



THEMATIC LINE 2: MUTUAL TRUST ON THE AMERICAN CONTINENT

SUB-THEME 2A: COMMON STANDARDIZED METHODOLOGY FOR MEASURING DEFENSE EXPENDITURE

SPEAKER: ARGENTINA

PRESENTATION OBJECTIVES:

These presentation objectives are essentially three and may be summarized as follows:

- Submitting a “Consideration of Defense Expenditures” as a measure of confidence.
- Conveying the Argentine experience in the subject, from the working method used and the sequence of events that made the realization of the technical study possible “COMMON STANDARDIZED METHODOLOGY FOR CONSIDERING DEFENSE EXPENDITURES, AND ITS IMPLEMENTATION IN ARGENTINA AND CHILE”, carried out by the Economic Commission for Latin America and the Caribbean (ECLAC) after being ordered by both countries.
- Stating, synthetically and in a conceptual way, the methodology agreed on by consensus.

CONSIDERING DEFENSE EXPENDITURES AS A CONFIDENCE MEASURE

INTRODUCTION

In order to fulfill one of the most significant initiatives to promote confidence and regional security, the governments of Argentina and Chile, within the framework of the Permanent Committee on Argentinian-Chilean Security [*COMPERSEG: Comité Permanente de Seguridad Argentino-Chileno*], agreed to jointly ask the ECLAC for the carrying out of a technical study intended to have at its disposal a common standardized methodology for considering the Defense expenditures in Argentina and Chile.

Such request came to fruition on July 30th, 1998, through a note of the Department of Defense. However, the records of the request go back to a series of previous instances that must be remembered.

THE BILATERAL RELATION

The bilateral relationship between Argentina and Chile, marked by vicinity and by an increasing integration process that reaches all the subregion, has strengthened the confidence and friendship between both countries.



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It must be remembered that the consolidation of the democratic processes, operated in the subregion countries as from the mid 1980's, gave rise to a growing cooperative interrelation between them. Politically and economically significant multilateral and bilateral agreements originated from that interrelation. In that framework, it is worth emphasizing the setting-up of the Mercosur among Argentina, Brasil, Paraguay and Uruguay in 1991, which Chile and Bolivia integrated afterwards as partner members.

At the same time, it may be claimed that the political willingness of complementing has prevailed, for several lustrums, the relation between Argentina and Chile, understanding that the international situation imposes a series of challenges that must be jointly dealt with, multiplying the moments of dialogue.

Following the 1984 Peace and Friendship Treaty and particularly after the political and economic complementary agreements dating from the beginning of the 1990's, there was a new stage in the relationships which enabled the solution of all territorial differences on the basis of dialogue and mutual understanding. The parlamentarian endorsement of the agreement regarding the Continental Glaciers, made by both countries in 1999, is a milestone in this sense.

In that setting, the Security and Defense issues are of paramount importance. These are addressed by both Governments at political, strategic and operational levels within the reference of the need for the consolidation of confidence at a bilateral level, specially stressing the need of the latter to reach the subregional and regional levels. In this sense, it is worth mentioning the Declaration of the Mercosur as Peace Zone, signed by Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay in 1998.

Thus, relationships among each Department of Defense, the Armed Forces and between the Argentinian Joint Staff and the General Staff of the Chilean National Defense intensified and were institutionalized, becoming intensive and deeper.

Both countries actively participate within the Organization of American States (OAS) in pursuit of such objective, while at the same time they have been able to bilaterally promote a series of measures to Foster Mutual Confidence, particularly those of military nature which help pave the way to overcome differences and dispel fears as regards defense and security. This will, therefore, strengthen an ever richer political relationship filled with relevant events.

Therefore, on the basis of the wide range of Measures of Confidence of a military nature and with the approval of their Secretaries of Defense, the General Staff and High Officers established Regulations which include:



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1. Combined drills between the Armed Forces
2. Bilateral Conferences on Intelligence
3. Exchange of military personnel in Training and Education activities, as well as in other Professional activities
4. Meetings of a Professional and Intelligence nature among Commanders of Garrisons and border Naval Zones
5. Mutual invitations to participate in historical chronicles and in both national and border ceremonial, social, cultural, artistic and sports events
6. Exchange of Magazines and Journals of interest to the Armed Forces
7. Well-being facilities for both countries' military personnel
8. Technical and scientific cooperation in topics in which they share an interest

Jointly with the implementation of these measures, Argentina and Chile have established mechanisms for high government level concerted political action, expressed in regular meetings between the State Departments and Secretaries of Defense, in order to deal with various Security and defense issues in an open agenda, both at the bilateral and hemispheric levels. The meetings held since 1997 in Zapallar, Chile, and Campo de Mayo, Argentina, were conducive to the development of shared conceptual frameworks and promotion of efforts having a particular impact on the bilateral relationship.

