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THE POLITICAL ECONOMY OF THIRD WORLD MILITARY EXPENDITURES: IMPACT OF REGIME TYPE ON THE DEFENSE ALLOCATION PROCESS

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The purpose of this paper is to develop an empirically verifiable framework for explaining patterns of third world defense expenditures. In doing so we have merged two areas of research that previously have been examined somewhat separately—economic (or ability to spend) with political (willingness to allocate resources to defense). In general our findings indicate that military regimes appear committed to developing the size of the defense sector to levels not warranted by economic size per se. They have done this through extensive use of externally borrowed funds. They have used increases in foreign exchange earnings to expand defense allocations, and they have distorted their price systems in a manner that facilitates increased defense expenditures. The major finding of the study is that ability and willingness factors, rather than external conditions, are instrumental in affecting third world military expenditures.

INTRODUCTION

During the last two decades, there has been a keen interest and a growing literature concerning the economic conditions associated with military expenditures in developing countries (Deger, 1986; Looney 1986c, 1988; Mullins, 1987; Deger and West, 1987; Chan, 1985, 1987). A key concern has been the effect of economic conditions in constraining the budgetary position of third world governments. In turn, budgetary (and often foreign exchange) constraints delineate the tradeoffs between defense and socioeconomic expenditures that policy makers must confront (Looney, 1986b, 1987b; Looney and Frederiksen, 1986).

Undertaken quite independently, another broad area of research has been concerned with the relative differences in defense allocations between third world military and civilian regimes. Do the patterns of defense expenditure vary significantly between military and civilian regimes, and if so, why?

To date, the results obtained in both areas have often produced poor predictions of the level of defense expenditures in various third world countries. By omitting political factors, the economic approach, concentrating on the ability to finance increased defense expenditures, has failed to anticipate changes in the willingness to finance these expenditures brought on by regime change. By omitting economic constraints, the political approach has failed to anticipate alterations in defense expenditures brought on by changing economic conditions.

The purpose of this paper is to develop a more general (and hopefully more accurate) picture of third world defense expenditures by integrating economic (ability) with political (willingness) considerations.

REVIEW OF THE LITERATURE

Regimes identified as civilian or military have frequently been compared in order to examine the possible linkage between military influence over the decision making process for allocating resources and the level of budgetary

support acquired by the military. The central hypothesis of such efforts is that *ceteris paribus* military regimes will be more generous in supporting the military than will civilian regimes. Most of these efforts have acknowledged the great difficulties that exist in the measurement and meaning of data on military and nonmilitary budget expenditures. At the same time, most quantitative analyses (Grindle and West, 1986:1–2) of the linkage between regime type and budgetary decision-making have indicated that the relationship is an elusive one and that independent variables other than regime type probably hold more explanatory power in accounting for resource allocations for national defense and other public policy areas.

Remmer (1978:41–42) has summarized this research by noting that:

The empirical studies of regime type, public policy, and policy outcomes conducted so far, whether focused on Latin America or including other areas as well, tend to support the conclusion that regime differences have little or no impact on public policy.

However, despite these disappointing empirical results, highly plausible arguments can still be advanced to support the proposition that third world military governments tend to pursue distinctive public policies, compared with those of their civilian counterparts.

Johnson (1962) has pointed to the social class and professional backgrounds of officers and argued that concern for national defense and prestige, technical proficiency, and middle-class orientations create a tendency for the military actively to support economic development. Thus Johnson noted that in the more developed countries such as Argentina, where professionalism was advanced, the armed forces were in the forefront of those most concerned with the desirability of industrial growth.

Clearly, the insulation of the military from the demands of particularistic interests that might compromise national development efforts may, of course, eventually result in intense pressures for the military to return authority to civilians during periods of deteriorating economic conditions (Richards, 1985).

Along these lines Looney (1987c) concluded that the general orientation of many modern third world military regimes is ultraconservatism combined with military force to dismantle organizations of popular expression, to restrain real wages, to promote integration into world trade and financial markets, and to hold down social reform as well as mass consumption, in the interest of favoring capital accumulation and increased defense expenditures.

