

# NATIONAL DEFENSE AND SECURITY ECONOMICS

## **Military expenditure and its classification**

# Military expenditure and its classification

## Content of Topics

- Introduction
- Basic Concepts
- Military Expenditure And Historical Perspective
- Definition and Classification of Military (Defense) Expenditure
- Problems With Measurement Of Military Expenditure Amount
- Forms And Source Of Financing Military Expenditure
- Military(Defense) Expenditure of selected Countries
- Where Can We Obtain A Data On Military Expenditure?
- Determinants of military expenditure size
- Conclusion

# MILITARY EXPENDITURE AND ITS CLASSIFICATION

## INTRODUCTION



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# Military expenditure and its classification

## Introduction

- **Aim of this topic** is explanation of importance and point out on typology of military (defense) expenditure.
- **As partial aims** of this topic, we can see:
  - description of historical development of military expenditure importance,
  - description and explanation of military expenditure classification and expression of potential problems with its comparison,
  - presentation of potential resources and forms of military expenditure financing and
  - comparison of selected countries military expenditure size.

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# BASIC CONCEPTS



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## Basic Concepts

- Defense expenditure
- Military expenditure
- Armament expenditure
- Hidden military expenditure
- Value of military expenditure

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# MILITARY EXPENDITURE AND ITS HISTORICAL PERSPECTIVE



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## Military Expenditure And Its Historical Perspective

- When did the **expenditure** connected with **securing defense** and **waging war** (military expenditure) become the **economic problem** and begin to attract the economic theory interest?



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## Military Expenditure And Its Historical Perspective

- In pre industrial societies, **the cost of war were small**. There was no need for special training as the routine of civilian life prepared young men for war. Wars, usually short and fought between agricultural high seasons, did not cause any substantial economic lost.
- Eighth and ninth century fighting forces were based on **knights on horseback**. They needed heavy and costly defensive armour, and to gain mobility had to invest in training special horses.
- **Invention of gun** powder and its massive use for military purpose

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## Military Expenditure And Its Historical Perspective

- End of the eighteenth century – two revolutions (French Revolution and Industrial Revolution) introduced:
  - „Army of the masses“ and
  - „Mass production of armaments“
  - „Total war“

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## Military Expenditure And Its Historical Perspective



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# DEFINITION AND CLASSIFICATION OF MILITARY EXPENDITURE



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## Definition and Classification of Military Expenditure

### Military expenditure (Elisabeth Skoens)

- Military expenditure is a measure of the total amount of money spent for military purposes.
- Expressed in another way, it is a measure of the total annual cost of maintaining a defence establishment.

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## Definition and Classification of Military Expenditure

The SIPRI definition of military expenditure includes all **current and capital expenditure** on the following activities:

- Armed forces included peace-keeping forces,
- the civil administrations of the military sector: defence ministries and other government agencies engaged in defence activities
- paramilitary forces—non-regular armed forces which are judged to be trained, equipped and available for military operations
- military space activities.

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## Definition and Classification of Military Expenditure

Such expenditures should include the following components:

- personnel
  - all expenditures on current personnel, military and civil
  - retirement pensions of military
  - social services for personnel and their families
- operations and maintenance
- arms procurement
- military research and development (R&D)
- military construction
- military aid (in the military expenditures of the donor country)



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## Definition and Classification of Military Expenditure

Military-related components that are excluded:

- civil defense
- current expenditure for past military activities
  - veterans benefits
  - demobilization
  - conversion of arms production facilities
  - destruction of weapons



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## Definition and Classification of Military Expenditure

Apart from above mentioned definitions of military expenditure, one is possible to express as:

- Opportunity costs.
- Measurement of input (ME are component of production function of defense).
- Aggregate of all realized expenditure/payments.
- Interconnection (relationship) to others aggregate economic variables.
- Military expenditure is possible understand as factor indirectly influencing size of public expenditure.

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# PROBLEMS WITH MEASUREMENT OF MILITARY EXPENDITURE AMOUNT



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## Problems With Measurement Of Military Expenditure Amount

- Data insufficient quality and accessibility
- More standard definition
- Inconsistence of data in the course of the time – deflators
- Problematic international comparison – different exchange rate
- Off-budget expenditure

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## Problems With Measurement Of Military Expenditure Amount

### Off-budget expenditure

- **expenditures for paramilitary forces** in the budget of the interior ministry or expenditures for military construction in the budget of development budget.
- **extra-budgetary expenditure** (the funding of arms imports - Chile, where a certain percentage of the revenues of the state-owned copper company is used for arms imports)

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## Problems With Measurement Of Military Expenditure Amount

### Off-budget expenditure

- the various types of **business activities by armed forces**. In many countries **the military runs factories, shops and other commercial activities** from which they gin an income;

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## Problems With Measurement Of Military Expenditure Amount

### Off-budget expenditure

- Another complication is **supplementary budgets, contingency/ emergency funds, and special appropriations.** These are budgeted, not in the main annual budget but in separate allocations during the course of the budget year.

