

**ARMS RACE : ITS TRENDS AND
CONSEQUENCES ON
THE THIRD WORLD**

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by
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CERTIFICATE

This is to certify that the dissertation entitled, ARMS RACE:ITS TREND AND CONSEQUENCES ON THE THIRD WORLD being submitted by Mr. SANJEEV PRASAD in partial fulfilment of requirements for the award of the Degree of MASTER OF PHILOSOPHY in this University, is a record of the students' own work, carried out by him under my supervision and guidance.

It is hereby certified that this work has not been presented for the award of any other degree or diploma.

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P R E F A C E

P R E F A C E

The level of military expenditure and its share in the national product in the Third World is rising at an incredible pace. The present expenditure by the Third World countries not only represents a grave political danger but also imposes a heavy economic and social burden on them. It absorbs a large volume of human and material resources of all kinds which could be used to increase economic and social welfare of the Third World. Their meagre finances which should have been utilised to feed the hungry populace is being exhausted by extravagant purchases of costly sophisticated weapons and maintenance of large army. This has become a matter of great concern not only to the economist and political scientist of the developed world but also to the Third World. This issue is complex and need to be studied with great care but the literature is scant. This dissertation is an attempt to analyse the impact of military expenditure on the Third countries.

Chapter I of this dissertation deals with military and the Third World's economy, the nature of its problem, the concept of development and the frame work. Chapter II reviews the definition of military expenditure and the data problem in the Third World. Chapter III deals with the economic impact of military expenditure on different variables of the Third World's economy such as economic growth, saving & investment capital, demand, inflation and balance of payments.

Chapter IV deals with some known facts, some suggestions and the conclusion.

This dissertation is based on the earlier work of research conducted by Prof. Ron. Smith, Saadet Deger and Nicole Ball. I have many debts to acknowledge, first and foremost to my supervisor Professor T.T. Poulouse for his intimate care and intellectual guidance, without which I could not have completed this dissertation.

I am also indebted to many people for their contributions to this dissertation, and it is by no means possible to acknowledge all of them by name. I am grateful to my wife Kalpana Prasad for her constant encouragement and academic advice. I am thankful to Prof. M. Zuberi, Mrs. & Mr. Anuradha and Vijay Verma, Mrs. & Mr. Poonam and Anoop Murari, Mr. K.S.Jasrotia, Mr. R.O. Wallang, Mr. R. Dayakar, Mr. R.P. Goswami, Mr. Naushad Alam and Mrs. Rani Malick for their help in Writing this dissertation.

I am deeply grateful to Mr. V.K. Jain, Chief Librarian, Ministry of External Affairs, Patiala House, Members of the library and Jawaharlal Nehru University library for providing me sufficient material on the subject. I owe my special thanks to the members and staff of IDSA library.

The aim of this dissertation is to raise questions of merits and demerits of expenditure in the Third World countries with the hope that cost benefit analysis of military would be taken up seriously by the political planners of the Third World. The burden

and benefits of military expenditure by the Third World countries need to be discussed vehemently but analytically. Military expenditure is too important an issue to be left to the military alone.

However, I am totally responsible for any mistake that might have crept into this dissertation.

A handwritten signature in cursive script, appearing to read 'Sanjeev Prasad', written over a horizontal line.

SANJEEV PRASAD

New Delhi
18.7.1988

CHAPTER I

Chapter - I

INTRODUCTION

One of the most disturbing trends in international relation since the conclusion of the Second World War has been the steady growth in the Third World's military expenditure and military capabilities. The Third World countries had been spending a large portion of their meagre resources on their defence. Even though their economy does not permit for this diversion, they carry on with their defence programmes in proportion to the world arms race.

The Third world countries taken together spent \$ 54 thousand million on military expenditure in 1980.¹ This had risen in real terms by 20 per cent in 1983 according to the latest figure available.² The developing countries imported over \$ 6 thousand worth of armament in 1975.³ Five year later the real value of weapons imported had risen by 70 per cent.⁴ It is estimated that over 1 billion people suffer from famine, starvation and malnutrition. Of these 400 million

1 Saader Deger, Military Expenditure in the Third World: The Economic Effects (Routledge & Kegan Paul, London, 1986), p.1.

2 Ibid.

3 Ibid.

4 Ibid.

suffered from acute starvation in 1970; in 1980 this figure reached between 600 and 700 million.⁵ Every year 17 million children die of starvation in the world, primarily in developing countries. 250,000 children lose their eye sight due to lack of vitamins.⁶ The cost of one aircraft carrier is equal to the amount needed to provide food to 4000,000 people for one year.⁷ An additional 8 billion dollars are needed annually in order to feed all those who suffer from acute starvation. 0.5 per cent of the world military expenditure would suffice to meet completely, as early as the year 1990, all the developing countries needs in agricultural machines and equipment.⁸

UN data indicate that 1.5 billion people in the developing countries are literally denied medical care. The World Health Organization was able to disburse 83 million dollars in 10 years in order to eliminate smallpox throughout the world.⁹ This some of money constitutes one-third of the cost of modern bomber.¹⁰

5 Vladimir Gurevich, Disarmament and Development (Navasti Press Agency Publishing House, 1987), p.20.

6 Ibid.

7 Ibid.

8 Ibid.

9 Ibid.

Every year one million children die of malaria on the African continent.¹¹ The independent Commission on International Development Issues under the chairmanship of Willy Brandt has calculated that the cost of a world-wide campaign against this disease would be equivalent to 12 hours worth of military expenditure.¹² 800 million adults in the developing countries are illiterate, and 250 million children do not attend school.¹³ The cost of one tank is equal to the amount needed to built schools for 30,000 children in developing countries.¹⁴ One billion dollars would be sufficient to eliminate illiteracy among 25 million people.¹⁵

The figures are mind-boggling and leave the researcher frustrated. In the light of this it becomes indispensable to study, analytically, the economic dimensions of military expenditure in less developed countries and carefully evaluate the costs and benefits involved in it. Defence expenditure has gone

10 Ibid.

11 Ibid.

12 Ibid.

13 Ibid.

14 Ibid.

15 Ibid.

far beyond the realm of economics; its main function is to provide security, but it is also involved with the socio-political process. For many Third world countries however this age has come to an end. The Third world countries can no longer boost both expenditure on defence and deal effectively with the forces that are undermining their economics.¹⁶ Years ago president Eisenhower said, "Every gun that is made, every warship launched, every rocket fired, signifies in a final sense, a theft from those who hunger and are not fed, from those who are not clothed".¹⁷

Now the Third world countries are left between the forces which favour high military expenditure in the economy or a steady development, between continued militarisation and attempt to halt the growth of Third world's debt. Between continued militarisation and new initiatives to deal with the dark cloud that hangs over the Third world's economic future.

16 Article by Lester R. Brown, "Race Towards Armageddon", Illustrated Weekly of India, 27 April, 1986, p.26.

17 John Ferguson, "Arms Versus Humanity: A Moral Choice", ed. by Ron Huzzard and Christopher Meredith, (Spokesman, Bertrand Russell House, Gamble Street Nottingham, England, 1985), p.49.

The economics of militarisation are crucial because it affects us all directly. The evaluation of security-related defence expenditure, relative to its direct and indirect opportunity costs, is not meaningful unless an analysis of its economic consequences is made.