As a general proposition, military regimes may be more inclined to align themselves with one of the superpowers and look to that source for the major bulk of financing for its arms imports. For example, in the case of military expenditures in Latin America, it is often argued that the influence of the United States on the doctrines and funding of the military is a central causal factor in rising military budgets (Grindle and West, 1986: 25).

One implication of these factors is that military regimes may be able to obtain a significantly larger volume of external financing (presumably some of which would be used for weapons acquisition from a major superpower) than their civilian counterparts.

As noted above, the analysis that follows blends these two major themes—the role economic factors play in affecting military expenditures (the ability to

allocate funds for defense) and the policy priorities of military regimes (the willingness to allocate funds for defense).

METHODOLOGICAL CONSIDERATIONS

A major methodological problem in any study of this sort concerns the classification of countries as military or civilian. Various attempts have been taken to identify the military component in politics. Here, a logical approach is to classify countries on the basis of subjective estimates of the degree of military influence in the day-to-day decision making of the government (Fagen and Cornelius, 1970; Needler, 1980; Perlmutter, 1980; Ruhl, 1981). A government directly controlled by the armed forces is an extreme example of militarization of the political process. But even long-established democracies where civilian control of the military is a firm tradition are not immune from military influence. The basis of this influence is not hard to find: within the central government structure, the military bureaucracy has the largest personnel component and administers the largest share of the public budget—factors which clearly affect the military's political influence.

For purposes of this study, countries are considered under military control if they meet one or more of the following criteria: key political leadership by military officers; existence of a state of martial law; extra-judicial authority exercised by security forces; lack of central political control over large sections of the country where official and unofficial security forces rule; or control by foreign military organizations (Sivard, 1983: 11–12).

The countries that fall into the military group¹ (in the early 1980s) share some common features. Most have long records of military rule: the average in 1982 was sixteen years out of the prior twenty three (Sivard, 1983: 12).

Perhaps one reason previous studies concluded that civilian and military did not differ significantly with regard to their allocations to defense lies in the fact that both regime types show a striking similarity with regard to several of the standard indices used to compare the military burden:²

1. In terms of the share of national resources allocated for military purposes, civilian regimes spent 5.4 percent of their gross national product on defense, compared to 5.2 percent for the military regimes.
2. Civilian regimes allocated 15.6 percent of their central government's budget to defense, compared with 16.5 percent for military regimes.
3. Civilian regimes had 7.3 soldiers per 1,000 population compared with 6.2 percent for the military regimes.

1. Fifty out of an original sample of ninety five developing countries were classified as military regimes. Due to lack of comparable data, a number of these countries were not included in the final regression analysis. Those countries included were: Nicaragua, Indonesia, Sudan, South Korea, Rwanda, Niger, El Salvador, Pakistan, Turkey, Paraguay, Brazil, Philippines, Thailand, Liberia, Chile, Uruguay, Uganda, Central African Republic, Ghana, Burma, Argentina, Peru, Syria, and North Yemen. Civilian regimes included in the regression analysis were: India, Cameroon, Costa Rica, Bolivia, Senegal, Tunisia, Morocco, Malawi, Republic, Ivory Coast, Tanzania, Sri Lanka, Trinidad, Papua New Guinea, Zimbabwe, Kuwait, Kenya, Jordan, Oman, and the United Arab Emirates.

2. Figures are for 1981 and are from United States Arms Control and Disarmament Agency (1986).

While the military regimes averaged a higher level of arms imports (\$315 million vs. \$233 million), civilian regimes tended to have higher overall levels of military expenditures (\$1,511 million, vs. \$1,112 million) than their military counterparts.

MODEL SPECIFICATION

Starting with the two groups of countries defined above, a number of economic variables were selected as independent variables affecting the dollar value of military expenditures³

1. It is reasonable to assume that country size will have a direct relationship to military expenditures and the capacity to financially support a given level of military allocations. Here country size is depicted by the overall level of gross domestic product (GDPB).
2. The ability to finance military expenditures will also affect their overall magnitude. Several recent studies (Looney, 1987a; Shubik and Bracken, 1983; Brzoska, 1983) have documented the role external public borrowing has played in financing military expenditures in the third world, and beginning in the mid-1970s, this variable appears to have expanded in line with the arms buildup in the third world. The public sector debt (PDB) was selected to depict this phenomenon.
3. The influence of foreign exchange on military expenditures are depicted by the level of exports (MTEA).