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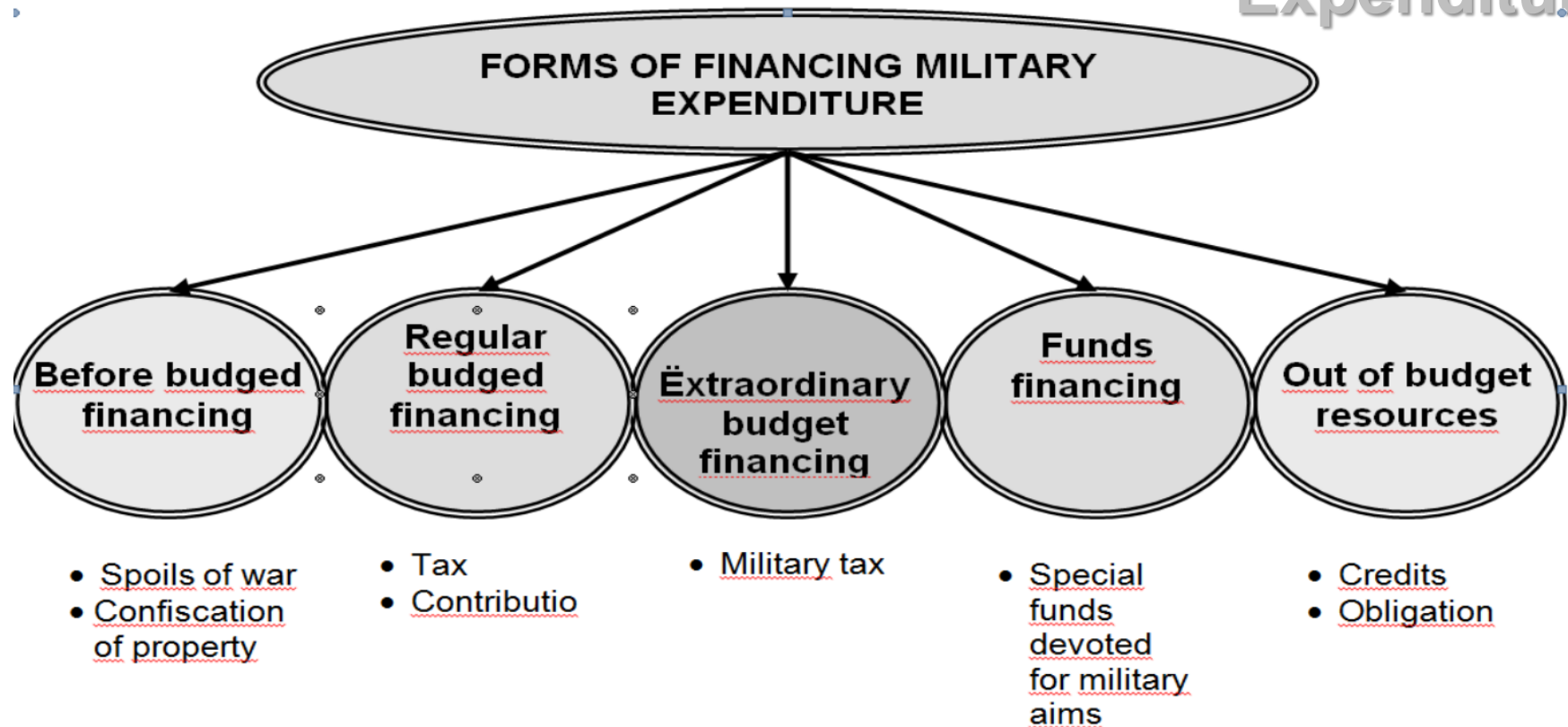
# FORMS AND SOURCE OF FINANCING MILITARY EXPENDITURE



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## Forms And Source Of Financing Military Expenditure





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## Forms And **Source** Of Financing Military Expenditure

- **FINANCIAL**

- Tax, increasing taxes or introduction new taxes;
- Reduction in other governmental expenditure;
- Governmental borrowing from public;
- Money Creating.

