

# NATIONAL DEFENSE AND SECURITY ECONOMICS

## Introduction to National Defense Economics



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# Introduction to National Defense Economics

## Lecture Content

### Introduction

1. Basic concepts
2. Contribution and usefulness of defense and security economics for understanding national economy and societal development
3. Development of military-economic thinking

### Conclusion

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# INTRODUCTION



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# Introduction Into Defense And Security Economics

## Introduction

- **Main objective** of these lecture is description of last and nowadays usefulness of defense and security economy research.
- **As partial aims of this lecture, we can see:**
  - demarcation of object and subject of national defense and security economy research,
  - exaggeration of lasting necessity of economic research of defense and security area,
  - determination today and last usefulness and importance of defense and security economics and
  - description basic developmental phases of military-economic thinking.



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# BASIC CONCEPTS



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## Basic Concepts

- War
- Armed Conflict
- Defense
- Security
- National Defense Economy
- National Defense Economics
- National Security Economy
- National Security Economics
- Economic Security

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# ON THE NATURE OF DEFENSE ECONOMICS



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On the nature of defense economics

## Hitch and Mc Kean

- the problems of national defense are economical issues.

## Gavin Kennedy

- “application of economics in defense issues”.

## Hartley Keith, Sandler Tod

- Defence economics concerns the application economic reasoning and methods to the study of defense-related and conflict resolution issues.



# Introduction Into Defense And Security Economics

## On the nature of defense economics

- **Defense economics** is the study of resource allocation, income distribution, economic growth, and stabilization applied to defense-related topics.
- Defense economics draws from a variety of economic subfields.
  - **public economics** /public goods, externality, measuring output/
  - **economics of industrial organization** /study of DIB, procurement, defense R&D, industrial policy (collaboration, licensed production, offsets)
  - **labour economics,**
  - **international economics,**
  - **public choice,**
  - **economics growth,**
  - **and macroeconomics.**

# Introduction Into Defense And Security Economics

## On the nature of defense economics

- **Defense economics** has macroeconomic and microeconomic dimension
- **Macroeconomic dimension** involves an investigation of the impact of defense expenditures, both domestically and internationally, on macroeconomic variables such as employment, output, and growth.
- **Microeconomic dimension** involving analysis of the defense industrial base, collaborative programs, offsets, the pricing and profitability of military contracts, and the regulation of contractors.

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# CONTRIBUTION AND USEFULNESS OF DEFENSE AND SECURITY ECONOMICS FOR UNDERSTANDING NATIONAL ECONOMY AND SOCIETAL DEVELOPMENT



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# Introduction Into Defense And Security Economics

Contribution and usefulness of defense and security economics

## National Defense Economy

- Part of National Economy responsible for securing of external national security.

## National Defense Economics

- Scientific discipline deals with economic aspect of national defense securing (sectional and interdisciplinary field of study).
- Defense economics as a system of patterns, processes and relationships generated by economical and political decisions on exploitation and distribution of resources available in national economy for economic provision of needs of the nation in crisis situations and for provision of its military security in the peace time, in the time of a jeopardy and in the time of an armed conflict

# Introduction Into Defense And Security

## Economics

Contribution and usefulness of  
defense and security economics

## Defense economics today importance

In fact, the events of the late 1980s and early 1990s may have increased the need and importance of defense economics, especially in regards to resource allocation and the application of economics methods to security-related issues.

- **the downsizing of military budgets** highlights a host of economic challenges. Falling budgets and rising equipment costs will force nations to seek **efficiency improvements** in the acquisition of weapons and the provision of armed forces.
- **the breakup of the Soviet Union and Eastern Europe** has unleashed ethnic conflicts that have erupted into civil war once central power was diminished. In addition, the breakup of the Soviet Union has raised the risk of nuclear weapons getting into the hands of terrorists and the proliferation of nuclear-weapon nations.
- since these trouble spots can create **conflict externalities** for neighboring states, the **role of peacekeeping forces** and their financial support have grown in importance.



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## Economics

Contribution and usefulness of  
defense and security economics

## Defense economics today importance

- the Gulf War of 1991 points to a **source of conflict in the future** - that is, wars fought over disputed and/or **scarce resources**, such as common oil pools.
- recent defense treaties raise a host of allocative concerns as the **elimination of weapons** creates expenditures on their disposals, **environmental cleanup**, verification, and the development of **alternative classes of weapons**.
- **nonconventional conflict** in the form of **terrorism** and **insurrections** presents exigencies that have allocative and distributional concerns.

The **provision of defense** is still an important **activity that requires** huge resource allocations to meet a variety of contingencies and uncertainties.

**Economic aspects of the defense sector** continue to be important and to require study. Interest continues to grow in the economics field for **applying economic methods to defense issues**.