The carrying out of combined military drills is an effective consequence of these meetings, **as well as the idea to jointly ask the ECLAC to examine a common methodology for considering defense expenditures.**

As far as considering defense expenditures is concerned, the joint action undertaken (which was never before done in the region) aims at upgrading the policy of openness. This is completely consistent with both countries' decision to explicitly state their defense policies, using their own methods. To the same aim of openness, the publication of the so-called "White" Books of Chile (1997) and Argentina (1999) Defense is registered .

The creation of the **Permanent Committee on Argentinian-Chilean Security (COMPERSEG)** was particularly important to the institutional development in the bilateral relation; the political sectors, the Armed Forces and the academic sectors of both countries, directing their efforts toward the creation of a syntonized security and defense exchange, converge towards that scenario. The Committee is integrated by representatives of the Department of Defense, the General Staff of the Chilean National Defense and the Argentinian Joint Staff. Since November 1995, date on which it was created, the Committee has been sitting in sessions alternately in Buenos Aires and Santiago, on the basis of an agreed Agenda that includes both aspects of International Security and bilateral issues.



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BILATERAL CONTRIBUTION TO THE REGION AS REGARDS MUTUAL CONFIDENCE

Another significant aspect of the bilateral relation has been the joint contribution to the First Regional Conference on Measures to Foster Confidence and Security –held in Santiago de Chile on November, 1995– that was attended by all the countries of the region, and continued in 1998 at the 2nd Conference on the subject, held in El Salvador.

The determination to share a joint view has been reflected in the Conferences of Defense Secretaries of the Americas, particularly in the 2nd Conference –held in Bariloche–, where the governments concurred with each other in their positions, protected by a confidence environment stemming from similar perceptions.

Argentina and Chile also presented a joint conference paper during the 3rd Conference of Defense Secretaries of the Americas, held in Cartagena, Colombia, in November, 1998. The main issue was the progress in the measures to foster regional confidence and security starting from the presentation of the bilateral experience and the progress made.

In the 4th Conference –held in Manaus in October, 2000– delegates from both countries highlighted, whenever it was convenient, the progress made in the bilateral cooperation since the development of the measures of mutual confidence agreed on.

THE IMPORTANCE OF CONSIDERING DEFENSE EXPENDITURES AS A MEASURE OF MUTUAL CONFIDENCE

The decision of requiring the ECLAC to create a standardized methodology for measuring defense expenditures is one of the most outstanding bilateral initiatives exercised by our countries as regards security and defense issues.

The impetus given to this initiative arises from the conviction that measuring defense expenditures –under approved parameters– is one of the openness measures that generates a higher degree of mutual confidence, creating an environment that ensures security and favors cooperation.

In effect, the objective measuring of the resources assigned by each State to the areas that compose the function of defense contributes both to the openness in the expenditures regarding defense and increases the possibilities of agreement between our policies and our strategic views, which is the real main objective of both countries.



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In this context, the result of the study done by the ECLAC not only is worthwhile for Argentina and Chile, but it also opens up a path of coordination in all the region, as it is already stated in the recent Chilean-Peruvian agreements to develop a similar task. In this sense, it is important to point out that, beyond the methodology regarded as appropriate in each case, what is promoted is the establishment of mechanisms that may allow to make the openness of the military expenditure effective, as a way of consolidating security and mutual confidence in all the region.

TOWARDS A COMMON METHODOLOGY

The State and Defense Departments clearly promoted the policy of openness as regards both countries' defense expenditures in their 1997 and 1998 meetings.

On the other hand, the study entrusted to the ECLAC embodies the spirit of the statements and agreements that arose at the **Regional Conference on Measures to foster Confidence and Security**, held in **El Salvador** in 1998, and at the **Second Summit of the Americas, celebrated that same year in Santiago de Chile**. At this last meeting, the Presidents agreed to foster the "policy of openness as regards defense policies concerning –among other respects– the modernization of the Armed Forces, (...) and the consideration of the military expenditure in the region."