There are two responses to defence spending. First it claims that military spending is bad; its elimination or reduction will lead to more resources being channelled towards socio-economic needs, thereby arguing that disarmament will improve the economic condition of the less developed countries. The second response is that military spending may transmit indirect benefits to the economy and society, this would have us believed that a true evaluation of military spending can only be done in a strategic sphere.¹⁸

The Nature of the Problem

The relationship between defence expenditure and economic growth and development is a matter of great importance. The United Nations Committee for Development

¹⁸ Saadet Deger, n.1, p.2.

and Planning exemplified the crucial importance of this issue by stating "The single and most massive (obstacle to Development) is the world wide expenditure on national defence activity".¹⁹

Reports of the Brandt and Palme Commission also emphasis between military expenditure and world development. The financial and physical resources spent all over the world in military and armaments expenditure are reaching staggering proportions. But this contrast between defence and development is more obvious in the Third World countries which are steadily increasing their military spending as well as striving for accelerated growth in defence related areas.²⁰ One of the consequences of increased Third world defence spending has been the occurrence of coups and counter coups and the inevitable local or regional arms races.²¹ Massive efforts by national and international agencies to increase economic growth in the less developed countries have not proved successful. The less developed nations still remain poverty-sticken

19 John Ferguson, n.17, p.50.

20 Saadet Deger, n.1, p.3.

21 Ibid.

and the vicious circle of underdevelopment is difficult to break.²²

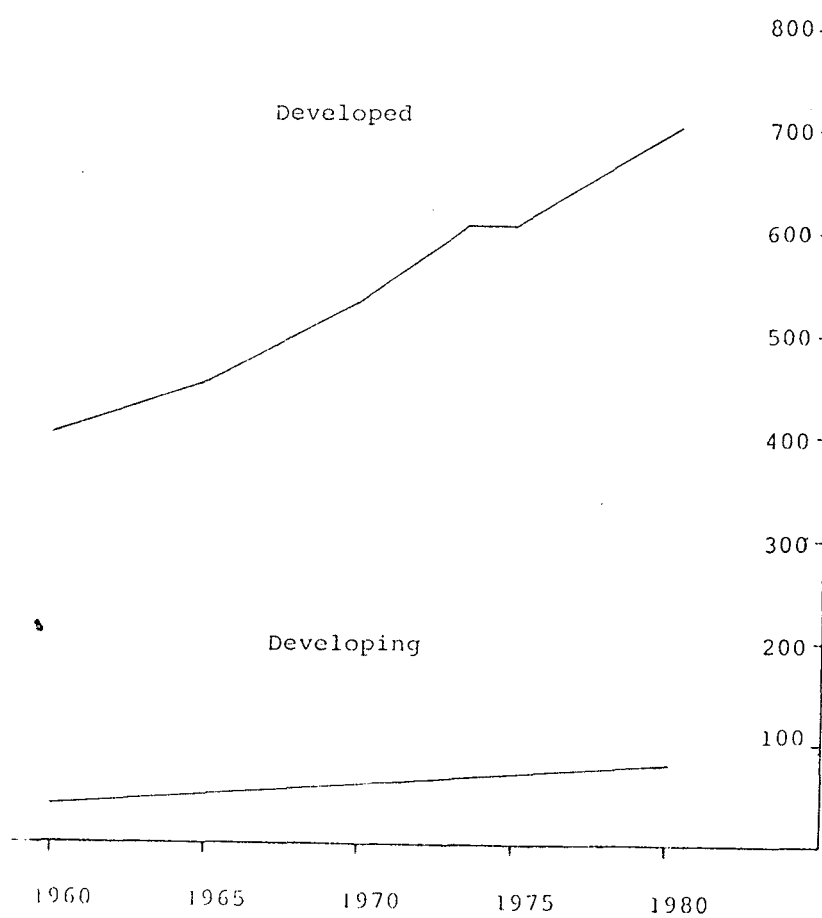
More recently in UN group of government experts on the relationship between Disarmament and Development (UNSG 1982, 25) echoed this following warning of "the large and widening gap in standard of well-being between developed and developing countries. In 1975, the developing countries (excluding China) accounted for 52.3 per cent of the world GNP. Put in another way, average per capita income in the developing countries was just 8.5 per cent of that in the developed countries. This disparity is far greater if the comparison is confined to the poorest developing countries, those where per-capita income in 1970 was less than \$ 200. This group of countries accounts for 21.1 per cent of world population but a mere 1.6 per cent of the world GNP".²³ (Graph)

The graph makes clear about the growing economics of the underdeveloped countries which are growing so moderately that they are failing to narrow the lead of developed countries. Thus even designating them as "developing" becomes illusory. "In absolute terms,

22 Ibid.

23 Ruth Leger Sivard, World Military and Social Expenditure (Leesburg V.A. World Priorities, 1981), p.18.

Table 1: The Widening Gap between Rich and Poor Nations



Source Ruth Keger Sivard. World Military and social expenditures, Leesburg, VA World Priorities, 1981 P 18

GDP Per Capita 1978 Dollars

the gain since 1960 has been over ten times more for developed countries, \$ 3,600 in constant dollars, as against \$ 340 for developing".²⁴

Another glimpse at the military spending in less developed countries will show how important defence spending has become as a main component of less developed countries economic burden. Less developed countries military spending between 1955 and 1975, increased at an average annual rate of 10 per cent compared with a world increase of only 2.7 per cent and NATO increase of 1 per cent.²⁵ Oil importing poorer developing countries doubled their defence expenditure in real terms in the 1970's.²⁶ The Third World nations have shown no impressive record of their economic growth in the past and still suffer from widespread poverty.

A description of their statistics will indicate the size of the problem.

24 Ibid., p.

25 Saadet Deger, n.1, p.3.

26 Ibid.

Regional Military Expenditure of Less
Developed Countries & Developed

	(1)	(2)	(3)
Middle East	886	50,000	56.4
South Asia	1681	7,865	4.68
Far East Excl. China	3225	32,950	10.00
Africa Excl. Egypt	475	14,100	29.7
Central America	375	2,825	7.5
South America	2873	14,745	5.1
China	9888	35,800	3.6
USSR	62741	137,000	2.19
WTO	62873	151,130	2.40
USA	148652	186,544	1.25
NATO	219986	307,171	1.39

Source : SIPRI Year Book 1983.

The Middle East multiplied its real military spending 56.4 times in these three decades while Africa (Excl. Egypt) multiplied real defence expenditure 29.7 times. South Asia increased its outlay four folds and so did South America, about five folds. China increased military expenditure four folds while Central America's rose seven folds. In the light of

these massive increases it is startling to note that the major powers did not increase their defence spending phenomenally. The United States and NATO remained stable while the Soviet Union and WTO doubled their strategic spending. Every single regional subgroup among the developing countries had a higher proportional growth rate of defence expenditure than the Super Powers and their allies among the developed countries.

The trend among the less developed countries and various regional groups has been an exponential and upward. Fig.B shows defence for less developed countries in contrast to the major allies, NATO and WTO. There is a continuous increase over time of less developed countries defence outlay while for the alliances, even though an upward trend is discernible, there are cyclical fluctuations too. The data clearly indicates the magnitude of the defence problem in the case of less developed countries.

The effect of military expenditure on economic growth in less developed country's main stream development economics has been relatively slow, particularly if we judge by the published papers. Very little empirical and econometric work has been undertaken in the field.

(Fig. A)

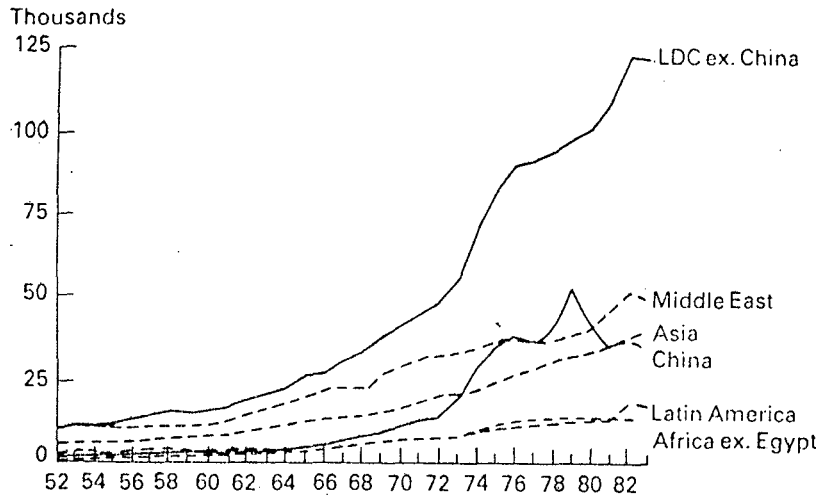


Figure A Military expenditure for LDCs and regional groups, 1952-83

Source - SIPRI Year book 1986 & Saader Dege n.1 pp 5

(Fig. B)