# Introduction Into Defense And Security

## Economics

Contribution and usefulness of  
defense and security economics

## Usage examples of national defense economics piece of knowledge

- Deterrence, war prevention, launching and termination of a conflict.
- Strategic interactions, arms race, armament control.
- Alliance formations, resource allocation and behavior.
- Defense macroeconomic interactions in the time of a war, peace, disarmament and conversion.
- Comparison between the controlled and market economy from the point of view of defense resources.
- Mobilization, post-war restoration.
- Optimization and effectiveness of forces level and structure.
- Exploitation of the capital of labor force: manpower, conscription and voluntarism.



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## Economics

Contribution and usefulness of  
defense and security economics

## Usage examples of national defense economics piece of knowledge

- Military preparedness, strategic materials and policy of defense industry.
- Analysis of supply, acquisition and defense contracts.
- Commercial dependence, export control, trade sanctions and economic warfare.
- Foreign aid, developing economies and the defense in countries of the third world.
- War economy and economic mobilization.
- Impact of military expenditures on macroeconomic and microeconomic development.



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# MILITARY-ECONOMIC THOUGHTS DEVELOPMENT



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Military-economic thoughts development

## Different national conception of defense economic theory

- **Anglo-Saxon** conception of National defense economics.
- **German** conception of defense economics – military economy (business problems of armed forces).

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Military-economic thoughts development

## Military-economic development 1

- **Before paradigmatic phase**
  - **Epics of Gilgamesh** (Gilgamesh is a demigod of superhuman strength who built the city walls of Uruk to defend his people from external threats).
  - **Code of Hammurabi** (is a well-preserved Babylonian law code, dating back to about 1772 BC, one part is devoted military services).
  - **Sun Tzu - The Art of War** (It presents a philosophy of war for managing conflicts and winning battles. It is accepted as a masterpiece on strategy).

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Military-economic thoughts development

## Military-economic development 1

- **Before paradigmatic phase**
  - **Xenophon of Athens – Anabasis** (was a Greek historian, soldier, mercenary, philosopher and a contemporary and admirer of Socrates. Xenophon accompanied the Ten Thousand, a large army of Greek mercenaries hired by Cyrus the Younger, who intended to seize the throne of Persia from his brother, Artaxerxes II).

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Military-economic thoughts development

## Military-economic development 2

- **Middle Ages**
  - Big theme is building forts and its conquering
- **Mercantilism**
  - War is on the same level as the foreign trade.
  - Phrase – money is nervus of war

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Military-economic thoughts development

## Military-economic development 3

- **Classical economic school**
  - Adam Smith (defense as public common good)
  - David Ricardo (tax versus credits)
  - Jean Baptist Say (value of human live lost, soldier non productive, destroying power)
  - Thomas Malthus (Population law – War is revision of population)

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Military-economic thoughts development

## Military-economic development 3

- **Neoclassical economic school**
  - A.C. Pigou – Political Economy of war
  - F. W. Hirst Arm races before 1. world war

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Military-economic thoughts development

## Military-economic development 3

- **Modern economic school**
  - **John Maynard Keynes**
    - How to pay the war
    - Political Economy of war
  - Problem of additional taxes
  - Study of financing war by credits
  - Stimulation demand by way of military expenditure (Military Keynesianism)



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Military-economic thoughts development

## Military-economic development 4

- **Time after II. world war**
  - **Ch. Hitch, R. McKean**
    - Economic of Defense in the Nuclear War
  - **G. Kennedy**
    - The Economics of Defense
- **Time after end of cold war**
  - **T. Sandler, K. Hartley**
    - The Economics of Defence
  - **Economics of security, Economic security**

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# CONCLUSION



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# Introduction Into Defense And Security Economics

## Conclusion

- **Defense economics** is the study of resource allocation, income distribution, economic growth, and stabilization applied to defense-related topics. As such, defense economics involves an investigation of the impact of defense expenditures, both domestically and internationally, **on macroeconomic variables** such as employment, output, and growth.
- It also has a **microeconomic dimension** involving analysis of the defense industrial base, collaborative programs, offsets, the pricing and profitability of military contracts, and the regulation of contractors.

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## Conclusion

- The provision of defense is still an important activity that requires huge resource allocations to meet a variety of contingencies and uncertainties.
- Economic aspects of the defense sector continue to be important and to require study. **Interest continues to grow in the economics field for applying economic methods to defense issues.**

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# STUDY RESOURCES



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# Úvod do ekonomiky obrany a bezpečnosti

## Study Resources

- Todd Sandler, Keith Hartley. The economics of defense. Cambridge: Cambridge University Press, 1995. ISBN 0-521-44728-3
- Hartley, Keith., Sandler, Todd. The economics of defence, Volume I., II., III. Cheltenham: An Elgar Reference Collection, c2001. ISBN 1-85278-945-X



# THANK YOU FOR YOUR ATTENTION !!!

## IN CASE OF QUESTIONS, CONTACT ME ON

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