

## **ECONOMICS OF MILITARY EXPENDITURES**

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### **Summary**

At the end of the twentieth century, global military expenditures were reduced from their Cold War peak of approximately one trillion dollars per year to \$750 billion in 1998. A large part of the reductions were in Russia with smaller cuts elsewhere, being especially small in the United States, which ended up with just over one third of global military expenditures by 1998. An extensive discussion of the complex factors determining levels of military expenditure indicates that fears and perceived security needs play a role as do the vested interests of those who benefit from military production contracts.

Military spending is a form of national deficit spending that is politically acceptable to many citizens much of the time and many countries spend some 2% to 3% of GDP to keep ahead of potential adversaries in technology and readiness. Much of the resulting military expenditure goes for advanced weapons systems intended more as deterrents than for use in warfare.

At the same time less industrialized countries often spend much higher proportions of much smaller GDP reserves for small weapons and light arms that are used in regional wars and in civil conflicts within nation states. All but two or three of the 27 to 30 conflicts that involved over 1 000 battle-related deaths in the final years of the twentieth century were internal wars as in Sierra Leone or Sri Lanka. The aftermath of such wars can be almost as devastating as the wars themselves because of the legacy of weapons

left over that are often redeployed by people who turn to criminal activity for lack of opportunities for constructive employment.

When a lack of positive purpose comes together with extreme poverty and a strong sense of alienation and despair there is a population base from which terrorists can be recruited. As a result there is considerable anarchy and confusion in the current interactions between the use of force by states and the use of force by non-state terrorists. At the same time there is a civil society movement of individuals and groups in countries worldwide who oppose state-centric power, people who would work with the dispossessed to create a participatory decentralized world democracy that would give more power and more dignity to the people. A major challenge of the twenty-first century will be to empower the poor and make individual perpetrators of crimes against humanity accountable for their actions, whether these are non-state terrorists or perpetrators of war and state-sponsored violence.

## **1. Introduction**

As the twentieth century ended, global military expenditures had been reduced from a Cold War peak of approximately one trillion dollars per year to \$750 billion in 1998, which was roughly 2.6% of global GDP. This global reduction was accounted for by massive reductions in Russia and smaller cuts elsewhere. Although military expenditure was reduced slightly in the United States, these cuts were less than in Western Europe, Africa and Latin America. Thus in 1998 slightly more than a third of global military spending was accounted for by the United States. In discussing these numbers, R.P. Smith cautions that the Stockholm International Peace Research Institute (SIPRI), which collects and publishes such data, stresses the constraints on the validity of their statistics: there are definitional and measurement difficulties, and also many governments are reluctant to reveal what they spend.

SIPRI estimates that there were 27 major armed conflicts in 1998, each of which had involved over 1 000 battle-related deaths. All but two of the conflicts (India-Pakistan, Ethiopia-Eritrea) were internal. While inter-state wars are rare, inter-state antagonism is common, occurring in parts of former Yugoslavia, Greece-Turkey, parts of the former Soviet Union, India-Pakistan, the Middle East, China-Taiwan, North and South Korea, the Great Lakes region of Africa, the Horn of Africa, etc. Many of these conflicts and antagonisms involve very poor countries and there is a natural concern that their military expenditures are absorbing resources that could be used for development.

## **2. Determinants of Military Spending**

R.P. Smith discusses the factors that have influenced military spending, which he says changed after the end of the Cold War. Throughout most of history war and the anticipation of war determined the level of military expenditure, although he notes that societies differed in their investment in martial training, fortification and military equipment. While explicitly not addressing the causes of war itself, he notes that expenditures on military preparations and equipment are dwarfed by the costs of any actual war with its destruction and suffering. He also notes that most war deaths since 1946 have not been caused by the large weapons that dominate military budgets, but by

cheap weapons and small arms.