After making the political decision, at its **5th Meeting, held in Buenos Aires in July 1998**, the **COMPERSERG** agreed the terms of the Foreign Secretaries' and Secretaries of Defense's letter to the ECLAC's Executive Secretary requesting the carrying out of a technical study that will enable the establishment of a **common standardized methodology for considering defense expenditures**, which was **submitted to the ECLAC Secretariat on July 30th** that same year.

It is worth mentioning ECLAC's prompt response, showing their willingness and making a concrete suggestion on the working modality they believed best recommending. In **May 1999**, the Secretaries of Defense and Foreign Secretaries Bilateral Meeting at **Zapala** agreed to accept the proposal made by the ECLAC.

EXPERIENCE OF IMPLEMENTING THE ARGENTINIAN-CHILEAN MUTUAL CONFIDENCE MEASURE

Once the importance of considering the Defense expenditures per se as a measure of confidence has been shown, the second presentation objective is to convey –by describing the working method used and the sequence of events– the experience acquired from securing the document resulting from the technical study "COMMON STANDARDIZED METHODOLOGY FOR CONSIDERING DEFENSE EXPENDITURES, AND ITS IMPLEMENTATION IN ARGENTINA AND CHILE," carried out by the Economic Commission for Latin America and the Caribbean, ECLAC.



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As it was previously indicated, the study was carried out at the request of the Argentinian and Chilean governments, and it was carried out by the Executive Secretariat of the above mentioned Commission, under the leadership of the Deputy Executive Secretariat, with the intervention of their own consultants and personnel, and the involvement of collaborators specially appointed for this task.

The funding for the expenses arising from the ECLAC's activity was equally met by both States' Defense and State Departments.

Following both countries' acceptance of the proposal put forward by the ECLAC in response to the requirement they had been presented with, as regards the general characteristics of the working method to be used and the costs involved, the activities aiming at laying the foundations of the project were started.

With that in view, the "AD HOC ADVISING TEAM" was created. It was made up of Argentina and Chile representatives and was in charge of monitoring the carrying out of the study. This Group played a coordinating role among the technical aspects and their progress during the carrying out of the tasks, and the political premises underlying the project, incorporating *pari passu* the development of the methodology, the view and the position of the governments.

At the same time, the "SPECIALISTS TEAMS" were made up in each country. In Argentina, it consisted of representatives of the State, International Trade and Cult Department, of the Department of Defense and of the Treasury Department, the latter through the National Budget Office, dependent on the Treasury Department. The State, International Trade and Cult Department acted as coordinator of this Group and official liaison with the ECLAC.

In the case of Chile, the team was made up of specialists from the State Department, the Department of Defense, Chile's Central Bank, the General Finance Office of the Republic and the Budget Office dependent on the Treasury Department. The Department of Defense took on the role of coordinator and official liaison.

The Specialists Teams thus established were mainly responsible for advising and collaborating with the research activities carried out by the ECLAC, during the gathering and preparation of the background information, and for conveying their impressions and opinion on the progress and results of each stage of the elaboration process of this study.

Similarly, the meetings of the PERMANENT COMMITTEE ON ARGENTINIAN-CHILEAN SECURITY (COMPERSEG) held throughout the carrying out of the project and even after its final conclusion, were celebrated to share the activities performed among the Ad Hoc Advising Team up to some extent, the Specialists Teams, as well as the ECLAC themselves.



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During such meetings, the COMPERSERG was informed about the progress of the tasks, and the support, instructions and requirements were obtained according to the circumstances.

Finally, the Public Presentation and Intergovernmental Meeting on Standardized Methodology for Considering Defense Expenditures and its implementation in Argentina and Chile was celebrated in November 2001, in Santiago (Chile) organized by the ECLAC. During this Meeting, apart from meeting the objective of presenting the finished study, it was discussed and analyzed. This Meeting was attended by representatives of the Governments of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, the United States, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela; as well by representatives of the following international institutions and organizations: the United Nations (UN), the International Monetary Fund (IMF), the Organization of American States (OAS), the Center for Hemispheric Defense Studies, the US National Defense University, and the Stockholm International Peace Research Institute (SIPRI).