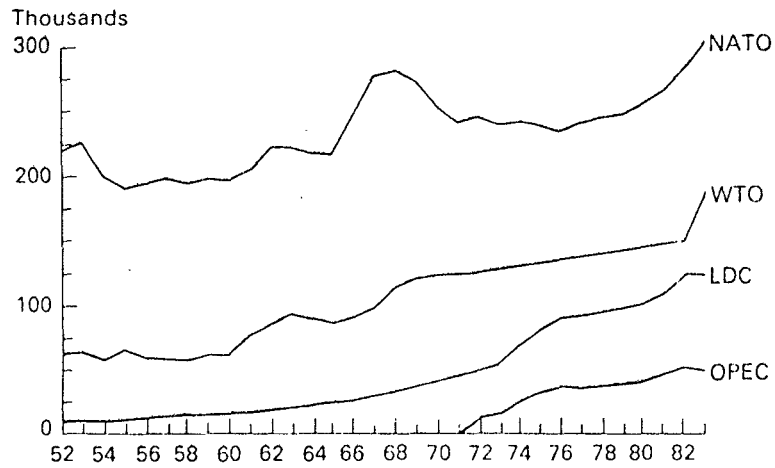


Figure B Military expenditure for LDCs, OPEC, NATO and WTO

Source - Saader Dege n.1 pp 5

There are two broad areas in which empirical evidence so far can be categorised :

(a) The Cross-sectional Statistical Analysis²⁷ By taking a wide sample between military spending and the rate of economic growth on the basis of common characteristics of underdevelopment.

(b) Individual Case Studies²⁸ By studying the role of the military in specific less developed countries. But these are primarily concerned with economic development per se with formally estimating the effect of defence on economy. In such cases the focus is on socio-political questions and economic evidence mostly anecdotal. Even the use of macrostatistical evidence on the burden of military spending has been the subject of some controversy. This approach by its nature is too narrow. Very few general conclusions can be derived from this.

Measuring Development

Like military capability, development is a complex concept, defined on numerous dimensions and measured

27 Emile Benoit, Defence and Economic Growth in Developing Countries (Boston, DC Heath, Lexington Book, 1973), pp.

28 Saadet Deger, n.1, p.6.

differently on each one. It is often easy to identify countries as developing or underdeveloped simply by looking at them. What is not so easy or obvious is why countries remain backward or why some manage to break out of the apparent vicious circle of poverty, and maintain self-sustaining growth for long periods of time, until they acquire the characteristics of developed economics. Development economics tries to build a coherent framework of analysis as subdiscipline of economics, to answer these questions and analyse related issues.²⁹

Traditional development economics as it burgeoned in the 1950s and 1960s was mainly concerned with the growth of overall output and the rise of per capita income. This was surprisingly given the disally low income of the majority of people in the poor countries of the world. The welfare of society, distribution of the socio-product and socio-cultural development were not considered unimportant, but without growth and rising income these would not be attainable. Not only among academics but also among policy-makers and politician, the ideal of growth was considered crucial.

29 Saadet Deger, n.1, p.7.

Growth of output and income was expected to precede and cause development in the broader sense of the term.³⁰

Many developing countries achieved high growth during the post-war period considerable changes were also achieved thus vindicating the policy prescriptions of development economics. Yet the gain was unevenly spread and large number of the community failed to benefit from the high-growth strategy followed. It was slowly realised that growth per se would not do the trick; development is a wider concept and a wider set of measures need to be taken if the position of the deprived is to be improved. Growth may be necessary for development but it is definitely not sufficient. What is required is equitable growth high per capita income but coupled with an egalitarian distribution of income, eradication of absolute poverty and provision of basic needs.³¹

Economic Impact of Military Expenditure
A Frame work

The nations of the world are spending more than \$ 1,000,000 a minute upon weapons of war and the Third

30 Ibid., p.8.

31 Ibid., p.9.

world 20 per cent of this.³² At best these will never be used; at worst they will lead to the annihilation of mankind. The figure is escalating so that if the graph continues at its present slope it will by AD 2000 equal to the total wealth of the world.³³ It is also sometimes stated that nuclear weapons have destroyed no lives. It is not true. Just like 'conventional' non-nuclear arms they have destroyed those lives which might have been saved had the resources of the world, including the skill and energies of a high proportion of the leading scientists, been used for constructive instead of destructive purposes. "Millions of victims before a shot is fired" were the words used by UNESCO COURIER in April 1979.³⁴

The relation between military expenditure and development is essentially a "Gun and Bread" or Plough and Tank' problem for the Third World. An increase in military expenditure definitely reduces resources available to more productive sectors and thus hampers current investment and future consumption.

32 John Ferguson, n.17, p.48.

33 Ibid., p.48.

34 Ibid.

Looking at the above views it becomes essential to know the exact costs or burden of defence expenditure for our security. Quantifications of the 'price' of military related security spending becomes crucial if we are to work out a value of the services received.

One of the assumption is that there is a positive relation between growth rates and military expenditure in less developed countries. Even the econometric evidence seems to suggest that countries with a high military burden may have higher rates of growth.³⁵

In reviewing the effects of military on the Third World's development, Mary Kaldor distinguishes between two fundamental approaches to the subject³⁶

- (a) the developmental approach
- (b) the Marxist approach.

Both these schools analyse the economic effects of military expenditure and also the defence establishments in the development process in terms of two aspects :

35 Emile Benoit, n.27, p.

36 Saadet Deger, n.1, p.27.

- (a) the role of military as an organised force.
- (b) the military's important role in the allocation of resources.

The fundamental distinction between Marxist and development approach lies in their differing attitudes towards the role of institutions. For Marxists, the institutions are subordinate to class. The class conflicts produce transformation, dynamics and growth and this is reflected in prevalent institution of society.³⁷

Without minimising the importance of Marxist approach, an attempt has been made to analyse the affects of military expenditure taking into consideration the developmental approach.

37 Ibid.

CHAPTER II

Chapter - II

DEFINITIONS OF MILITARY EXPENDITURE

The definitions of military and security expenditure as well as its components varies from country to country. For example the defence ministry may incur civilian costs while other ministries may have military type of expenditures. Example of the former is the flood control, civil defence, medical services and even helping in economic development programmes.¹ On the other hand R & D and construction expenditures in civilian departments of the government may be used for military needs.²

Of the various international organisation which reports on defence expenditure the International Monetary Fund's (IMF) definition is probably the most comprehensive and explicit. For IMF defence "covers all expenditure, whether by defence or other department, for the maintenance of military forces, including the purchase of military supplies and equipment (including stockpiling of finished items but not the industrial raw materials required for their production),

1 Saadet Deger, Military Expenditure in Third World Countries : The Economic Effects (Routledge & Kegan Paul, London 1986), p.41.

2 Ibid.

military construction, recruiting, training, equipping, moving, feeding, clothing and housing members of the armed forces, and providing remuneration, medical care, and other services for them. Also included are capital expenditures for the provision of quarters to families of military personnel, outlays on military schools, and research & development serving clearly foremost the purpose of defence. "Military forces also include paramilitary organizations such as gendarmerie, constabulary, security forces, border and customs guards, and other trained, equipment available for use as military personnel. Also falling under this category are expenditure for purposes of strengthening the public services to meet wartime emergencies, training civil defence personnel, and acquiring materials and equipment for these purposes. Included also are expenditure for foreign military aid and contributions to international military organisations and alliances. This category excludes expenditure for nonmilitary purposes though incurred by a ministry or department of defence, and pay payment or services provided to war veterans and retired military personnel".³

3 N. Bell, Third World Security Expenditure: A Statistical Compendium (Stockholm, National Defence Institute, 1984), p.7.

However, in analysing the defence expenditure, one important need is that of reliable data. It is also important that one should know what constitutes military purchases. This allows cross-checks and permits identification of specific economic effects.

The UN Centre for Disarmament has analysed a most comprehensive defence categorisation, these are as follows:

A. Operation Costs

- 1) Personnel
 - a) Conscripts,
 - b) Other military,
 - c) Civilian.



Operation and Maintenance

- a) Current-use material
- b) Maintenance and repair
- c) Purchase services,
- d) Rent
- e) Others.

