXPENDITURES	12,476	14,043	17,075

COUNTRY: UNITED STATES

DPQ(86) FIN. + ECO.

SERVICE: ACTIVITIES OUTSIDE DOD TABLE II

ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,  
NATIONAL FISCAL YEARS

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE	CATEGORY	1985	1986 EST.	1987 EST.
	(0)	(1)	(2)	(3)
1	MILITARY PERSONNEL			
11	PAY AND ALLOWANCES			
12	CLOTHING			
13	FOOD			
19	OTHER			
2X	MAJOR EQUIP. (EX. AMMO + MSLS.)			
20	MISSILE SYSTEMS+ (A) (B)			
21	AIRCRAFT			
22	ARTILLERY			)
23	COMBAT VEHICLES			)
25	ELECTR. AND COMM. EQUIPMENT			)
26	WEAPONS AND SMALL ARMS			)
27	ENG. AND MIL. RY EQUIPMENT			)
28	TRANSP. AND NON-COMBAT VEHICLES			)
29	SHIPS AND HARBOUR CRAFT			
24	AMMO. AND EXPLOSIVES AND MSLS.			
241	AMMO. AND EXPLOSIVES			
242	MISSILES (A) (B)			
3X	NATO COMMON INFRASTRUCTURE			
31	EXPEND. AS HOST COUNTRY			
32	PAYMENTS TO OTHER COUNTRIES			
33	RECEIPTS FROM OTHER COUNTRIES			
34	LAND AND UTILITIES			
35	NAT'L MILITARY CONSTRUCTION			
4	OTHER EQUIP., SUPPL. AND OPER.			)
41	NON-CONCURRENT SPARE PARTS			)
44	PETROLEUM PRODUCTS			)
45	OTHER EQUIP. AND SUPPLIES			)
46	MILITARY PENSIONS			
47	PAY + ALLOWANCES OF CIVILIANS (O+M)			
49	OTHER OP. AND MAINT. (R+D)			
5	OTHER DEFENSE EXPENDITURES	12,795	14,074	17,476
	ADJUSTED TOTAL DEFENSE EXPENDITURES	12,795	14,074	17,476



DPQ(86) FIN. & ECO.

Country: United States

Service: Total and Breakdown

TABLE II ACTUAL AND PLANNED DEFENSE EXPENDITURES  
BY CATEGORIES, NATIONAL FISCAL YEARS

ANNEX 1

MILITARY AND CIVILIAN PERSONNEL END STRENGTHS (Thousands)

	<u>FY 1985</u> <u>Actual</u>	<u>FY 1986</u> <u>Estimate</u>	<u>FY 1987</u> <u>Estimate</u>
(0)	(1)	(2)	(3)
<u>TOTAL - DEPARTMENT OF DEFENSE</u>			
Military personnel	2,207	2,231	2,257
Civilian personnel	1,129	1,110	1,114
<u>ARMY</u>			
Military personnel	781	781	781
Civilian personnel	420	412	411
<u>NAVY/MARINE CORPS</u>			
Military personnel	769	780	793
Civilian personnel	353	341	340
<u>AIR FORCE</u>			
Military personnel	602	606	607
Civilian personnel	264	262	263
<u>OFFICE OF THE SECRETARY OF DEFENSE &amp; AGENCIES</u>			
Full time Guard/Reserve (Military)	55	64	76
Civilian personnel	92	95	100
<u>ACTIVITIES OUTSIDE THE DoD</u>			
Military personnel	37	37	37
Civilian personnel	8	8	8
<u>TOTAL</u>			
Military personnel	2,244	2,268	2,294
Civilian personnel	1,137	1,118	1,122



DPQ(86) FIN. & ECO.

TABLE II

ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES  
NATIONAL FISCAL YEARS

ANNEX 3

YEARLY % PRICE CHANGES AFFECTING CENTRAL GOVERNMENT COMPUMPTION

<u>Years</u>	<u>Total expenditure</u>	<u>Personnel expenditure</u>	<u>Non-Personnel expenditure</u>
<u>(0)</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
1983	3.4	5.1	2.1
1984	3.5	4.5	2.8
1985	3.0	4.8	2.1
1986	N/A	N/A	N/A

DPQ(86) FIN. & ECO.