Apart from the valuable participation of the ECLAC as host and presenter of the study during this meeting, it is worth highlighting the appreciation of the objective achieved as a measure to foster the policy of openness in the field of defense policies, specifically as far as considering both countries' military expenditures is concerned, among other respects. And, at the regional level, as the concrete possibility for the concerned methodology to become a model for those nations eager to advance towards a shared analysis of international security issues.

From this standpoint, the achieved methodology is described, in an extract from the ECLAC's technical study, published in the SEMINARS AND CONFERENCES SERIES, Number 14 (UN Publication).

COMMON STANDARDIZED METHODOLOGY FOR CONSIDERING DEFENSE EXPENDITURES

BASIC METHODOLOGICAL ELEMENTS:

In November 1999, there was a milestone in the process of securing the project requested by Argentina and Chile, with the involvement and technical contribution of the ECLAC: the first paper was produced. This was called the "NON PAPER", it was revised in February 2000, and the basic methodological elements can be drawn from it. It is on these elements that the study should rest on, given the definitions, objectives and guidelines agreed to by both countries.



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In this first part of the methodological overview, it is worth mentioning some points of the previously mentioned “NON PAPER” related to preliminary conceptual aspects or methodological primary starting points, without prejudice to come back to said paper later on. The points can be summarized as follows:

PRELIMINARY DEFINITIONS:

DEFENSE: The term ‘Defense’ makes reference to all the activities aiming at safeguarding national sovereignty. The goal is to reach an external condition so that the country can attain its national objectives.

In accordance with this definition:

- ‘Defense expenditure’ is the one made by the country in order to bring the set goal to fruition.
- It does not include Domestic Security.
- The model must enable a sensible consideration of the expenditure in order to guarantee its role as a measure to foster confidence and the policy of openness.

ACTIVITIES OF DEFENSE - SCOPE: The general rule should be applied that, in principle, the budget in the jurisdiction of the Secretaries of Defense or the Armed Forces as a whole will be considered a defense expenditure, unless the country not including certain items or programmes encompassed in the budget proves that they are in charge of a different activity.

BASIC OR INITIAL INFORMATION: The basic or initial information must stem from each country’s budget and accounting statements and for every resource source, considering the procedure applied in both systems along the information gathering process.

TERMS FOR THE CONSIDERATION: Annual cash flow. The objective of the consideration is not quantifying accumulated tangible assets or financial claims.

LEVEL OF AGGREGATION: In order to make the model easy to apply to several situations and countries, the degree of desaggregation breakdown of the expenditure must be the one necessary for an appropriate standardization. In any case, the expenditures that are included and the ones that are not included in the accounts will have to be defined in detail.

Starting from these concepts, the methodology proposes an option to consider defense expenditures by successive approximation; option that conducts to defining different levels of such defense expenditures.



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In this way, three different levels were defined –G₁, G₂ and G₃-; the first one is Basic; the second one –Comprehensive– includes its own expenditures plus the ones of the first level; the third level –Total– includes the two previous levels plus its specific incremental amount.

LEVEL G₁ BASIC –ITS CONSTRUCTION

On the basis of the essential concepts already pointed out, this first level is constructed starting from the consideration of all Governmental Expenditures allotted to the Departments of Defense in the function of “Defense”; such expenditures are recognized as “Initial Defense Expenditures”.

At this point, the validity of this premise in the Argentinian-Chilean case, given the remarkable coincidence in the classification between functional and institutional expenditures, may be stressed. In both cases, defense expenditures are executed by the Armed Forces and other organizations; all of them depending on the respective Departments of Defense.

The study goes into great detail about this point and adds: “In any case, the function of defense for the “Basic” Level G₁ matches the governmental expenditures in all the administration and management of the military defense, specially the administration, supervision and management of matters and of the military defense forces: defense forces of ground, sea, air and space, engineering, transports, communications, information, materials, personnel and other non-fighting forces and commands; reserve and auxiliary forces linked with the defense system, and equipment and military structures supplience. Furthermore, several issues are considered, issues of civil defense, applied investigation and experimental development –related to defense-, and the administration, management and support to defense issues that cannot be assigned to any previous category of expenditures.”

Therefore, this first level is calculated on the basis of the already paid or made (of cash) expenditures –in the Department of Argentina and Chile– in the areas corresponding to the function of Defense in the Budgetary Laws of each fiscal year (which in both countries coincides with the calendar year), taking into account the values in force at the year-end adjustment; i.e. considering the possible updates the Laws may undergo according to their rules applicable to the matter.