B. Procurement and Construction

- 1) Procurement
 - a) Air-craft and engines,
 - b) Missiles including Conventional warheads
 - c) Nuclear warheads and bombs,
 - d) Ships and boats
 - e) Armoured Vehicle
 - f) Artillery
 - g) Other ordnance and ground force arms,
 - h) Ammunition
 - i) Electronics and Communications
 - j) Nonarmoured Vehicles
 - k) Others;

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- 2) Construction
 - a) Air bases
 - b) Missiles sites
 - c) Naval bases
 - d) Electronics, etc.
 - e) Personnel
 - f) Medical
 - g) Training
 - h) Warehouses depots
 - i) Comand, administration
 - j) Fortifications
 - k) Shelters
 - l) Lands
 - m) Others.

C. Research and Development

- 1) Basic and Applied
- 2) Development, Testing and Evaluation.⁴

The above UN mechanism are quite complex, and developing countries and underdeveloped countries would be unable to provide the relevant information even if they want to.

The Data Problem of the Third World Military Expenditure

An important thing before evaluating the relationship between military expenditure and economic growth is to obtain reliable data. It is well known that it can be difficult to obtain satisfactory data

4 UN Centre for Disarmament, Reduction of Military Budgets ; International Reporting of Military Expenditure, New York, 1981 and N.Ball, Third world Security Expenditure ; A Statistical Compendium, Stockholm National Defence Research Institute, 1984, p.7.

for a wide variety of economic indicators for the Third world countries, and military expenditure is no exception.

A report by a group of West German researchers, presented to the United Nations' Special Expert Group on Disarmament and Development in 1980, pointed out that 'although there is a general suspicion in the public and the scientific community that, because of its political and military sensitivity, data on the sector might be rather misleading if put out by governments, there is also a feeling that 'experts' can and do produce 'good' data on the military.⁵ In fact the 'experts' rely very heavily on data 'put out by governments' in one form or another. The main sources of military expenditure data are the International Monetary Fund (IMF), the Stockholm International Peace Research Institute (SIPRI), the US Arms Control and Disarmament Agency (ACDA) and the International Institute for Strategic Studies (IISS). Of these, the ISS is the least reliable, while SIPRI and ACDA rely increasingly on the IMF.⁶

5 M. Brozoska, P. Lock R. Peters, M. Reichel, and H. Wulf, "An Assessment of Sources and Statistics of Military Expenditure and Arms Transfer Data" ~~IFSH~~ Study Group on Armament and Underdevelopment (University of Hamburg, mimeo, 1980), p. 1.

6 Ibid.

It is also incorrect to assume that all Third World government attempt to conceal portions of their military expenditure at all times. There can be genuine differences of opinion as to whether a given item of expenditure should be categorised as military related. The way in which budgets are organised also frequently produces problems. Military related expenditure is listed elsewhere.

There are essentially five main mechanism used by governments to obscure these military outlays.⁷

The first is double book keeping. It has been suggested that many government keep two sets of budget accounts. One is to be used as the basis of published accounts and the other is solely for internal, government use. This allegation is, of course, extremely difficult to substantiate but should by no means so rejected out of hand.

The second mechanism is extra-budgetary accounts which involves the creation of source of funding

7 Nicol Ball, Measuring Third world Security Expenditure, A Research Note, World Bank, 12:2 (Feb. 1984), pp.157-64, Third World Security Expenditure: A Statistical Compendium, FOA Report, C 10 250-MS (Stockholm National Defence Research Institute, 1984), pp.15-19.

within a country which do not appear in national budget. The best known example of this is Indonesia, where as much as 50-60 per cent of military expenditure may be financed by the earnings of military-linked enterprises.

The third mechanism is highly aggregated budget categories. Many developing countries, for example, Pakistan (from 1966), Bangladesh and even Botswana, provide no more than a single figure for expenditure on the armed forces. For these countries, it would be quite easy to supply a number which would represent only a fraction of the actual military expenditure.⁸

The fourth mechanism is foreign-exchange manipulation whereby some portion of foreign exchange earned abroad is not entered into any government accounting system and is not repatriated. These funds are available for extra-budgetary purchases, including - but by no means exclusively devoted to military equipment. The only occasion on which a government

8 Nicole Ball, Security Expenditure Economic Growth in Developing Countries, World Peace and Development (ed.), Joseph Katllat and Operation D'Ambrosio 1986 (The Macmillan Press, London), p. 217.

official has been known to state publicly that this sort of system was in operation came in May 1983 when Indian Commerce Minister V.P.Singh stated before the Indian Parliament that purchases of Soviet weapons were paid by exporting unspecified 'special goods' which were not entered into official trade statistics. Other countries suspected of using export earnings to create special accounts are Iran, Ecuador, Pakistan, Chile and Ethiopia.⁹

The fifth mechanism involves military assistance. Third World governments have received considerable inflows of resources designed to support their military efforts since the end of the Second World War. The amount received from western governments, and whether these transfers have taken the form of grants or loans, are reasonably well known, although repayment schedules are not. The military assistance provided by Warsaw Treaty countries or oil-exporting Third world governments is surrounded by considerable uncertainty. Saudi Arabia, Libya, Iraq, Algeria, Kuwait and possibly the United Arab Emirates have given sizeable subsidies to

9 'To Buy or Not To Buy', Far Eastern Economic Review, 2 June 1983, p.30.

the military budgets of other developing countries. It is not known how much of this money has taken the form of grants and therefore should be charged to the defence budgets of the donor countries, and how much has been in the form of loans and will have to be repaid by the recipients. As mentioned, military-related loans tend not to be listed in the specifically military portions of recipients' budgets (categories such as Ministry of Defence). It is generally the case that military related loans cannot be distinguished from loans for other purposes.¹⁰

The combined effect of these concealment mechanisms is that considerable uncertainty surrounds the measurement of military expenditure. The one category which is probably most consistently understated is procurement, although the presentation of highly aggregated expenditure figures allows any category of expenditure to be manipulated. In addition, military assistance can take the form of general budgetary support or be used to purchase operating and maintenance material, not just weapons. Based as they are on national government data, the figures produced by the major sources of military expenditure must therefore be treated cautiously.

10 Nicole Ball, *o.s.*, p.218.

CHAPTER III

Chapter-IIIMILITARY EXPENDITURE AND ECONOMIC
GROWTHBENOIT'S WORK.

This chapter is an attempt to look at economic growth and its link with the Third world military expenditure. The most important econometric evidence in favour of defence expenditure stimulating growth is the work of Emile Benoit. Using a large of forty-four countries as well as some studies on specific countries, Benoit tried to establish that defence expenditure overall stimulates rather than retards growth in less developed countries. He says, "It has usually been supposed by economists that defence expenditure reduces the resources available for investment and so slows down growth.... However, in a large study of less developed countries, an opposite pattern seems to appear, and this finding was so unexpected and challenging that it seemed worthwhile exploring in detail.. Contrary to his expectations countries with a heavy defence burden had the most rapid rate of growth, and those with the lowest defence burden tended to show the lowest growth rates."¹

1 Emile Benoit, Growth and Defence in Developing Countries, Economic Development and Cultural Change, vol.26 (January 1976) pp.271-80.

Benoit presented relatively comprehensive volume of evidence to support his statement on interrelationship between growth and defence. He also went to an extent to establish the fact that military expenditure may have an indirect productivity which could be potentially very strong.