Smith states that a graph of the British share of military expenditure in its GDP, for which fairly good historical data is available since the seventeenth century, shows a baseline figure of approximately 2% against which, “there are very obvious peaks caused by a succession of wars from the Spanish Succession to the Korean,” and that during World War II over half of British GDP was devoted to military expenditures. He states that this pattern of a low baseline punctuated by wartime peaks is similar for many other developed countries. The anomaly in such graphs is the Cold War, with high shares of military expenditure in GDP even though the industrial countries spending most of the money were not themselves at war.

Economists such as Adams Smith, David Ricardo and Thomas Robert Malthus discussed issues concerned with the provision and structure of military forces and their effects on the economy. Adam Smith in book V of *The Wealth of Nations* comments “The first duty of the sovereign, therefore, that of defending the society from the violence and injustice of other independent societies, grows gradually more expensive as the society grows in civilisation.” The peace movement that began in the nineteenth century campaigned for disarmament, disputes arbitration and the end of secret diplomacy, with a view to making war less likely—a break from the maxim: if you want peace, prepare for war.

With the industrialization of arms production, people developed a concern that the “Merchants of Death” who manufactured arms had incentives to promote hostility and conflict. There was also concern that potentially hostile countries would react to each others' military spending, creating a self-defeating arms race, in which countries would spend to keep up with each other, but would be no more secure, and that such arms races could themselves lead to war.

During the Cold War, high levels of military expenditure appeared to be separated from conflict. A large part of military budgets in the United States and the Soviet Union went to major weapons systems with which they threatened to destroy each other. Relatively little went to finance the wars that actually took place in the less developed countries at the periphery of their spheres of influence. Consequently some people concluded that internal economic and political processes drove the high levels of military expenditure and expensive force structures more than by external threats. Whatever the relative importance of external political/security objectives as compared to internal economic objectives, the latter clearly played some role.

The relationship between arms producers, the military, and members of Congress keen to have defense jobs in their districts created an “iron triangle” of vested interests referred to as the Military-Industrial Complex. Many people believe that the vested interests of the players within this cluster of groups must have influenced their perception of the threats facing the United States. Furthermore decision makers were without doubt influenced by the fact that the mass unemployment of the 1930s ended with the production and military recruitment required for World War II. Thus the post-war combination of low unemployment and historically high peacetime military expenditure seemed to confirm the idea that military spending is an effective way to

counter unemployment.

However, this explanation for high military expenditures was less plausible outside the United States in countries like Germany and Japan, where there was low unemployment and low military expenditure. Even in the United States, writes Smith, “there is little evidence that considerations of economic management have been an important explanation for the total level of military expenditure.” And he continues that, “Perceptions of threats to US global interests seem to have been far more important determinants of variations in US military expenditure.” However, as he also explains, the question remains, to what extent were threat perceptions influenced by the interests of the people making decisions on military spending?

The Cold War arms race can be effectively modeled in the Prisoners' Dilemma, game where each side could choose high or low levels of military spending. Smith explains this clearly: if both sides could co-operate on low spending they would both be better off, but the fear that the other side would renege locks them both into high spending. Given the different levels of wealth and energy in the U.S. and the Soviet economies, the costs to the two societies were not comparable. The Cold War arms competition cost the United States much less than 10% of its GDP, while it cost the Soviet Union over 20% of its GDP and contributed to its economic destruction.

At the end of the Cold War industrial countries faced asymmetrical security challenges from states such as North Korea and Iraq, and from potential terrorist movements. Consequently, reductions in military expenditures were only temporary. Here again there is a lack of correspondence between expenditures on massive offensive and defensive weapons systems and the goal of combating terrorism. This again raises the question of the rationality of large defense expenditures.

In less developed countries the logic for maintaining significant military capacities is probably greater than in industrial countries, although the share of GDP used for the military and its impact on development can be devastating. After the Cold War internal, conflicts and regional antagonisms emerged that had been held at bay by the competition between the two superpowers. Also, governments that had been protected from democratic challenges due to support from one or the other superpower, felt the need for military expenditure to stay in power and to prevent domination by regional neighbors.

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### **Biographical sketch**

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