From comparing the initial expenditures of both countries and analyzing them, common elements and adjustment needs have arisen –in a higher or lower degree– in order to make that expenditures similar.



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Firstly, initial expenditures in Argentina do not include expenditures on Domestic Security because they do not belong to the Department of Defense and, in the Chilean case, they must have been previously deducted because they do belong to the Department of Defense, defining -in this way- the initial expenditures already pointed out. In addition, it is worth mentioning that, methodologically, it is not worth considering the expenditures intended for pension benefits or industry and production for the defense, within the initial expenditures.

As regards the adjustment needs of those initial expenditures in order to reach level G₁, "Basic", the general outline given by the "NON PAPER" must be remembered. That general outline includes the activities of the entitlement programs; it considers the budgets for the areas of health, security, education, culture, science and technology, which depend on the Departments of Defense or the Armed Forces as an integral part of the defense project. Those specific sectors, offering services to the community in general or being financed by the users personally, may be excluded.

In the Argentine case, the expenditures classified by the Department of Defense into the functions of "Health" and "Education" must be added to the initial expenditures of the function of Defense. Besides, the duplication between the financed expenditures on personal resources (specifically allocated) and the expenditures met in the already mentioned "Health" function, must be subtracted from those initial expenditures by the amount corresponding to the refunds made by the Army Private Health Insurance.

Likewise, in order to reach level G₁, "Basic", it is necessary to subtract, from the initial expenditures, the amount that was effectively paid to meet the expenditures corresponding to the military air police, since those expenditures are classified as a function of Defense and they really fulfill functions related to Domestic Security; with that adjustment, "Basic" level is reached.

In the case of Chile, the reductions made to the initial expenditures were mainly based on two needs. The first need is the deduction of the total expenditures of the Civil Aeronautics Office and the Maritime Territory General Office, since their functions are more related to providing security to air and sea traffic and are of a civil nature rather than of a defense nature.

Following this order of ideas, the expenditures of the Specialized Organizations of the Chilean Armed Forces were deducted (the Military Geographical Institute, the Navy Hydrographic and Oceanographic Service and the Aerial Photogrametric Service of the Air Force and the Army Support Organizations). Just like the organizations mentioned in the previous paragraph, these organizations carry out duties more related to civil and economic development than to defense.



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Secondly, Military Industry Organizations expenditures were deducted and they will be considered in a different level of the Defense Expenditure.

The characteristics of the budgetary presentation and of the financing of the Chilean Armed Forces Health and Welfare Programmes were envisaged in the “NON PAPER”. There, it is established that the service administration activities financed by users of the defense sector must be separated –e.g. welfare and health services– in order to avoid a double register. That is why, the ECLAC considered valid the deduction of the expenditures included in those programmes since it considered that their financing would mainly come from incomes of health organizations operation and transfers from entries already included in the initial defense expenditure.

The addition made to the initial expenditure in Chile belongs to the income equally received annually by the Chilean Armed Forces, which is the result of the Collection Reserved Laws being in effect, and is neither included in the initial expenditure, thus, nor in the budget.

After having reviewed the application of the methodology proposed by the ECLAC to reach “Basic” level G₁, it may be claimed that such level is achieved by making all the necessary additions, subtractions and adjustments –equal in both countries– to the initial defense expenditures, as shown in the following table:

CONSTRUCTION OF LEVEL G₁, BASIC	
CONCEPTS	
INITIAL DEFENSE EXPENDITURES	
INCLUDES:	EXPENDITURES ON THE FUNCTION OF DEFENSE IN THE DEPARTMENTS OF DEFENSE
PLUS:	<ul style="list-style-type: none"> * EXPENDITURES ON THE FUNCTION OF HEALTH (MILITARY PERSONNEL AND FAMILY) * EXPENDITURES ON THE FUNCTION OF EDUCATION (MILITARY PERSONNEL) * EXPENDITURES ON THE FUNCTION OF SCIENCE AND TECHNOLOGY * EXPENDITURES RELATED TO DEFENSE NOT INCLUDED IN THE ABOVE MENTIONED FUNCTIONS * FUNDS NOT INCLUDED IN THE BUDGET ALLOCATED TO THE FUNCTION OF DEFENSE
MINUS:	EXPENDITURES INCLUDED IN THE ABOVE MENTIONED FUNCTIONS:
	<ul style="list-style-type: none"> * FINANCED BY USERS * NOT RELATED TO DEFENSE
EQUALS:	FIRST STANDARDIZED LEVEL G₁, BASIC



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At this point of the analysis, it is worth saying that this level is not only presented as a total, but its desaggregation must be possible according to the economic nature of the inputs and expenditures that form it (of recurrent—personnel, goods and services, other recurrent expenditures, transfers, etc.— and of capital-fixed assets-investment).