But what Benoit meant in his defence-growth relation was his two broad categories of effects : one which allocates resources away from relatively more productive occupations - the allocation effect; second which gives boost to the growth - the spin-off effect. His arguments are based on a simple sophisticated version of butter and guns argument. But what is more observable is the mobilisation effect.² As defence expenditure increases, it affects and changes the resources structure of the economy. It influences taxation, forced saving, changes in absorptive capacity human capital formation, inflation and various other channels which contribute directly and indirectly in mobilising, augmenting or reducing resources of the

2 Saadet Deger, Military Expenditure in Third World Countries : The Economic Effect (Routledge & Kegan Paul, London, 1986), p.198.

economy. Therefore the net effect of overall military expenditure is negative; it depresses or reduces the potential increase in resources and erodes away the saving base of the economy. Another important point is that whether the positive spin-off effects are 'over and above' the benefits that one could get from the civilian sector using equivalent resources. Econometric analyses too suggests that military expenditure is inversely related to economic growth, primarily because it competes with savings and investment.³

The usefulness of the econometric approach is actually quite limited when considering a question as complex as the relationship between military expenditure and growth. To understand the role played by military expenditure in individual countries, in-depth case studies is a satisfactory approach. If, however, the intention is to produce a general theory,

3 R.Paini, Patricia Arnez and L.Taylor, "Defence Spending, Economic Structure and Growth : Evidence Among Countries and Overtime" (Cambridge, Mass : Massachusetts Institute for Technology, mimeo, Oct. 1980), and S.Deger and R.Smith, "Military Expenditure and Growth in Less Developed Countries", The Journal of Conflict Resolution vol.27, no.2, (1983), pp.333-53.

one case study is insufficient base on which to build. The production of the number of case studies indispensable to provide an adequate basis would involve many research-years of work. In addition, a researcher could easily be overwhelmed by the variety of facts presented in these cases studies and fail to identify important patterns of relationships. All statistical analyses, however, face certain constraints - such as quality of data, sample size, choice and definition of variables - which may seriously affect the validity of their results.⁴

Statistical analyses should never be considered as substitute for a thorough-going historical examination of the economic and political system of individual countries and the ways in which these are affected by military expenditure. This is very important because even valid results will not apply to each country in the sample. A team of researchers at the Massachusetts Institute of Technology (MIT), for example, discovered a negative association between the

4 Nicole Ball, Security Expenditure, Economic Growth in Developing Countries, World Peace and Developing Countries (Annals of Pugwash 1985) (ed) Joseph Rattiat and Ubiratan D'Albrosio 1986, The Macmillan Press, London), pp.219-

amount^r of Gross Domestic Product (GDP) devoted to the military sector and the amount of GDP devoted to investment for a sample of 46 developing countries between 1952 and 1970. Only seven of the 46 countries, however, showed a significant negative relationship between the two variables and another seven showed a marginally significant negative relationship. Three countries showed a significant positive relationship and one showed a marginally significant positive relationship. Of the 28 countries, twelve had non-significant negative relationships and sixteen had non-significant positive relationships. The MIT researcher commented that 'for strong specific countries, the cross-national results carry over as strongly as might be expected in this type of regression.'⁵

What statistical analyses can do is to suggest types of relationships that should be investigated in more detail in case studies. In this instance, the finding that a higher military expenditure - GDP ratio

5 R.Paini, Patricia Arnez and L.Taylor, n.3, pp.335-53.

is associated with lower growth rates because of competition between military expenditure, on the one hand, and savings and investment, on the other, is of considerable interest. Capital is an important component of growth; many have argued that it is the single most important element. If military expenditure absorbs capital that would otherwise have been used to increase productivity, to invest in production facilities or infrastructure, or to increase the quality of manpower, then military expenditure is at the cost of growth.

Military Expenditure, Saving and Investment

So far relationship between military expenditure and economic growth and development has been focussed on the availability of financial resources, especially the association between military-related spending, on the one hand, and saving and investment rates and the availability of foreign exchange, on the other hand.⁶ This orientation has derived in part from the fact that the efficiency with which resources are available

6 Nicole Bail, *ibid.*, pp. 221-

in the first place, and that Third World countries tend to operate under severe financial constraints. At the same time, the need to look beyond savings and investment rates has become increasingly clear. As Keith Griffin has written,⁷ "A second strand in western thought on development has been the centrality of investment in determining the rate of growth. The key to faster growth was believed to be a rising capital-labour ratio. No matter that empirical studies show that capital formation could account for only a fraction of the rise in labour productivity, or that the effectiveness of investment (as measured by the incremental capital-output ratio) varied enormously from one country to another, if only a country could reduce consumption and raise saving and investment, growth would accelerate and all would be well. In practice, this view gave governments an excuse to squeeze the consumption of the poor and redistribute income in favour of the 'saving classes', that is the rich."

7 K.Griffin, "Economic Development in a Changing World", World Development (March, 1982), p.224.

The Nature of Investment:

It is not enough to ask how much investment takes place in an economy and whether military spending reduces the funds available for investment. It is also of importance to know what is being invested in and how military expenditure influences decisions of this kind.⁸ For many people involved in development since the end of the Second world war, historical experience shows that a structural transformation mainly based on industry is the sine qua non of genuine development.⁹ This has had several results.¹⁰ First, industry has been promoted at the expense of agriculture which has severely handicapped development in many countries. Secondly, the production processes introduced into Third World economies have frequently been heavily capital-intensive and have failed to employ sufficient unskilled labour which is abundant in most developing countries. Thirdly,

8 Nicole Ball, n.4, p.221.

9 A.F.Ewing, "Some Recent Contributions to the Literature on Economic Development", Journal of Modern African Studies, vol.4, no.3, (1966), p.341.

10 Nicole Ball, n.4, p.221.

the goods produced by these countries have not necessarily been those most needed by the majority of the people in the Third world and, in many cases, have been destined for exports.

Given that the 'industrialisation-first' policy was promoted by so many foreign development experts, it cannot be claimed that the neglect of the Third world agricultural sectors stemmed solely from the needs of Third world military sectors. At the same time, certain Third world militaries have strongly supported government efforts to industrialise their countries, for example, the armed forces of Chile and Argentina as early as the 1930s.¹¹ Military-oriented industrialisation frequently promotes the development of industries which are capital intensive and do not produce the number of jobs or the kinds of goods required by the majority of the population. A recent study of the effect of military expenditure on Iranian development, for example, demonstrated that state financing of industrial projects shifted during the 1960s and 1970s from promotion of traditional

11 Nicole Ball, n.4, p.222.

industries and the production of consumer goods to heavy industry, and that to some degree this change derived from the Shah's intention to turn Iran into a regional power.¹²

Military-oriented industrialisation need not always create capital-intensive industries, however. In South Korea, the textile industry received consideration impetus from orders for military uniforms while the construction industry, an important corner of foreign exchange at least until the late 1970s, came into being to built military installations for South Vietnam.¹³ It is therefore indispensable to evaluate carefully the situation of each country and their industry separately, if an accurate understanding is to be obtained of the influence of the military expenditure on the kind of investment undertaken.

12 Ann Schulz, Military Expenditure and Economic Performance in Iran, 1950-1980 (Worcester, Mass : Clark University, 1982, mimeo), p.133.

13 Nicole Ball, n.4, p.222.

Capital Use in the Third World :

Just as the nature and not merely the volume of investment is important in determining how an economy grows, the efficiency with which invested capital is employed must be considered. Factors lack of skilled labour, of efficient bureaucracies, or of industrial managers and the persistence of inequitable social systems, hamper efforts to use such capital resources as are available in a way which effectively promotes economic growth. In all too many cases available resources are not used efficiently, largely because of the existence of incompetent protected by military elites who gain both personally and professionally by their existence.¹⁴

Consider, for example,¹⁵ the case of Honduras, which has been ruled by the military for most of the

14 Nicole Ball, n.4, p.223.

15 A.Pine, "Diminishing Returns : Can Central America Absorb More Aid ? Lots of Experts Say No", Wall Street Journal (8 Feb. 1984). See also J.A.Morris, Honduras : Caudillo Politics and Military Rulers (Baudes Colorado, Westview Press, 1984), pp.86-105.

last twenty years. The country lacks a professional civil service. This means that administrators at all levels are political appointees and that government jobs are regularly rotated in order to repay political supporters. It has been reported that the entire technical staff of the Honduras National Agrarian Institute was replaced three times in 1982 and 1983. In late 1983, 200 tonnes of milk donated by the European Economic Community to Honduras for use in school nutrition programmes disappeared. The Honduran National Corporation for Investment was so riddled with corruption that it was forced to declare bankruptcy in the early 1980s.¹⁶ Far from combatting these problems, members of the armed forces are busy ensuring that they and their families benefit from the system.