- **NON-FINANCIAL (WAR FUND)**

- Increased production;
- Reduced personal consumption;
- Reduced investment in new forms of capital;
- Consumption existing capital.

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# MILITARY EXPENDITURE AND ITS DEVELOPMENT

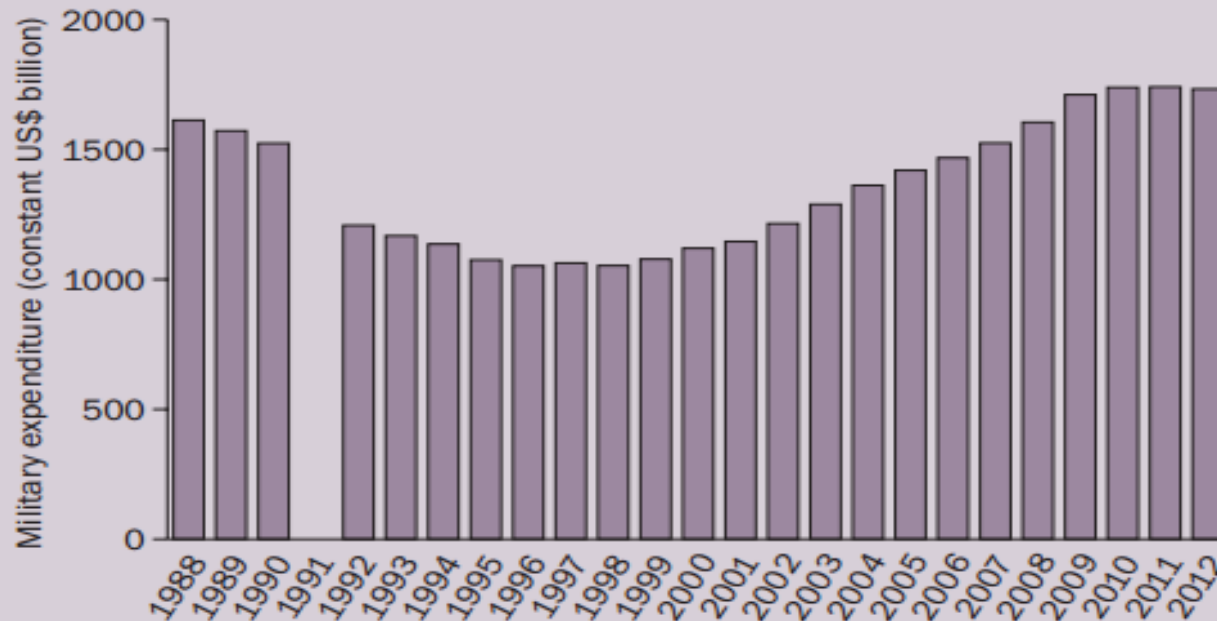


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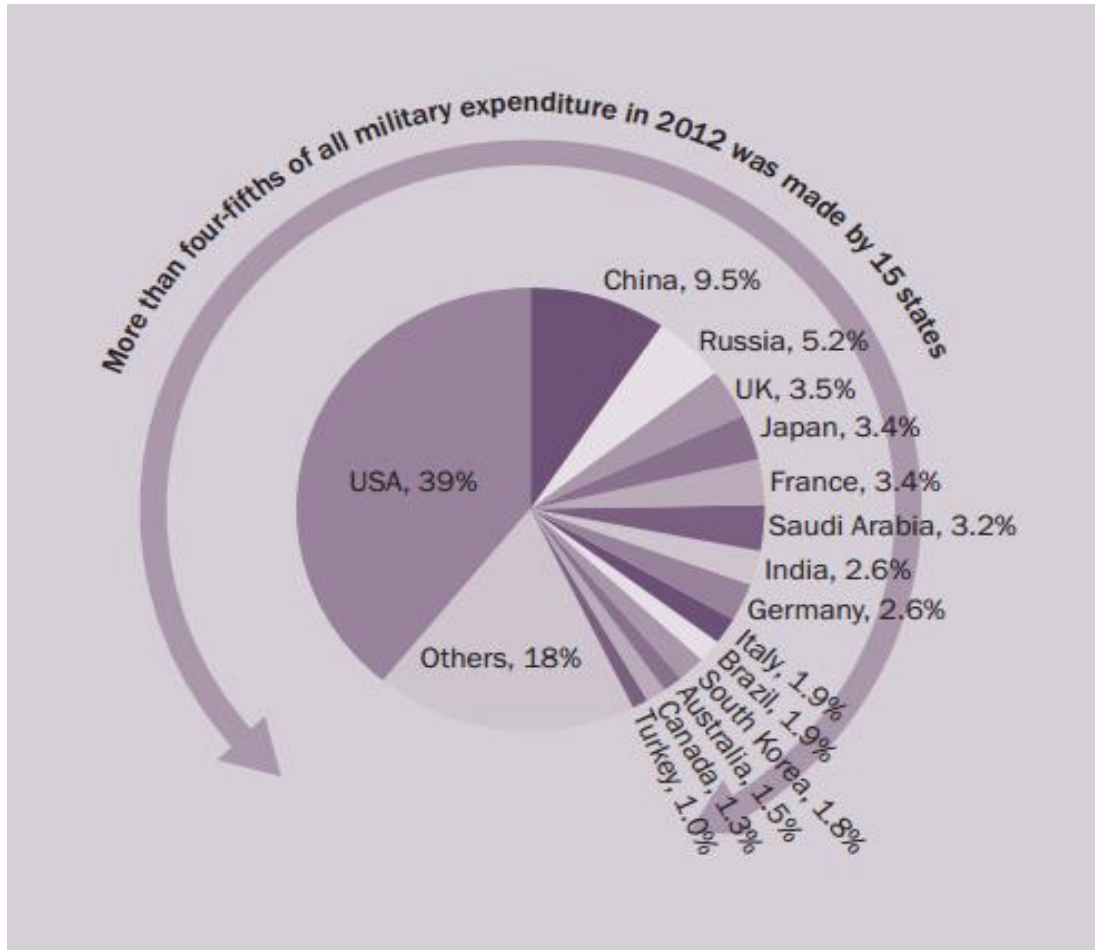
## Military Expenditure and Its Development

### World Military Expenditure 1998 – 2012



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## Military Expenditure and Its Development



The share of world military expenditure of the 15 states with the highest expenditure in 2012

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## Military Expenditure and Its Development