Thus, and according to one of the “NON PAPER” considerations, the expenditure is presented separated by jurisdiction and subjurisdiction levels, broken down—in each case—into Armed Force (Army, Navy, Air Force) and the structure of political administration (Department of Defense, Joint Staff) or by Secretaries and Undersecretaries of War, Navy and Aviation.

LEVEL G₂, COMPREHENSIVE –ITS CONSTRUCTION

The second standardized level named G₂, “Comprehensive”, is made up by adding to level G₁, “Basic”, the Estimated Expenditures which were not considered in the first level in the light of the methodological precaution stemming from the terms of the “NON PAPER.” In fact, when addressing the issue of “Personnel and military retirement (RA) or social insurance expenditures (RCH),” this document envisaged that “military, civilian and temporary staff must be included. Military pension should be analyzed as well as considering it a social expenditure and correctly entering it in the books of a Department other than the Department of Defense, as appropriate.”

Firstly, it is worth bearing in mind that in the case of Argentina, the Institute of Monetary Aid for Military Pensions and Retirements is within the structure of the Department of Defense, as a Social Security Institution. Its expenditures are classified under the Social Services Purpose, within the Social Security function, and from the budgetary point of view, it is considered for the total amount of pension expenditures, plus the running of the Institute.

Said expenditures are shown in net terms in the methodology, i.e. after deducting the amounts corresponding to personal and employers contributions paid into the pension fund. These amounts are already considered under the item named “Personnel Expenditures,” included in level G₁, “Basic.”

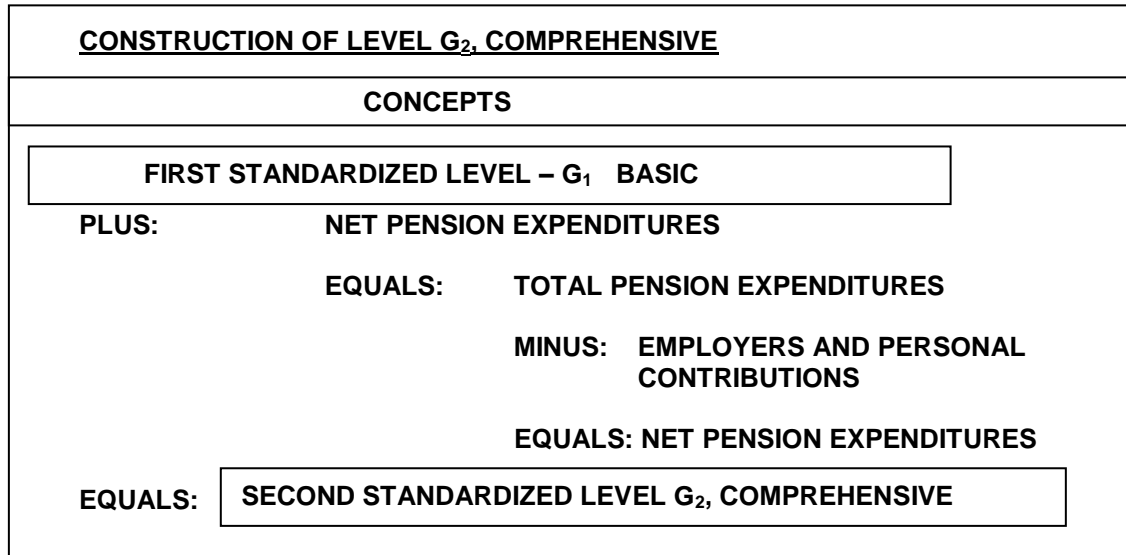
In the case of Chile, the military social insurance expenditures are carried out by the National Defense Pension Fund, dependent on the Department of Labor, whose budget also considers other expenses earmarked for other functions. Nevertheless, by a method similar to the one described earlier, the ECLAC was able to determine Chile’s Net Pension Benefits.