TABLE A1
CLASSIFICATION OF REGIME TYPES

Military Regimes			
Nicaragua	Benin	Chile	Zaire
Honduras	Turkey	Chad	Argentina
Indonesia	Paraguay	Uruguay	Peru
Sudan	Philippines	Madagascar	Brundi
Somalia	Brazil	Uganda	Upper Volta
Thailand	Algeria	Ethiopia	Panama
Niger	Colombia	CAR	Burma
El Salvador	Mauritania	Ghana	Congo
Pakistan	Bangladesh	Zaire	
Civilian Regimes			
India	Egypt	Ecuador	Jamaica
Cameroon	Tunisia	Malaysia	Trinidad
Nigeria	Morocco	Dominican Repub	Zambia
Costa Rica	Malawi	Ivory Coast	Saudi Arabia
Bolivia	Singapore	Sierra Leone	Zimbabwe
Senegal	Venezuela	Tanzania	Kuwait
Egypt	Mexico	Sri Lanka	Kenya
Jordan			

Source: Based on Ruth Leger Sivard,
World Military and Social Expenditures, 1983
(Washington: World Priorities, 1985). p. 11.

3. Unless otherwise specified the data are for 1981.

4. Military expenditures are assumed to be related to the degree of price distortions existing in developing countries.⁴ Clearly, price distortions such as an overvalued exchange rate cheapen arms imports thereby reducing the cost of foreign military acquisitions. Price distortions were depicted by the distortion in exchange rates (EX), and the overall distortion index, (DI).⁵

Following Sheahan (1980), one might expect the degree of price distortion to be considerably higher (relative to civilian regimes) in authoritarian states. This is not the case. Overall, the comparative index (with higher values indicating increased degrees of distortion) for military regimes is 2.07, somewhat higher than the 1.94 for civilian regimes. In terms of the individual components of the distortion index, military regimes appear to resort to a relatively high level of distortion in all areas except wages.

Interestingly enough, the manner in which military and civilian regimes distort prices varies considerably, with military regimes tending to resort primarily to distortions in the foreign exchange rate.

As noted above, price distortions may tend to cheapen the costs of military allocations and thus, everything else being equal, increase them. However, they may also result in a number of inefficiencies which may reduce the overall expansion of the economy, ultimately limiting any possible arms buildup. In the regression equations, therefore, no a priori sign is attached to these variables.

In sum, the form of the regression equation, together with the expected signs of the variables, was:

$$ME = f(GDPB, PDB, MTEA, Distortions)$$

+ + + ?

RESULTS

The estimated equations:⁶

Military Regimes:

1. $ME = -2.30 \text{ GDPB} + 2.37 \text{ PDB} + 0.64 \text{ MTEA} + 0.26 \text{ EX}$
 (−5.40) (5.02) (4.02) (3.21)
 $r^2 = 0.896$; $F = 21.52$; $Df = 14$
2. $ME = -2.17 \text{ GDPB} + 2.49 \text{ PDB} + 0.57 \text{ MTEA} + 0.18 \text{ DI}$
 (−5.13) + (5.13) (3.57) (3.04)
 $r^2 = 0.887$; $F = 20.76$; $DF = 14$

4. Price distortions exist when prices of good and services, as well as capital and labor, do not correctly reflect their relative scarcity. This situation may occur as a result of monopolistic tendencies in the private sector or by government intervention. It is possible for government interventions, if properly designed, to correct distortions. In most instances, however, government—sometimes deliberately, sometimes inadvertently—introduces price distortions in pursuit of some social or economic objective.

5. Data are from Agarwala (1983: 49) and are for the years 1970–80.

6. Economic and debt variables were taken from World Bank (1984); Military expenditure data is from U.S. Arms Control and Disarmament Agency (1987).