### The 15 countries with the highest military - 2012

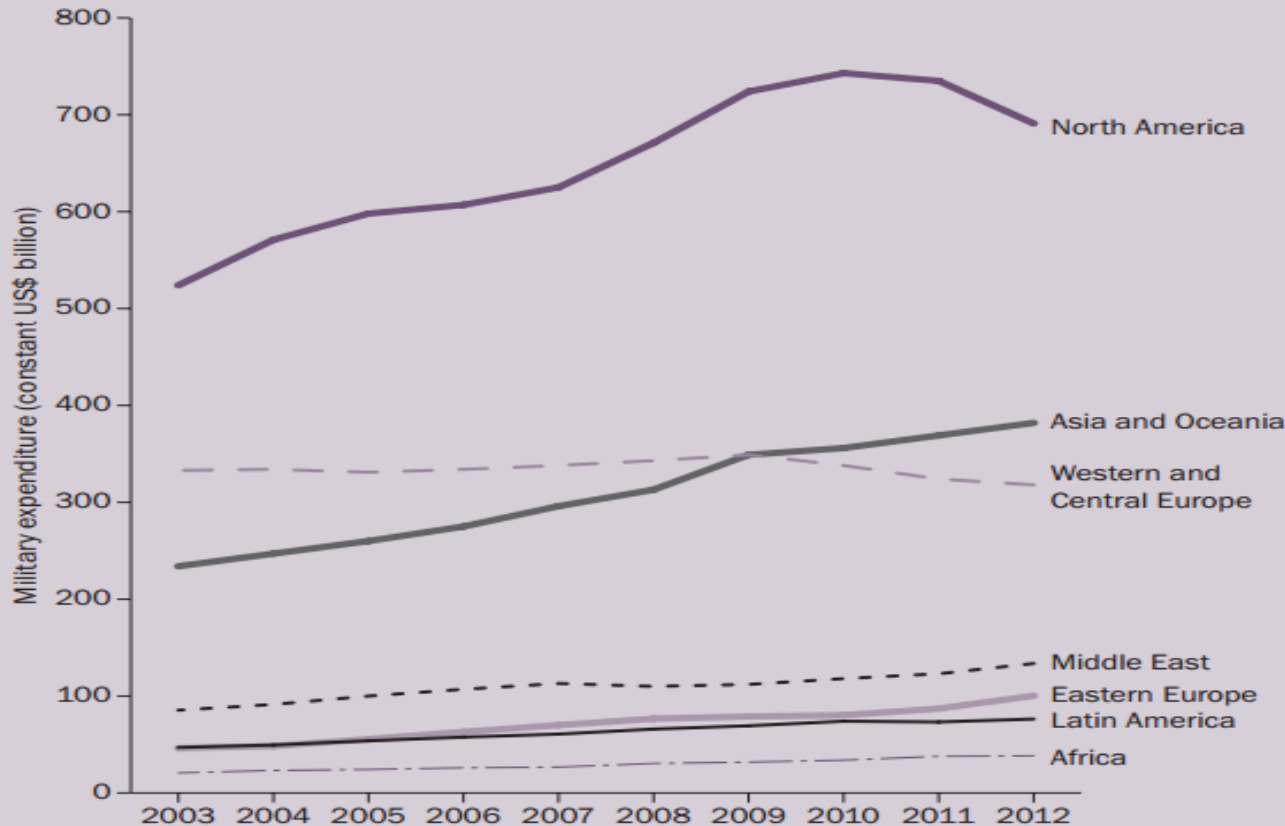
Rank		Country	Spending, 2012 (\$ b.)	Change (%)		Spending as a share of GDP (%) <sup>a</sup>	
2012	2011			2011-12	2003-12	2012	2003
1	1	USA	682	-6.0	32	4.4	3.7
2	2	China	[166]	7.8	175	[2.0]	[2.1]
3	3	Russia	[90.7]	16	113	[4.4]	[4.3]
4	4	UK	60.8	-0.8	4.9	2.5	2.5
5	6	Japan	59.3	-0.6	-3.6	1.0	1.0
6	5	France	58.9	-0.3	-3.3	2.3	2.6
7	8	Saudi Arabia	56.7	12	111	8.9	8.7
8	7	India	46.1	-0.8	65	2.5	2.8
9	9	Germany	[45.8]	0.9	-1.5	[1.4]	1.4
10	11	Italy	[34.0]	-5.2	-19	1.7	2.0
11	10	Brazil	33.1	-0.5	56	[1.5]	1.5
12	12	South Korea	31.7	1.9	44	2.7	2.5
13	13	Australia	26.2	-4.0	29	1.7	1.9
14	14	Canada	[22.5]	-3.9	36	[1.3]	1.1
15	15	Turkey <sup>b</sup>	[18.2]	1.2	-2.1	2.3	3.4
<b>World total</b>			<b>1 753</b>	<b>-0.5</b>	<b>35</b>	<b>2.5</b>	<b>2.4</b>

[ ] = SIPRI estimate.

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## Military Expenditure and Its Development

Military expenditure, by region, 2003–12



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# WHERE CAN WE OBTAIN A DATA ON MILITARY EXPENDITURE?

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## Where Can We Obtain A Data On Military Expenditure?

- Stockholm International Peace Research Institute (SIPRI)
- UNDP
- IMF
- WB
- International Institute of Strategic Studies (IISS) Military Balance
- SIVARD, Ruth. World Military and Social Expenditures.
- US Arms Control and Disarmament Agency (US ACDA)
- CIA



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# DETERMINANTS OF MILITARY EXPENDITURES



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## Determinants Of Military Expenditures

**Determinants of military expenditure** are of four broad types:

- security-related;
- technological;
- economic and industrial; and
- more broadly political.

## MILITARY EXPENDITURE AND ITS CLASSIFICATION

# CONCLUSION



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## Conclusion

- Insufficient accuracy of reachable data on ME.
- Data are rather useful for trends analysis.
- Insufficient attention to collection of data.
- Broad spectrum of different definitions of ME.
- The area of ME is highly sensitive to political decision-making process.
- Time-value of money.
- Conversion problems of currency.

# MILITARY EXPENDITURE AND ITS CLASSIFICATION

## STUDY RESOURCES



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## Study Resources

- World Bank  
<http://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS>
- Stockholm International Peace Research Institute  
[http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database)
- UN <http://www.un.org/disarmament/convarms/Milex/>
- CIA (The World Factbook)  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2034rank.html>

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## Study Resources

- U.S. Department of State (World Military Expenditures and Arms Transfers) <http://www.state.gov/t/avc/rls/rpt/wmeat/>

# THANK YOU FOR YOUR ATTENTION !!!

## IN CASE OF QUESTIONS, CONTACT ME ON

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