

Defence and Peace Economics:

Military Spending and Development

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Context

- Problems of defining and measuring militarism: focus on aspects
- Important topic with influence beyond the resources it takes up
- Changed international security environment
 - End of Cold War:
 - Reductions in Military Spending: bottomed out
 - Not result of obvious strategic needs, but internal pressures?

Table 8.2. World and organizational military expenditure estimates, 1996–2005

Figures are in US \$b., at constant (2003) prices and exchange rates. Figures in italics are percentages. Figures do not always add up to totals because of the conventions of rounding.

Organization/ income group ^a	2000	2001	2002	2003	2004	2005	Change 96–05 (%)	Military expenditure 2004	
								per capita	% GDP
<i>Organization</i>									
ASEAN	11.1	11.7	12.4	13.3	13.3	13.1	+8.2	24.3	<i>1.5</i>
CIS	16.4	17.9	19.7	21.1	22.1	24.1	+50.4	89.5	<i>3.4</i>
EU	196	196	199	206	219	212	+11	473.8	<i>1.9</i>
NATO	539	541	585	642	687	706	+34.5	793.9	<i>2.9</i>
NATO Europe	207	207	211	217	224	217	+10.5	416.2	<i>2.0</i>
OECD	622	625	670	727	768	789	+29.6	706.1	<i>2.5</i>
OPEC	37.1	39.6	36.3	38	42	46.7	+72.4	81.5	<i>3.8</i>
<i>Income group (by 2003 gross national income per capita)</i>									
Low	24.3	24.6	25.4	25.6	28.3	29.5	+64	12.4	<i>1.9</i>
Lower middle	90.5	99	105	109	114	122	+59	43.4	<i>2.5</i>
Upper middle	42.2	45.2	42.5	43.9	46.7	51	+48	137.3	<i>2.3</i>
High	627	631	678	736	780	799	+29	810.1	<i>2.6</i>

GDP = Gross Domestic Product

^a For the country coverage of the organizations and groups, see appendix 8A, table 8A.1. Some countries are excluded in the per capita figures because of lack of data on population. These countries are: Afghanistan, Brunei, Cuba, Haiti, Iraq, North Korea, Romania, Serbia and Montenegro, Somalia, Turkmenistan and Uzbekistan.

Sources: **Military expenditure:** Appendix 8A.1, **GDP and population:** International Monetary Fund, *International Financial Statistics* database, URL <<http://ifs.apdi.net/imf/logon.aspx>>.

- general trends always hid more complex patterns
 - Some increased because of local insecurity
 - Encouragement of push for arms exports
- Continued use of economic arguments to justify security expenditures –important to deal with these
- Issues are important for Africa in particular

Military Spending and the Economy: Theories

- Have already discussed these so will summarise:
 - Neoclassical:
 - New classical: transitory and permanent shocks: war permanent and can be negative.
 - Keynesian: Military one component of government spending; effective demand/multiplier effects; Positive economic effect
 - Institutionalist: Predicated on existence of MIC; internal pressures for increases independent of threat; creates inefficiencies in economy; negative economic effect.
 - Marxist: Marx little to say: Overall unclear what effect would be.
 - Monopoly Capital: Baran and Sweezy.
- Relevance for developing countries
- Fall back on complex understanding: Marx's method/Hegelian interpretation.
 - Historical process: specific
 - Contingent rather than deterministic
 - Complex dialectical process
 - Contradictory: imp but econ cost
 - Wouldn't expect simple economic relation and don't find it
- Have to undertake empirical analysis that recognises historical specificity of any likely impact of military and changing nature of the military economy.
- Can identify post WW2 examples of combinations of military burden growth
 - High burden high growth: Taiwan, South Korea
 - High burden low growth: USSR, UK
 - Low burden high growth: Germany, Japan
 - Low burden low growth: Parts of SSA?

Empirical work: Channels of influence identified

- Resources allocation and mobilisation
- Organisation of production
- Sociopolitical structure
- External relations

No theoretical consensus >>> empirical question

Empirical Analysis

Determinants:

- Interdependence of demand and supply
- Arms Race models
- Other models

Finding generally non-economic factors

Economic Effects: all can be positive or negative

- Supply side effects
- Keynesian demand: direct and indirect
- Labour
- Capital/investment
- External relations
- Socio-political
- Debt

Econometric Studies:

- Single equation reduced form growth models
 - Feder Ram
 - Growth models
- Simultaneous equation systems
 - Deger and Smith
- Macroeconometric models
 - Peace Dividend book
- Ad hoc approaches
 - Benoit
- Case studies vs general studies

Findings:

- While no clear consensus most common finding is that military burden has no significant effect or a negative effect on economic growth.
- Few studies post-Benoit have claimed to discover positive.
- Models allowing for demand side (crowding out) tend to find negative unless some reallocation to other forms of government spending.
- If only supply side positive, but often insignificant
- So decrease milex positive effect?

Conclusions: Disarmament and Development

- Evidence: milex determined by strategic factors
- Evidence: decrease milex not have negative economic effect in long run, though may have in short run
- Whether positive may depend upon other policies: Disarmament needs to be treated as an investment process (Hartley, 1983)
- Economic opportunity rather than a problem:
 - Needs political will
 - Individual country problems >>> need international support for disarmament

Complicating Factors:

- Reducing demand overall
- Demobilisation and retrenchment can cause problems
- Role of army can vary
- Importance of arms industry
- Trade in arms/foreign exchange/pressures from exporters
- Role of WB/IMF
- Development aid
- Role of international community: peacekeeping; governance
- Still large numbers of conflicts: changing nature of conflicts (civilians)
(Kaldor)

Evidence are getting:

- Increasing recognition of the problems of post conflict reconstructions
- Increasing recognition of the role economic factors play in conflict (Collier)
- Increasing recognition of importance economic and human security
- Increasing recognition of importance of planning and transparency

Still a long way to go

A Case Study of South Africa

- Improving economic situations
- Growth of Milex
- Development of lobbying: MIC
- Changing role of armed forces
- Demand side adjustment:
 - Procurement and offsets: considerable debate
 - Armscours
 - Exports:
- Industrial Restructuring:
 - Denel
 - Private Sector
 - Role foreign companies
- Use of offsets to maintain industry: niche markets
 - Opportunity cost
 - Corrupting influences
 - Inefficiencies
 - Sustainability
 - Reinforcing existing structures
- Loss of clarity: economic arguments for military spending

Considerable empirical work on South Africa

- No evidence of positive impact of military spending on growth:
 - High opportunity cost
 - Early build up had positive economic effects (strategic reasons)
 - Paid for later
- Problems
 - with some empirical work : Feder Ram Specification and dynamics
 - analysing at aggregate level: Moved to manufacturing and cross industry
 - Given history SA more disaggregate analysis and panel data helpful
- Evidence suggests there should be no problems moving to lower millex
- Continuing this work

Conclusions

- Military spending is important issue
- SA clearly a useful and interesting case study
- Most evidence suggests negative effect of military on growth
- Problems of adjustment: So far no conversion, but possible –not swords to ploughshares but industrial policy.
- Problems of using arms procurement for industrial development
 - Opportunity cost
 - Corrupting influences
 - Inefficiencies
 - Sustainability
- Existence of opportunity in SA but vested interests seem increasingly strong.
- Alternative perspectives on security have to be put forward.