The fate of the NDC is strongly reminiscent of that of Thailand's National Economic Development Corporation (NEDCOL) in the late 1950s. NEDCOL was established in 1954 and was administratively

16 A.Pine, n.15, pp.86-105.

subordinate to the Ministry of Defence. The Ministry of Finance was closely affiliated with general phao, the Director-General of the Police. When a coup d'etat ousted Phao's patron, in 1957, it was discovered that less than half of the funds allocated to NEDCOL had actually been used for investment purposes. The remainder had disappeared. The belief is that these funds were used to keep Phao's political clique together.¹⁷ This sort of activity has been repeated innumerable times since 1950. Widespread, institutionalised corruption is by no means limited to Thailand or Honduras. Nor is it limited to countries in which the military govern. It is nonetheless true that few military governments have done much to eliminate political and economic corruption (although many have come to the power promising to do so) and most have done much to entrench it further. In countries suffering from capital shortage, the waste engendered

17 J.C.Scott, Comparative Political Corruption (Englewood Cliff, N.J., Prentice Hall, 1972), p.71. D.Elliott, Thailand: Origins of Military Rule (London: Zed, 1978), pp.116-7; and C.Noraniwadung Korn, "Thailand's National Economic Development Corporation Limited: An Evaluation with Special Emphasis on the Political Implications", Thai Journal of Development Administration (Oct., 1969), pp.732-45.

by persistence of institutionalised corruption is a serious impediment to attainment of self-sustaining growth.¹⁸

It is generally claimed that training received in the course of military service contributes to economic growth and development by increasing the amount of skilled manpower available in Third World countries. where the actual experience of countries has been examined, it is clear that the anticipated positive effect of military training for the civil economy have thus far been largely illusory.¹⁹ Many of the jobs for which military personnel are trained do not have civil-sector counterparts. In South Korea, for example, 40 per cent of the 144 job specialities for enlisted men have no civil-sector equivalents.²⁰ where civil counterparts exist, personnel are often unable to find jobs which enable them to use these skills upon leaving the

18 Nicole Ball, n.4, p.223.

19 Ibid, p.224.

20 Korea University, Labour Education and Research Institute, Economic Development and Military Technical Manpower of Korea (Seoul, Korea University Press, 1976), p.36.

military. Furthermore, military can be a heavy consumer of skilled labour itself. Far from providing trained manpower for the civil economy, the Iranian armed forces, for example, had to import thousands of foreign technicians during the 1970s. The armed forces in countries such as Iran and India provide conscripts with special pre-release vocational training courses in skills such as carpentry, plumbing and welding, but these are not part of normal military training and reach very few people. In Iran prior to the revolution, some 250,000 men (equivalent to 2 per cent of the labour force) moved through the armed forces every two years. According to official Iranian statistics, only 3 per cent of them took part in the three-month elementary vocational training programmes offered by the armed forces.²¹ Thus military training seems to have a rather limited effect on the efficiency with which capital is used in developing countries.

Aggregate Demand in the Third World

One way in which it is widely agreed that military expenditure can stimulate economic growth

21 Schulz, n.12, pp.175-76.

is by increasing aggregate demand. Any item of public expenditure can be expected to increase demand irrespective of its military or non-military character, if the economy is operating at less than full capacity. Researchers at MIT have summarised the aggregate demand argument as follows:²²

A military twist on the basic Keynesian model is the most cogent argument in support of a positive impact of increased arms spending on growth. In an economy with excess production capacity, increased aggregate demand from the military or any other source will drive up output, capacity utilisation and (under plausible assumptions) profit rates. Investments may respond to higher profits, increasing to put the economy on a faster long-term growth path.

So if a large portion of military expenditure were to procure equipment and services from abroad,

22 R.Faini, Patricia Arnez and L.Taylor, Defence Spending, Economic Structure and Growth: Evidence Among Countries and Overtime (Cambridge, Mass: Massachusetts Institute for Technology, mimeo, Oct., 1980), p.2.

the effect of aggregate demand would be minimised. In most of the developing countries, however, a substantial part of the defence budget is used to pay salaries and to purchase operating and maintenance material. To the extent that salaries are used in purchase domestically-produced goods and the operating and maintenance material is not imported, military expenditure will stimulate the domestic economy.

Not all salaries are used to consume locally-produced goods, however. In Iran during the 1970s, foreign technical personnel tended to command high salaries and to consume imported products. The same pattern of consumption might be expected for domestic military elites in many developing countries. Other expenditure categories show similar variations between the purchase of domestic goods and imports. The effect of military-related construction on aggregate demand in Iran during the 1970s for example, was both positive and negative. Construction of facilities for Iranian troops employed local materials and construction skills. Construction of major bases and installations was contracted out to foreign companies and much of the funds was used to

import materials and skills.²³ Similarly in Nigeria large-scale military construction during the 1970s stimulated both investment in the domestic cement industry and massive imports of cement.²⁴ It is also known that Nigerian imports of cement involved considerable corruption. A satisfactory estimate of the aggregate demand inducing effects of military expenditure thus requires a detail knowledge of what the defence forces buy with money allocated to them.

Inflation in the Third World

It is now agreed that military expenditure can contribute to inflationary pressures in an economy. There are actually three channels through which the inflationary tendency of military expenditure can make itself felt.²⁵ To the extent that military outlays are used to make purchases from the domestic

23 Schulz, n.12, pp.78-9.

24 J.Bayo Adekanye, *The Role of Military Expenditure in the Development Process : Nigeria (Ibadan : University of Ibadan, 1983), p.138.

25 Nicole Ball, n.4, p.225.

economy, they may combine with civil-sector demand to create shortages particularly industrial inputs. The costs of production are thus raised and with them, the general level of prices. If wages and salaries in the military sector tend to be higher than those in the civil sector, they may also contribute to inflationary pressures by helping to push up wages in the later faster than productivity. Finally, if it has been suggested that military expenditure has historically contributed to inflation by leading to a growth in the money supply without a corresponding increase in output. where it increases budget deficits, military expenditure promotes inflation because deficits which are financed by means other than borrowing from the non-bank public expand the money supply.²⁶

A hypothetical example regarding the relationship between budget deficit and money is important to mention here.

26 United Nations, Study on the Relationship Between Disarmament and Development, Report of the Secretary-General, A/36/356 (New York, 1981), pp.84-5.

The Central Bank in any economy controls the stock of high-powered money (H) which constitute the monetary base. This consists of currency and commercial bank deposits to the Central Bank. Money (MN) may be defined as the sum of currency and deposits (both demand and time deposit). The relation between H and MN is given by the multiplier m_1 where

$$MN = m_1 H \quad \dots (a)$$

Thus money supply, as given by the above equation is determined by the monetary base controlled by the Central Bank and the money multiplier which is the function of the reserve and currency behaviour of commercial banks and the public. The money is not a constant over time, since it in turns depends on various factors including the rate of interest.²⁷ The multiplier showing the increase in money stock for a unit increase in base is greater than unity and often larger than two.

The high-powered monetary base is linked with the budget deficit in the following way. Consider

27 Saadet Deger, n.2, p.73.

the government with two departments : the Treasury or Finance Ministry, which deals with budget and the Central Bank, which operates the monetary side of the financial system. For most LDCs in practice the two Departments are closely linked so that they can be consolidated into one sector. However, for analytical purposes and taking account of their functional roles, it is preferable to keep them separate. Let the money value of the budget deficit (DF) of the Finance Ministry be

$$DF = P(G-T) \quad \dots \quad (b)$$

Where P is the aggregate price level of G and T the real value of government expenditure and tax revenue. This deficit can be financed in two ways : by borrowing from the Central Bank and by the sale of bonds to the private sector. Since most of LDCs have underdeveloped financial markets, the second method is generally inapplicable, thus the major and often the only way of financing the Finance Ministry budget deficit is to go to the Central Bank. The latter lends to the ministry by creating high-powered money. Thus we have

$$DF = P(G-T) = H \quad \dots (c)$$

where H is the change in H^5

The above equation is the government's financial constraint. An increase in G not financed by T must lead to a corresponding increase in the growth of high-powered money and the expansion of the monetary base. Assuming for simplicity that m is constant in the short run we have from equations a and c.

$$P(G-T) = H = (1/m) (\Delta M) \quad \dots (d)$$

so that the deficit in turn increases the actual money stock in the economy. Monetary expansion in Third World leads to or 'causes' an increase in the inflation rate.

Military expenditure is, of course, not the only portion of government budget which can have inflationary effects. Non-military government outlays which cause bottlenecks in the manufacturing sector, allow wages to rise faster than productivity, and resulting uncompensated budget deficits can contribute to inflation. Various corrective measures

can be applied to mitigate the inflationary effect of any portion of government spending, for example, reductions in expenditure in other sectors of the economy. But these are not always applied or do not always succeed.