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The methodology for the construction of level G₂, “Comprehensive,” is summarized as follows:



LEVEL G₃, TOTAL –ITS CONSTRUCTION

In the light of the analyzed methodology, this level of the defense expenditures is conceptually reached by adding to level G₂, “Comprehensive,” the expenditures earmarked to “Defense Industry,” to “Other Productive Activities,” to “Defense Activities of Other Public Organizations” and to “Military Aid.”

In this case, the expenditures corresponding to the General Office of Military Manufacture, dependent on the Treasury Department, were added to level G₂ in Argentina, whereas in Chile, the expenditures corresponding to the Military Industry Organizations, dependent on the Department of National Defense were added.

Although the budgets of both State Departments include credit to fund expenditures earmarked to the United Nations Peacekeeping Forces, these were not considered since their final purpose does not constitute a matter of national defense.

The added value of this analytical category may not be significantly evident in the case of Argentina and Chile. Nevertheless, it must be considered given its potential implementation to different realities in the region.



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The construction of this Total level is briefly shown below:

CONSTRUCTION OF LEVEL G ₃ , TOTAL	
CONCEPTS	
SECOND STANDARDIZED LEVEL – G ₂	COMPREHENSIVE
PLUS:	<ul style="list-style-type: none"> * DEFENSE INDUSTRY EXPENDITURE * OTHER PRODUCTIVE ACTIVITIES * EXPENDITURES CONNECTED TO DEFENSE INCLUDED IN OTHER JURISDICTIONS OF THE NATIONAL ADMINISTRATION * MILITARY AID
EQUALS:	THIRD STANDARDIZED LEVEL G ₃ , TOTAL

Finally, it must be mentioned that the verification of years 1996-1997-1998 was carried out in the local currency at the current prices in each country, including the expenditure in foreign currency, expressed in the corresponding local currency (according to the exchange rate).

At the same time, the different levels were expressed in US dollars according to the current exchange rate in each country, and they have been analyzed by means of some indicators formulated in connection with the development of certain economic variables, such as the National Administration Consolidated Total Expenditure, Gross Domestic Product, population, and the like.

CONCEPTUAL SUMMARY – METHODOLOGICAL CONSTANTS

Essentially, the methodology put forward enables the calculation of the Defense expenditure from the amounts actually “paid” during each fiscal year of the budgets earmarked to the function of “Defense”. It describes three levels of adjustments to be made to said expenditures (additions and subtractions) with the purpose of showing a first level G₁ “Basic” –Defense Expenditures corresponding to the Departments of Defense, including expenditures in health and education allotted to the Armed Forces personnel and their families funded by the Treasury–; a second level G₂ “Comprehensive” –including net Pension Benefits–; and a third level G₃ “Total” –including the Defense Industry, Other Productive Activities, Defense Activities of Other Public Organizations–. All these levels are analyzed in the light of the characteristics of each country’s budget and accounting systems, the institutional organization of the public sector, the existence of expenditures not included in the budget, and the like, where it is imperative to bear in mind that, in order to contribute to the methodological process concerned, it requires:



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- knowledge about the budgetary system in force in the country
- the identification of the administrative organization and its expression by means of the institutional organization of the budget
- a clear concept definition of the function of defense
- the identification of the cash flows allocated to said function, included in or outside the budget
- the identification of the cash flows allocated to other functions, both included and not included in the budget, which should be added to the function of defense due to the methodological approach
- the identification of the cash flows allocated to the function of defense which, for a number of reasons, must not be considered an integral part of the latter
- the consolidation of the total cash flows considered in determining the defense expenditures, eliminating duplicated amounts arising from the fund transfers among the different departments in the sector

CONCLUSIONS

- Apart from all the valuable experience we have acquired while taking part in this study both at an institutional and personal level, the lesson learnt in this study is that this kind of projects show the strong and weak points of our own systems, rules and procedures –in budget and accounting matters, in this case– which make us think again about the possibilities of a regional integration enabled by more standardized systems among the member countries, both as regards the consideration of defense expenditures, as well as the expenses of any area of interest, either bilateral or regional.
- Due to the historical moment during which this study was carried out, and throughout the development of such study, both countries have witnessed changes of government as envisaged in their Constitutions. The smooth continuation of the project reflects how the deep mutual confidence and bilateral cooperation have reached a State Policy level in both countries.
- Taken to the regional level and adjusted in any necessary way, this initiative may represent a concrete step towards the policy of openness as regards our defense expenditures, with the resulting increase of regional confidence.