Civilian Regimes:

$$\begin{aligned}
 1'. \text{ ME} &= 1.95 \text{ GDPB} - 1.33 \text{ PDB} + 0.02 \text{ MTEA} - 0.17 \text{ EX} \\
 &\quad (11.57) \quad (-8.63) \quad (0.27) \quad (-2.16) \\
 &\quad r^2 = 0.947; F = 45.84; Df = 14 \\
 2'. \text{ ME} &= 1.94 \text{ GDPB} - 1.28 \text{ PDB} - 0.02 \text{ MTEA} - 0.15 \text{ DI} \\
 &\quad (11.73) \quad (9.34) \quad (-0.45) \quad (-2.07) \\
 &\quad r^2 = 0.953; F = 44.72; Df = 14
 \end{aligned}$$

not only yielded highly significant results but perhaps more importantly identified a number of major differences in the manner in which resources are allocated to defense in military and civilian regimes. In general:

1. Defense expenditures are not related to overall economic activity in military regimes (evidenced by the negative sign on GDPB, equations 1 and 2). This result suggests that the priority given to defense expenditures by military regimes (willingness) exceeds the economic capacity of their countries to support these expenditures. (ability). In civilian regimes there is a close association between military expenditures and gross domestic activity.
2. Public external debt is highly significant in financing (directly or indirectly) military expenditures in military regimes whereas a highly significant pattern holds between external public sector indebtedness and military expenditures.
3. Imports and exports were statistically significant in contributing to increased military expenditures in the military regimes, but were not significant in the case of the civilian regimes.
4. Increases in price distortions were used to mobilize resources for military expenditures in the military regimes, but these same increases had a negative impact on the military budget in civilian regimes.

The results also provide some insights as to why aggregate studies of third world economies have failed to find significant links between economic variables and military expenditures. Since the signs of the major economic variables affecting military expenditures are considerably different depending on whether a country has a civilian or military regime, aggregating all countries in a single regression tends to blur the impact of the individual economic variables. For example, regressions for the total sample of countries yielded:

$$\begin{aligned}
 1''. \text{ ME} &= 0.36 \text{ GDPB} - 0.31 \text{ PDB} + 0.71 \text{ MTEA} + 0.09 \text{ EX} \\
 &\quad (0.99) \quad (-0.92) \quad (3.74) \quad (0.70) \\
 &\quad r^2 = 0.516; F = 6.92; Df = 28 \\
 2''. \text{ ME} &= 0.34 \text{ GDPB} - 0.37 \text{ PDB} + 0.64 \text{ MTEA} + 0.07 \text{ EX} \\
 &\quad (0.90) \quad (-1.25) \quad (2.84) \quad (0.51) \\
 &\quad r^2 = 0.403; F = 5.86; Df = 28
 \end{aligned}$$

In summary, while to some these results may appear self-evident, their empirical existence has not been previously identified. Military regimes appear committed to developing the size of the defense sector to levels not warranted by economic size per se. They have done this through extensive use of externally

borrowed funds. They have utilized increases in foreign exchange earnings to expand defense allocations and they have distorted their price systems in a manner that facilitated increased defense expenditures. It is interesting to note that well over eighty-five percent of the fluctuations in both military and civilian regimes can be accounted for by a limited number of economic variables. This fact holds irrespective of perceived threats, geographical location, or pressures from arms suppliers—factors often used to explain the level of military expenditures in the third world. Finally, the results are in conformity with the results obtained independently in several recent individual country case studies (Looney 1987c); Looney and Frederiksen 1987).

CONCLUSIONS

Marek Thee (1982) has discussed the determinants of rapid military buildups in developing countries. He distinguishes between external factors, such as imperial rivalries and ideological/religious conflict, and internal factors such as vested interests of the military, the ready use of force as an instrument of diplomacy, and the adoption of a national security doctrine on a strong military. He suggests that while globally (and this particularly true for the superpowers) internal factors are more important, armament in developing countries “tends to be animated by external factors” (Thee, 1982: 114). Paramount amongst these factors is the willingness of developed countries to supply weaponry, both for profit and as a means of relocating major power struggles to distant shores. The export of weapons, it may be noted, is now almost exclusively in government hands.

As noted above, the ability to finance arms imports and thus expand overall military expenditures, may vary depending on whether or not a country is a military regime. However, the overwhelming importance of economic variables in explaining third world military expenditures and their marked differences by regime type suggest that internal rather than external factors dominate in affecting differences between individual countries. This is supported by the marked differences in the role price distortions play in military and civilian defense allocations.

We can only conclude from the above analysis, therefore, that internal (ability and willingness) factors, rather than external conditions are instrumental in affecting third world military expenditures.

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