When analysing the experience of individual countries, it is possible to conclude that military-related expenditure contributes to inflation and that such expenditure is only one of several inflation-inducing factors. It is often difficult to determine which element or elements are not important in this respect. The effect of inflation on economic growth depends, in turn, on still other factors, such as the rate of inflation or the existence/non-existence of demand constraints on growth. In Peru, for example, inflation is caused by interaction of numerous internal and external factors. The domestic ones appear to have been most important in the 1970s, particularly high government expenditure to which military expenditure contributed. The rapid increases in Peruvian military expenditure between 1971 and 1975 are said

to have been very important in producing the relatively high (for Peru) rates of inflation experienced in 1977-1980. Nonetheless, there are so many other potential contributory factors to Peruvian inflation that it is difficult to determine to what degree military expenditure has stimulated inflation.²⁸

It is estimated that wholesale price index of Morocco was strongly affected by military expenditure. Military expenditure was the cause of very strong inflationary tension, for the Indian economy in the 1960s, when high military expenditure was financed by successive deficit budgets was the cause of rapid price increase within economy.

Balance of Payment ; Trade and
Indebtedness

Foreign exchange is often in short supply in developing countries, and that which is available frequently must be apportioned among competing requirements. Over the last decade, the non-oil exporting

28 J.Emcinas del Pando, Economic, Military and Socio Political Variables in Argentina, Chile and Peru (Lima, University of Lima, mimeo, 1983), pp.109, 115-16.

developing countries have faced an increasingly difficult external payments situation. Deficits on current account increased six-fold between 1970 and 1980 of these countries as a group.²⁹ For most of them, the largest increase occurred following the oil-price rises of 1973-1974 and 1979. Third world indebtedness grew rapidly during the 1970s and early 1980s and debt-servicing burden of the developing countries over the last decade. This combination of negative trade balances and heavy debt-servicing has affected the growth potential of many developing economies.³⁰

Many Third World countries are presently unable to import machinery, spare parts and raw materials necessary to keep their industrial sectors functioning at full capacity. It has been estimated, for example, that in early 1984 industry in Mozambique was operating at approximately 15-20 per cent of capacity, while Tanzanian industry was believed to be operating at about 20 per cent of capacity. Other countries in Asia and Latin America suffer similar

29 Nicol Ball, n.4, p.226.

30 Ibid., p.227.

problems.³¹

In view of the rise in the military expenditure of developing countries over the last two decades, especially the sharp increases in arms imports for some of them, and the decline in military-related grants, it is sensible to ask whether there might not be some link between outlays of military sector and the external payments problems in specific countries. It is believed, that the major constraint imposed by India's defence expenditure (particularly on modern weapons and the development of an indigenous defence industry) is the reduction of foreign exchange available to the civil sector of the economy.³²

31 A.Singh, "The Interrupted Industrial Revolution of the Third world : Prospects and Policies for Resumption forthcoming in Industry and Development", The ILO report referred to by Singh in JASPA/ILO, Tanzania, Basic Needs in Danger (Addis Ababa, 1982). On Mozambique, see M.Halman, "Why Machel is wooing the West", Financial Times (24 April 1984). See also R.Green, "African Economies in the Mid-1980s", pp.173-203, in J.Carlsson (ed.), Recession in Africa (Uppsala, Sweden, Scandinavian Institute of African Studies, 1983).

32 R.G.C.Thomas, The Defence of India : A Budgetary Perspective of Strategy and Politics (Delhi, The Macmillan Company of India, 1978), pp.124-35.

Since the position of the subcontinent and the gaining of independence in 1947, the perceived threat from Pakistan has always been a major reason for bolstering Indian defence. However, the 1950s did not see any major increase in real (constant price) military expenditure. The share of GDP spent on military remained consistently below 2 per cent. As the importance of the government increased during these early planning years, the share of the military in central government expenditure fell from 35.6 per cent in 1950 to 22.6 per cent in 1960. However, the foreign exchange component of defence budget increased substantially, mainly because of arms import.³³

Unfortunately, with the scant available arms-transfer figures makes it difficult, although not impossible to deal this satisfactorily. It is also not clear whether arms transfer are included in international trade statistics. Another problem is that the prices assigned to weapons in arms-transfer statistics (for example, those of ACDA and SIPRI)

33 Nicole Ball, Third World Security Expenditure : A Statistical Compendium (Stockholm, National Defence Research Institute, 1984), pp.15-19.

do not reflect the actual cost of the weapons to the purchaser. In addition, the estimated value of a transaction is recorded for the year in which the weapons are delivered, not when payment are in fact made and payments are frequently spread over a period of many years.³⁴

Increased military expenditure and arms procurement can be reflected in a country's trade balance in a variety of ways. On the import side, increased military-related imports could reduce civil-sector imports but allow the overall import level to remain stable, reduce civil-sector imports but cause the overall imports level to rise, or stimulate civil-sector imports and cause even larger increases in the overall import, level. In order to evaluate the effect of rising military-sector imports on economic growth, it is also important to know what kind of goods are not imported when demand from the armed forces increases.³⁵

There are two ways in which military expenditure and arms imports might interact with a country's

34 US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfer, 1971-1980 publication 115 (Washington, DC, March 1983), pp.127-8.

35 Nicole Ball, n.4, p.227.

exports. The most frequently mentioned relationship is that increased arms imports cause exports to rise, since money must be earned to pay for the weapons. A second possible is that export capacity is reduced by previous arms imports or military expenditure which reduced state-financed investment. Most attention has been focussed on the higher level of military expenditure and arms imports are associated with increased exports over the long term. This is particularly true for the 1970s.³⁶

It is difficult, however, to disentangle the effect of rises in military-related imports and military expenditure from general economic trends which affect the capacity of developing countries to imports and their need to export. For example, a deterioration in developing country-terms of trade means that civil-sector imports will decline irrespective of the level of security-related imports. If

36 M.Brazoska, "External Trade, Indebtedness, Foreign Direct Investment and the Military Sector in LDCs: A Study of the Effects of Militarization on External Economic Relation", Working Group on Armament and Underdevelopment, (Hamburg, IFSH, November 1982), pp.73-76 and 94-98.

commodity prices rise, the export earnings of the Third World will rise as well, regardless of the level of weapon imports.³⁷

It is likely that for most countries, at most times, their general economic conditions are more influential in determining the volume and value of Third-World imports and exports than are military-expenditure and arms imports. Nonetheless, for particular countries during specific periods, the desire to increase expenditure in the defence sector has influenced import and export policies. In Iran, for example, the emphasis in foreign economic policy changed from import-substitution to export promotion in the late 1960s. Iranian economic planners have claimed that this shift was the direct result of Iran's rising arms imports.³⁸

The most commonly discussed causes of the sharp rise in the debt burden carried by developing countries which occurred in the late 1970s are negative trade

37 Nicole Ball, n.4, p.228.

38 Schulz, n.12, p.138.

balances and deficits on current account, declining official development assistance, rising interest rates, the strength of the US dollar, and the hardening of terms for new loans contracted to cover debt-servicing. Despite the growth of the arms trade with the Third World and the decline in military-related grants (which parallels the decline in official development assistance) during the 1970s, no detail analysis has been made of the role played by the military sector in the debt problems facing developing countries. While the vast majority of the major weapons transferred to the Third World during 1970s went to a relatively small number of countries, it stands to reason that the military-related portion of debt has increased and will continue to do so in the foreseeable future.³⁹

A serious impediment to an accurate evaluation of the effect of the arms trade on Third World indebtedness is the absence of valid data on the cost of weapon imports to individual countries. Although western countries may have well-established rules governing the terms under which sales are made,

39 Nicole Ball, n.4, p.228.

exceptions to these rules are not unknown and military related debts are sometimes written off. Furthermore, while military assistance has been curtailed by many major donors in recent years, it has by no means disappeared. To take but one example, Morocco bought a large amount of weapons in the latter half of the 1970s for its war against the Polisario guerrillas in the western Sahara. According to the US Agency for International Development, "Middle Eastern Countries" have paid for many of these weapons.⁴⁰ The terms of this financing are completely unknown.

