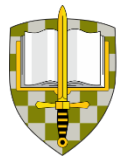


Defence spending as main Source of Defence Requirements and financing Needs

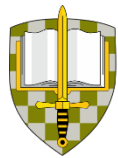


- MILITARY EXPENDITURE AND HISTORICAL PERSPECTIVE
- WHAT ARE MILITARY EXPENDITURE?
- WHERE CAN WE OBTAIN A DATA ON MILITARY EXPENDITURE?
- FORMS AND RESOURCES OF MILITARY EXPENDITURE FINANCING
- HIDDEN MILITARY EXPENDITURE
- FACTORS INFLUENCING SIZE OF MILITARY EXPENDITURE
- MILITARY EXPENDITURE INFLUENCE ON NATIONAL ECONOMY AND ECONOMIC DEVELOPMENT



MILITARY EXPENDITURE AND 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?

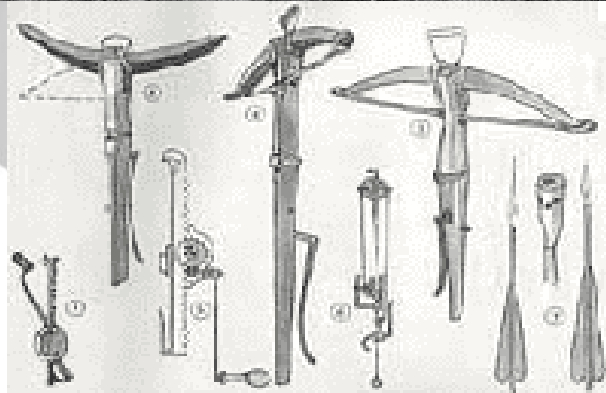


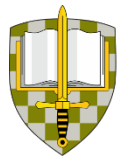
MILITARY EXPENDITURE AND HISTORICAL PERSPECTIVE

- 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 armor**, and to gain mobility had to invest in training special horses.
- Invention of **gun powder** and its masive use for military purpose
- End of the eighteenth century – two revolution (French Revolution and **Industrial Revolution**) introduced:
 - „Army of the masses“ and
 - „Mass production of armaments“
 - „Total war“



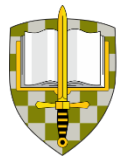
MILITARY EXPENDITURE AND HISTORICAL PERSPECTIVE





WHAT ARE MILITARY EXPENDITURE?

- 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.**



WHAT ARE MILITARY EXPENDITURE?

- The **daily operations** vs. **long term investments**;
- The **kind of activities** falling under the concept of **military activities**;
- **The components** of military expenditure; and
- the **items that are not included** in this definition of military expenditure

SIPRI definition



Where possible, SIPRI military expenditure include all current and capital expenditure on:

- the armed forces, including peace keeping forces
- defence ministries and other government agencies engaged in defence projects
- paramilitary forces when judged to be trained, equipped and available for military operations
- military space activities

Such expenditures should include:

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

Excluded military related expenditures:

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



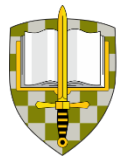
WHERE CAN WE OBTAIN A DATA ON MILITARY EXPENDITURE?

- Stockholm International Peace Research Institute (SIPRI)
- NATO,
- International Monetary Fund (IMF),
- International Institute of Strategic Studies (IISS) Military Balance
- World Bank (WB),
- US Arms Control and Disarmament Agency (US ACDA)
- and United Nations Organisation (UN).



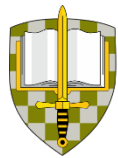
Official data on military expenditure are normally provided in two major types of government documents

- first **in the defence budget** as proposed by the government and subsequently adopted by the legislature (parliament);
- and **after the end** of the year, when the money has been spent, **in the public expenditure accounts** of the government



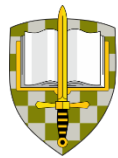
PROBLEMS WITH MEASUREMENT OF MILITARY EXPENDITURE

- 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



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)