TABLE II

ACTUAL AND PLANNED DEFENSE EXPENDITURES BY CATEGORIES,  
NATIONAL FISCAL YEARS

ANNEX 4

ECONOMIC DATA

		Gross Domestic Product in Purchasers' Values (Calendar year)		Budgetary expenditures on central government (Fiscal year)	
Year	Implicit Price index	Billions of national currency		Year	Millions of national currency
		Current prices	Constant 1982 prices		
(0)	(1)	(2)	(3)	(4)	(5)
1977	0.673	1,965.1	2,921.2	1977	409,203
1978	0.722	2,219.1	3,073.0	1978	458,729
1979	0.786	2,464.4	3,136.6	1979	503,464
1980	0.857	2,684.4	3,131.6	1980	590,920
1981	0.940	3,000.5	3,193.6	1981	678,209
1982	1.000	3,114.8	3,114.8	1982	745,706
1983	1.038	3,350.9	3,228.8	1983	808,327
1984	1.081	3,726.7	3,447.5	1984	851,781
1985	1.117	3,947.7	3,533.4	1985	946,323
1986	NA	NA	NA	1986	979,928 (Est.)
1987	NA	NA	NA	1987	994,002 (Est.)

COUNTRY: UNITED STATES

SERVICE: TOTAL

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CODE NO.	CATEGORY	SELF-FINANCED EXPENDITURES *	EXTERNAL AID		NET DRAWING ON STOCKS	TOTAL
			US AND CANADIAN AID	AID FROM OTHER SOURCES		
(0)		(1)	(2)	(3)	(4)	(5)
1	MILITARY PERSONNEL	71,440				71,440
11	PAY AND ALLOWANCES	60,295	N	N	N	60,295
12	CLOTHING	844	O	O	O	844
13	FOOD	5,309	N	N	N	5,309
19	OTHER	4,992	E	E	E	4,992
24	AMMO. AND EXPLOSIVES AND MSLS.	2,134				2,134
241	AMMO. AND EXPLOSIVES	1,516				1,516
242	MISSILES (A) (B)	618				618
4	OTHER EQUIP., SUPPL. AND OPER.	78,323				78,323
41	NON-CONCURRENT SPARE PARTS )					
44	PETROLEUM PRODUCTS )	49,118				49,118
45	OTHER EQUIP. AND SUPPLIES )					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	29,205				29,205
5	OTHER DEFENSE EXPENDITURES	14,074				14,074
TOTAL EXPEND. FOR OP. + MAINTENANCE		165,971				165,971
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	2,268				2,268
	- CIVILIAN PERSONNEL	1,118				1,118

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.

\*\* END YEAR IN THOUSANDS

COUNTRY: UNITED STATES

SERVICE: ARMY

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CODE NO.	CATEGORY	EXTERNAL AID				TOTAL
		SELF-FINANCED EXPENDITURES *	US AND CANADIAN AID	AID FROM OTHER SOURCES	NET DRAWING ON STOCKS	
(0)		(1)	(2)	(3)	(4)	(5)
1	MILITARY PERSONNEL	27,492				27,492
11	PAY AND ALLOWANCES	23,203	N	N	N	23,203
12	CLOTHING	325	O	O	O	325
13	FOOD	2,043	N	N	N	2,043
19	OTHER	1,921	E	E	E	1,921
24	AMMO. AND EXPLOSIVES AND MSLS.	901				901
241	AMMO. AND EXPLOSIVES	785				785
242	MISSILES (A) (B)	116				116
4	OTHER EQUIP., SUPPL. AND OPER.	21,621				21,621
41	NON-CONCURRENT SPARE PARTS )					
44	PETROLEUM PRODUCTS )	12,664				12,664
45	OTHER EQUIP. AND SUPPLIES )					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	8,957				8,957
5	OTHER DEFENSE EXPENDITURES					
TOTAL EXPEND. FOR OP. + MAINTENANCE		50,014				50,014
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	781				781
	- CIVILIAN PERSONNEL	412				412

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.