Although military related purchases may engender increased borrowing on the part of the Third World countries, there are many reasons why these countries have contracted the debts they currently hold. Between 1974 and 1978, for example, Peru imported \$ 1 billion worth of arms (\$ 650 million of which came from Soviet Union). The effect of these purchases on the distribution of Peruvian public-sector borrowing was to increase substantially the

40 US Agency for International Development, Implementation of Section 620 (3) of the Foreign Assistance Act of 1961 as Amended: A Report to Congress (Washington D.C., 1980), p.6.

category 'other' which includes debt related to weapon-procurement during the 1970s. Nonetheless, for the 1968-1980 period, these 'other' debts accounted for only 25 per cent of Peru's total public debt. Nearly half of its public indebtedness has been incurred to finance investment.⁴¹

It becomes clear that as the terms for weapons sales become harder, and the more weapons a country buys, the more it has to ensure financing out of its own pocket. If export earnings are not sufficient to cover the imports, military and civil sector, and if grants or low-interest subsidies are unavailable for financing other categories of imports then arms purchases will necessitate increased borrowing and burden the economy with additional debt servicing requirements.⁴² That this is one legacy of the 1970s is clear, even if detail data are still unavailable. At the same time, it is clear that even with major arms, buyers have not borrowed simply or even primarily to cover purchases of weapons.⁴³ weapon-

41 J.Encinas del Pando, n.28, Table 2.43.

42 Nicole Ball, n.4, p.229.

43 Ibid.

related borrowing will come to play an increasingly important role in the debt profile of many Third World countries.

CHAPTER IV

CHAPTER-IV

CONCLUSION

Some Known Facts

It is believed that the lower a society's level of economic development, the more acute is its social problems, and the heavier the military expenditures on the society's development. It is estimated that even if developed and developing countries allocated an equal share of their gross national product to the military, the damage incurred by such outlays is three to four times higher in developing countries than in developed countries.¹

The question of military expenditure is an emotive one. Its supporters are "merchants of death"² it not only leads to war but also inflicts great human misery. It also uses earth's resources which could be otherwise utilized for more humanitarian purposes. But military expenditure at the same time preserves liberty and freedom from external aggression, it provides deterrence and indirectly saves human lives, it also generate economic and socio-cultural benefits.

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- 1 Vladimir Gurevich, Disarmament and Development (Navasti Press Agency Publication House, Moscow, 1987), pp.17.
 - 2 Saadet Deger, Military Expenditure in Third World Countries (Routledge & Kegan Paul, London, 1986), pp.242.

In this dissertation an attempt has been made to look carefully at some of the consequences of military expenditure particularly on the Third World countries. The politics of economics does play a vital role in nation's decision-making but it should also be kept in mind that military expenditure is extremely expensive and the resources costs may even be prohibitive, especially for some countries in the Third World. Thus economics of defence strategy are crucial i.e. proper cost-benefit analysis of the military. The Third World countries should know what are they spending before they can really evaluate the 'value of money'.

In spite of certain limitations of the available data, it is possible to get an idea of the amount of military expenditure by a country, region or even the world, in a given period of time. It is easy to claim that a specific amount could have been used for more 'productive expenditure' on investment or on human capital or in the enhancement of entitlements. This is one of the simplest argument which goes against military expenditure. But the concepts are much more complex than the suggestions put forward. There is no automatic one-to-one correspondence between reduced military expenditure and increased productive services.

The amount of resources withdrawn from defence does not necessarily mean that it will be utilized for growth enhancing policies or to better the lives of the impoverished masses of the world. The resources may be squandered on conspicuous consumption or whatever. This withdrawal may at the same time reduce national security. Without a systematic and formal analysis it is not possible to predict the final conclusion. The analysis in this dissertation is mainly based on the sophisticated version of the opportunity cost argument and also taking into account the various interdependencies in the military development nexus.

Before approaching to the conclusions, it would be wise to discuss once again the nature of the development process that have been kept in mind while writing this dissertation. The first and foremost stress was on the rate of growth of domestic product, the reason is well known. It is believed that economic growth is constrained first by the supply of resources. But since most of the less developed countries are labour surplus, the primary constraint will be the supply of new capital stock, which in turn will depend on the amount of saving and even more on the saving-income ratio. Thus a country which

increases or decreases the proportion of national output being saved will have important repercussions on the growth rate. However saving per se will not be translated into productive investment unless the economy has sufficient potential to absorb that investment. Thus the absorptive capacity becomes crucial once the saving propensity is raised to a desired level. An economy with high saving may not be able to utilise it and translate it into capital accumulation until and unless there is a demand for such investment. This demand will only come if co-operative inputs such as skilled labours, infrastructure, entrepreneurship, motivation, financial institutions, foreign know how and other factors are available in the right proportions. In the absence of these, saving will be frittered away through unproductive channels such as hoarding of commodities storing gold, appearance of black money, holding of cash without a proper potential and environment for investment, high saving will be wasted by not enhancing the growth rate. So it is important that the government of the Third World countries should increase their absorption capacity. One obvious method of doing this is to increase the expenditure on public education,

health nutrition, etc. Another important egalitarian way is to increase the rate of labour argumenting technological progress is to create more social mobility, break down inhibitions fostering backwardness is to increase government expenditure (as a proportion of national income) on education. There has been plenty of anecdotal and informal literature which assures that the military can have a positive role to play in increasing the growth and also fostering the developmental process. It can mobilise new saving, train people create entrepreneurship, modernise society, help in absorptive capacity and so on. The empirical evidence produced in this dissertation using the sample of fifty countries³ proves that this reasoning is flawed. If the econometric specifications are accepted, then the overall effect of military expenditure is negative on growth rates. If interdependent effects are taken together an increase in the defence burden leads to a decrease in the growth rates through a decline in the saving rate, a fall in investment per unit of capital and

3 Saadet Deger, n.1, p.245.

a reduction in human capital formation. If one discounts the favourable effects of the military then one can consider it as a force whose expansion weakens the domestic economy.

There are some spin-off which one cannot ignore. The military-industrial complex has been considered a 'leading sector' by some development economists. Its growth and expansion are expected to have substantial spin-off if the domestic industrial base can respond. However, here again the claims made on behalf of the military are exaggerated. The extent of spin off on relevant sectors is much less than one would anticipate even in favourable cases.

Some Suggestions

By this time it would have come to the notice that the effect of military expenditure on the Third World is adverse, but the question remains is that what is the solution. The ultimate answer goes far beyond the narrow realm of economics, they are basically political and depends on the will of the masses and their representatives.

The present political relations at the international stage is difficult to handle by an individual Third world country or even as a collective whole. The only organisation is the UNO which has some authority, albeit limited, to initiate action in controlling the arms trade, which threatens to reach dangerous proportions and is also a major economic burden of the Third World. In order to get out of this present situation a permanent secretariat should be created to monitor, publicised analuse, discuss, reprimand, and even threaten sanctions against the defaulters.

The public opinion in the western and the socialist countries which gives more importance to nuclear disarmament should give more importance to the proliferation of international arms transfer especially to the poor Third world countries. A reduction in developed countries arms export will not have traumatic effects on their domestic economy but this transfer will adversely affect the Third world countries domestic economy.

A mass public opinion against this unjust arms trade should be organised and the will of the people must be galvanised to impose on the government,

if not disarmament, a reasonable reduction on military expenditure and suitable reallocation into socially an economically meaningful channel, if Gandhiji's Satyagraha can be success why can't this movement.

The Third World defence establishments should be encouraged to turn its attention to civil action-oriented programmes. Soldiers have dues to pay to their society. A part of it is paid by lying down their lives during the time of war. But during peace, which is usually more frequent, they must contribute in the economic regeneration. The standard life of a military personnel in poor countries is generally far superior to that of their civilian counterparts. It is no, therefore, unfair to demand some services from them in return. The skills that are learnt in the army can be usefully applied in the process of economic development.

Thus analysis of the military expenditure is a matter of great problem if one is particularly keen on its effect on the Third World countries. The defence spending is indispensable and also gives to the society some benefit. But the important

question is when it would be enough for the poor Third World countries. Finally military spending in great proportion by the Third World countries is the ultimate absurdity in a poverty-ridden, growth stunted, underdeveloped country.

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