

NATIONAL DEFENSE AND SECURITY ECONOMICS

Economic Impacts of The Military and Security Expenditures



INVESTMENTS IN EDUCATION DEVELOPMENT

Economic Impacts of The Military and Security Expenditures

Content of Topic

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ECONOMIC IMPACTS OF THE MILITARY AND SECURITY EXPENDITURES

INTRODUCTION

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Introduction

- **Aim of this topic** is description and explanation of military expenditures economic impact.
- **As partial aims** of this topic, we can see:
 - clarification of military expenditure size planning process,
 - analysis of economic impacts of military expenditures,
 - Demarcation of military expenditure size determinants,
 - discussion of relationship between inflation and military expenditures.

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BASIC CONCEPTS

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Basic Concepts

- Integrated model of defense expenditures;
- Evaluation military expenditures impacts;
- Classification of military expenditures impacts;
- Inflation and military expenditures.

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EXPENDITURES

MILITARY EXPENDITURE PLANNING

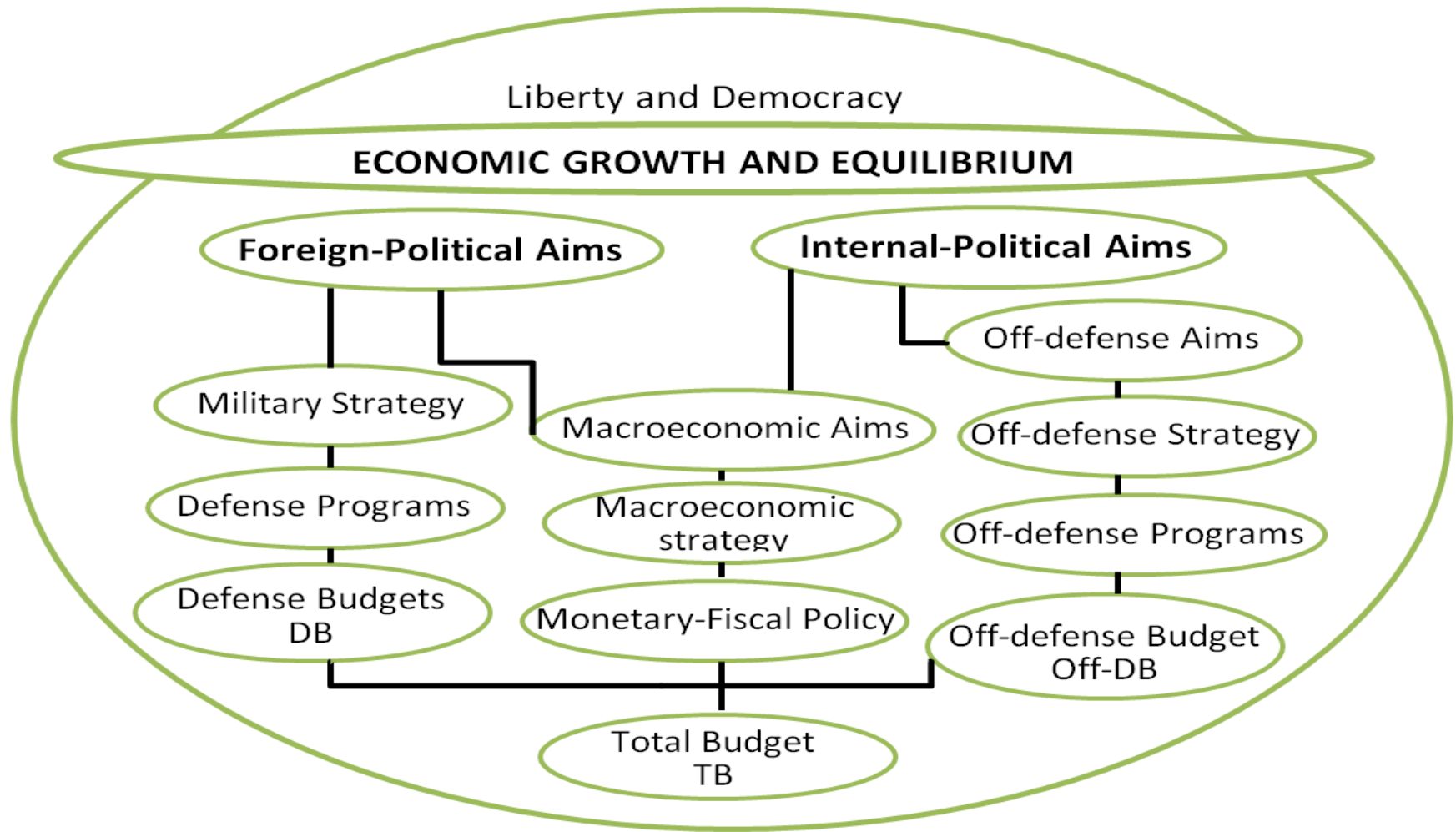
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Military Expenditures Planning

- **Foreign-political level of defense expenditure planning**
 - defense budget
- ***Internal-political level of defense expenditure planning***
 - fiscal and monetary policy
 - off-defense budget