\*\* END YEAR IN THOUSANDS

V-B-14

COUNTRY: UNITED STATES

SERVICE: NAVY

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE NO.	CATEGORY	EXTERNAL AID				TOTAL
		SELF-FINANCED EXPENDITURES *	US AND CANADIAN AID	AID FROM OTHER SOURCES	NET DRAWING ON STOCKS	
(0)		(1)	(2)	(3)	(4)	(5)
1	MILITARY PERSONNEL	23,529				23,529
11	PAY AND ALLOWANCES	19,858	N	N	N	19,858
12	CLOTHING	278	O	O	O	278
13	FOOD	1,749	N	N	N	1,749
19	OTHER	1,644	E	E	E	1,644
24	AMMO. AND EXPLOSIVES AND MSLS.	712				712
241	AMMO. AND EXPLOSIVES	541				541
242	MISSILES (A) (B)	171				171
4	OTHER EQUIP., SUPPL. AND OPER.	27,241				27,241
41	NON-CONCURRENT SPARE PARTS )					
44	PETROLEUM PRODUCTS )	17,229				17,229
45	OTHER EQUIP. AND SUPPLIES )					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	10,012				10,012
5	OTHER DEFENSE EXPENDITURES					
TOTAL EXPEND. FOR OP. + MAINTENANCE		51,482				51,482
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	780				780
	- CIVILIAN PERSONNEL	341				341

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.

\*\* END YEAR IN THOUSANDS

V-B-15

COUNTRY: UNITED STATES

SERVICE: AIR FORCE

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE NO.	CATEGORY	SELF-FINANCED EXPENDITURES *	EXTERNAL AID		NET DRAWING ON STOCKS	TOTAL
			US AND CANADIAN AID	AID FROM OTHER SOURCES		
(0)	(1)	(2)	(3)	(4)	(5)	
1	MILITARY PERSONNEL	20,419				20,419
11	PAY AND ALLOWANCES	17,234	N	N	N	17,234
12	CLOTHING	241	O	O	O	241
13	FOOD	1,517	N	N	N	1,517
19	OTHER	1,427	E	E	E	1,427
24	AMMO. AND EXPLOSIVES AND MSLS.	521				521
241	AMMO. AND EXPLOSIVES	190				190
242	MISSILES (A) (B)	331				331
4	OTHER EQUIP., SUPPL. AND OPER.	21,699				21,699
41	NON-CONCURRENT SPARE PARTS )					
44	PETROLEUM PRODUCTS )	14,980				14,980
45	OTHER EQUIP. AND SUPPLIES )					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	6,719				6,719
5	OTHER DEFENSE EXPENDITURES					
TOTAL EXPEND. FOR OP. + MAINTENANCE		42,639				42,639
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	606				606
	- CIVILIAN PERSONNEL	262				262

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.

\*\* END YEAR IN THOUSANDS

V-B-16



COUNTRY: UNITED STATES  
 SERVICE: ESTABLISHMENT-WIDE

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE NO.	CATEGORY	SELF-FINANCED EXPENDITURES *	EXTERNAL AID		NET DRAWING ON STOCKS	TOTAL
			US AND CANADIAN AID	AID FROM OTHER SOURCES		
(0)		(1)	(2)	(3)	(4)	(5)
1	MILITARY PERSONNEL					
11	PAY AND ALLOWANCES		N	N	N	
12	CLOTHING		O	O	O	
13	FOOD		N	N	N	
19	OTHER		E	E	E	
24	AMMO. AND EXPLOSIVES AND MSLS.					
241	AMMO. AND EXPLOSIVES					
242	MISSILES (A) (B)					
4	OTHER EQUIP., SUPPL. AND OPER.	7,762				7,762
41	NON-CONCURRENT SPARE PARTS )					
44	PETROLEUM PRODUCTS )	4,245				4,245
45	OTHER EQUIP. AND SUPPLIES )					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)	3,517				3,517
5	OTHER DEFENSE EXPENDITURES					
TOTAL EXPEND. FOR OP. + MAINTENANCE		7,762				7,762
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	64				64
	- CIVILIAN PERSONNEL	95				95

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.  
 \*\* END YEAR IN THOUSANDS

V-B-17

COUNTRY: UNITED STATES  
 SERVICE: ACTIVITIES OUTSIDE DOD

TABLE III - ANNUAL OPERATING AND MAINTENANCE COSTS  
 USE OF RESOURCES FOR OPERATING AND MAINTAINING THE FORCES IN BEING  
 DURING FISCAL YEAR 1986