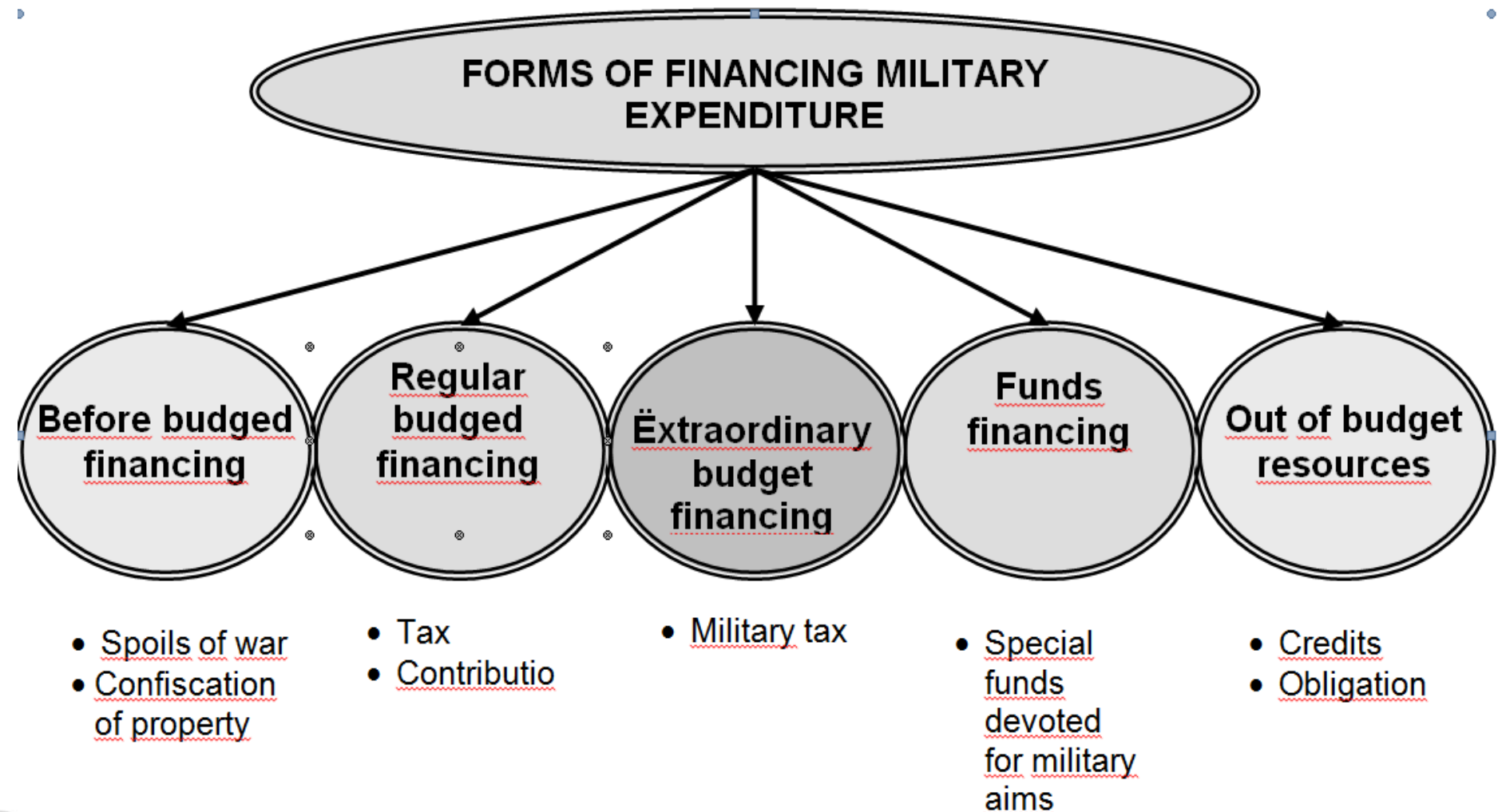


Off-budget expenditure

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



FORMS OF FINANCING MILITARY EXPENDITURE





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.



DETERMINANTS OF MILITARY EXPENDITURES

Determinants of military expenditure are of four broad types:

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



Study Sources

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SIPRI YEARBOOK. Accessible on: <http://www.sipri.org/yearbook>

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<http://www.sipri.org/research/armaments/milex/publications>