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Military Expenditures Planning



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ECONOMIC IMPACT OF MILITARY EXPENDITURES

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Economic Impact of Military Expenditure

- **Military expenditures spending cause two effects:**
 - Reaching required level of defensiveness state securing, quality of armament and readiness of armed forces.
 - Influencing another components of social life through reducing certain amount of scarce resources, which could be used in these next areas.
- **For national defense securing is needed to spend necessary factors of production to some extent.**
- **We face problem of influence defense expenditures on individual factors of economic development analysis.**

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Economic Impact of Military Expenditure

Basic factors influencing economic development:

- a) **Degree of involved workers** into production process and level of their productivity (human resources, human capital),
- b) **Growth of capital reduces** and its efficiency (tangible capital and financial capital),
- c) **Scientific-technical progress** and effectiveness of its results implementation into production practice.

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Economic Impact of Military Expenditure

In connection above mentioned, It is very important ask the question about military expenditures influence extent on separate item of economic development (negative or positive).

- a) Military expenditure influence on human capital;
- b) Military expenditure influence on tangible and financial capital;
- c) Military expenditure influence on scientific-technical progress.

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Economic Impact of Military Expenditure

- **Do Military expenditures help** economic success of state or cause a downturn of economy?
- **What is important to be considered** within evaluation process of military expenditures influence on national economy current state and future development?

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Economic Impact of Military Expenditure

A) Short-term view and Long-term view (short run x long run)

Within short run (to one year)

- increase of military expenditures produces economy growth because ME are considered as a part of government expenditures thereby come in calculation of GDP (economic growth);
- increase of military expenditures give birth to increase economy output and employment. At the same time it cause crowding out effect and impact on balance of trade.

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Economic Impact of Military Expenditure

Within long run it is possible to see negative and positive impact on growth of economy.

- **Positive influence** – impact on production – not only volume of production, but directly influence possibility of production process given economy.
 - Economy reorganization, concentration and centralization of capital, securing of international cooperation.
 - Impact of positive externalities.
- **Negative influence**
 - Diminishing of market forces.
 - Decreasing of business efficiency.
 - Downgrade of international competitiveness.

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Economic Impact of Military Expenditure

- B) Economy on production-possibility frontier x Economy under production-possibility frontier**
- C) Influence of military expenditures** on developed countries /developing countries – difference
- D) Own defense technological and industrial base/** existence and non-existence
- E) Country as exporter/importer of arms**
- F) Country is /is not recipient foreign or military assistance**
- G) Crowding out effect** – crowding out private investment by public investment problem.

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Economic Impact of Military Expenditure

- H) **Military expenditure Share on GDP, relationship of military expenditure pace compare to pace of GDP growth** (Faster rate military expenditures increasing in comparison with GDP growth will cause diminishing rate of growth of economy).
- I) **Structure of military (defense) expenditures.**
- J) **Influence on human capital.**
- K) **Influence on material and financial capital.**
- L) **Technology.**
- M) **Public debt.**

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EXPENDITURES

DETERMINANTS OF MILITARY EXPENDITURES SIZE



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Determinants of military expenditures size

Size of Military expenditures is determined (Collier and Hoeffler – 2002) by next factors:

- the need for security
- the lobbying of interested parties
- the financial resources of government
- neighbourhood arms races
- external relationships
- technology
- inflation

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INFLATION AND MILITARY EXPENDITURES

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Inflation and military expenditures

- Inflation of military expenditures
- Impacts of military expenditures inflation
- Existence – non-existence of this phenomena?

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CONCLUSION

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Conclusion

- **Influence military expenditures** on national economy is **determined broad scale of circumstance**, which are interwoven and mutually affected. **Its positive or negative impact** on national economy **is not proven positively** due to above mentioned determinant.

MILITARY EXPENDITURE AND ITS CLASSIFICATION

STUDY RESOURCES



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Study Resources

- KRČ, Miroslav. *Vojenské výdaje v letech studené války a po jejím skončení*. 1. vyd. Praha: Ústav mezinárodních vztahů. 200. ISBN80-85864-93-2.
- BRZOSKA, M. World Military Expenditures. In. HARTLEY, K, SANDLER, T. *Handbook of Defence Economics*. Vol. 1. Amsterdam: Elsevier, 1995. 606 s. ISBN 0444818871.
- HARTLEY, Keith., SANDLER, Todd. *The Economics of Defense Spending*. London: Routledge, 1995.
- DUNNE, Paul. J., UYE, Mehmet. *Defense Spending and Development*. 2008
- Dunne, J Paul and Perlo Freeman, Sam (2003a) “The Demand for Military Spending in Developing Countries”. *International Review of Applied Economics*, Vol. 17, no. 1, 2003, pp. 23-48.
- Dunne, Paul (1996) “Economic Effects of Military Expenditure in Developing Countries: A Survey”, Chapter 23 in N. P. Gleditsch, op cit

THANK YOU FOR YOUR ATTENTION !!!

IN CASE OF QUESTIONS, CONTACT ME ON

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