CURRENCY UNIT: MILLIONS OF U.S. DOLLARS

CODE NO.	CATEGORY	EXTERNAL AID			NET DRAWING ON STOCKS	T
		SELF-FINANCED EXPENDITURES *	US AND CANADIAN AID	AID FROM OTHER SOURCES		
(0)		(1)	(2)	(3)	(4)	
1	MILITARY PERSONNEL					
11	PAY AND ALLOWANCES		N	N	N	
12	CLOTHING		O	O	O	
13	FOOD		N	N	N	
19	OTHER		E	E	E	
24	AMMO. AND EXPLOSIVES AND MSLS.					
241	AMMO. AND EXPLOSIVES					
242	MISSILES (A) (B)					
4	OTHER EQUIP., SUPPL. AND OPER.					
41	NON-CONCURRENT SPARE PARTS					
44	PETROLEUM PRODUCTS					
45	OTHER EQUIP. AND SUPPLIES					
46	MILITARY PENSIONS					
47	PAY + ALLOWANCES OF CIVILIANS (O+M)					
5	OTHER DEFENSE EXPENDITURES	14,074				14,074
TOTAL EXPEND. FOR OP. + MAINTENANCE		14,074				14,074
TOTAL PERSONNEL STRENGTH ON WHICH THE ESTIMATED OPERATION + MAINTENANCE COSTS ARE BASED: **						
	- MILITARY PERSONNEL	37				37
	- CIVILIAN PERSONNEL	8				8

\* ESSENTIALLY ALL EXPENDITURES IN THE OPERATION + MAINTENANCE ACCOUNTS ARE IN SUPPORT OF FORCES IN BEING IN THE YEAR OF EXPENDITURE. THERE IS VIRTUALLY NO BUILD-UP IN THE O+M ACCOUNTS. ANY BUILD UP OR LEAD-TIME FOR MATERIAL, SUPPLIES, AND EQUIPMENT IS FINANCED FROM THE STOCK FUNDS OR INDUSTRIAL FUNDS. INCLUDED ARE EXPENDITURES FROM THE MILITARY PERSONNEL APPROPRIATIONS, THE OPERATION + MAINTENANCE APPROPRIATION, MILITARY RETIRED PAY, AND ALL CIVILIAN PAY REGARDLESS OF APPROPRIATION. R+D FUNDS ARE EXCLUDED.

\*\* END YEAR IN THOUSANDS

V-B-18

DPQ(86) FIN. & ECO.

Country: United States

TABLE IV

MILITARY TRANSACTIONS DIRECTLY ENTERING THE BALANCE OF PAYMENTS

Part A & B - EXPENDITURES

In Millions of Dollars

Item No.	<u>1985</u>	<u>1986</u>	<u>1987</u>
(0)	(1)	(2)	(3)
1 <u>Total military expenditures directly entering the balance of payments</u>	11,987	13,375	14,450
<u>A. By type of expenditure:</u>			
1.1 - Troop personnel expenditures a/	3,691	3,850	4,000
1.2 - Purchase of military equipment	574	650	700
1.3 - All other expenditures	7,722	8,875	9,750
<u>B. By country of destination:</u>			
<u>- Total United States &amp; Canada</u>			
United States	-	-	-
Canada	266	285	310
<u>- Total European NATO Countries</u>			
Belgium/Luxembourg	144	165	180
Denmark	53	65	70
France	76	90	100
Fed. Republic of Germany	5,060	5,900	6,500
Greece	182	225	250
Iceland	35	50	60
Italy	476	525	550
Netherlands	79	95	100
Norway	13	15	15
Portugal	14	15	15
Turkey	87	95	100
United Kingdom	906	1,050	1,150
Undistributed NATO Europe	147	200	225
<u>- Total all other areas</u>	4,449	4,600	4,825

a/ Includes overseas expenditures of U.S. civilian employees.

DPQ(86) FIN. & ECO.

Country: United States

TABLE IV

MILITARY TRANSACTIONS DIRECTLY ENTERING THE BALANCE OF PAYMENTS

Part C - RECEIPTS FROM EXPENDITURES OF FOREIGN COUNTRIES

In Millions of Dollars

Item No.	Type of Receipt and Area of Origin	<u>1985</u>	<u>1986</u>	<u>1987</u>
	(0)	(1)	(2)	(3)
2	<u>Total Receipts from military expenditures of foreign countries directly entering the balance of payments a/</u>	7,653	8,000	8,750
	- <u>By country of origin:</u>			
	- United States	-	-	-
	- Canada	105	125	150
	- European NATO countries b/	1,665	1,750	1,875
	- All other areas	5,883	6,125	6,725

a/ These data include primarily (1) sales of military items through the U.S. Department of Defense, and (2) sales of services and excess personal property. These data generally do not reflect receipts for military equipment, defense connected raw materials, machine tools, or semi-processed items procured through U.S. commercial sources. These receipts are included in the private trade account of inter-national transactions.

b/ Includes "other NATO" not distributed by country.

