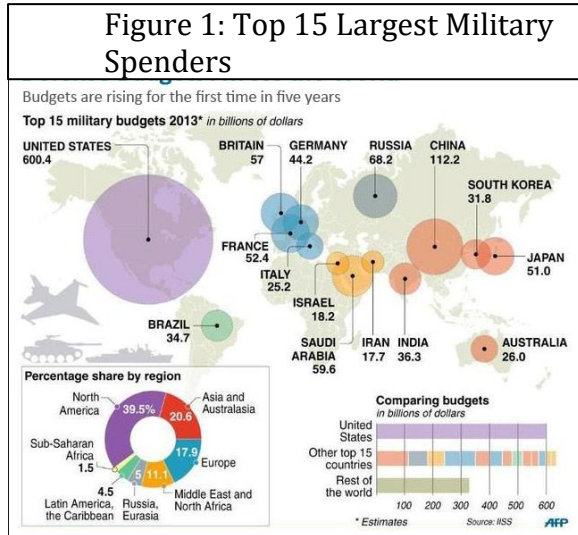


Committee: Economic and Financial Committee (ECOFIN)

Issue: Military Expenditure in Context of the Global Economic Crisis

Student Officer: Rakhshanda Nayaab Huda

Position: Chair



INTRODUCTION

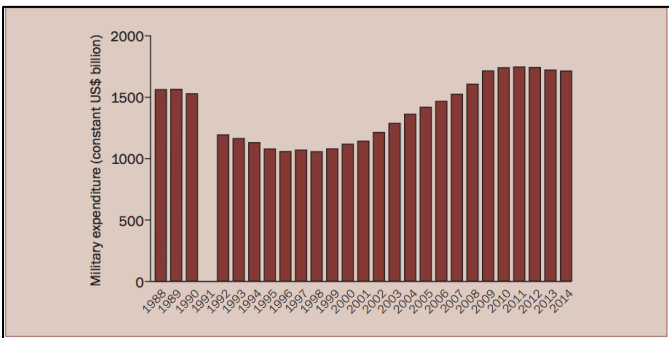
¹Over the past century or so, concerns have been raised regarding the growing trend of increases in military expenditure worldwide, particularly in G8 nations. Whereas in the past, weaponry was used as a last resort for defense, nowadays it often serves as the first option for international dominance and security, along with use of economic power. Although this

issue has been present for several decades, due to the recent worldwide economic crises, the question of reducing military expenditure is once again high on the political agenda.

²Global military expenditure in 2014 was estimated to be around \$1776 billion.

Statistically, this represents a worldwide decrease of about 0.4% compared to the previous year of 2013. However, once the data is analyzed, it shows a different looming threat. While some of the largest military spenders, namely USA and Western European nations, decreased their spending—several new nations began to join the charts with increased military spending, such as China, Russia, Saudi Arabia, and several countries in the African Union. Previous to 2014, global military expenditure—particularly in the EU and USA—had been gradually and deliberately decreasing for a short

Figure 2: World Military Expenditures 1988-2014



¹ SIPRI. "Military Expenditure." SIPRI. Stockholm Institute for Peace Research, 25 Apr. 2016. Web. 13 July 2016.

² Chipman, John, Dr. "Military Top Spenders." The Military Balance. IISS, 05 Feb. 2014. Web. 17 July 2016.

period of time. However, the year of 2014 presented the US and EU with the new threat of growing military powers in Asia and Africa. Thus, despite a previous 0.4% overall decrease, by 2015 a large majority of world superpowers regained an increase in annual military expenditures—which are still rising. In many ways, this could be seen as the beginning of a global arms race, which is why theorists believe such high rates of militarization worldwide could build up to the brink of global conflict or war.

In nearly every country, military expenditure is a key aspect of the national budget, lying at around 2-4% of GDP, according to the Stockholm International Peace Research Institution. Extreme military expenses can prove to be a significant challenge to national economies, especially as these have to ensure sufficient financing of other key sectors, such as social policy, thereby running the risk of a deficit. Consequently, defense policies of countries are now dictated by the strength of their economies, which is why the global economic crisis serves as an urgent reminder that the current state of affairs and the contemporary power balance may be neither stable nor sustainable.



3

³ SIPRI. "Military Expenditure." SIPRI. Stockholm Institute for Peace Research, 25 Apr. 2016. Web. 13 July 2016.

DEFINITION OF KEY TERMS⁴

Arms Race

The competition between superpower nations in developing and/or acquiring weapons for their military. There is no fixed goal except simply being ahead of the other competitors, which leads to a large amount of time, money, and manpower being utilized over a course of several years—without any clear indications or aims.

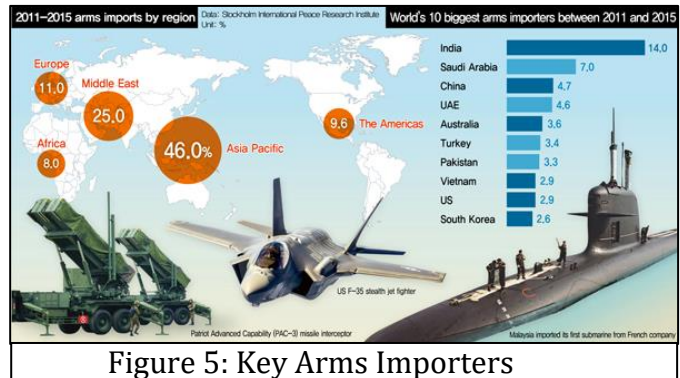


Figure 5: Key Arms Importers

Geopolitics

The effect of geography on power relations within international affairs, considering the way in which climate and other factors, such as access to sea, can constitute a source of political leverage of countries, as well as a threat from other countries interested. Highly militarized countries with strong economies can often claim dominance over demilitarized or less militarized peripheral neighboring countries, reflecting the importance of military spending in acquiring more regional and thereby global influence.

Global Economic Crisis

⁶A global recession resulting in decreased economic output that affects the majority of nations worldwide. During a period of global economic crisis, large amounts of military spending can further strain the national economy. The current financial crisis is claimed by most economists to be the worst since The Great Depression.



Figure 6: Further History of the Recent Global Crisis

⁴ All definitions adapted from Merriam-Webster and Encyclopædia Britannica.

⁵ Hankyo, Reh. "Arms Race in the Modern Age." VOX. VOX Coreana, 13 Jan. 2016. Web. 20 July 2016.

⁶ Maidment, Paul. "A U.S. Treasury View of the 2008 Financial Crisis and Its Aftermath." BLOUIN BEAT Business. Blouin BEAT, 11 Sept. 2013. Web. 13 July 2016.

Gross Domestic Product (GDP)

The combined value of all the goods (or services) produced in a country within a single year. This is one of the most important indicators of the growth, strength and stability of a country's economy.

Macroeconomics

An analysis of the performance of a national economy, instead of the market, enabling government to understand the choices available to improve the overall wellbeing of a country. Pertaining to military expenditure, the most important aspect is fiscal policy: which determines how a government carries out taxation and determines how exactly the tax revenue is spent.

Militarization

When a nation begins to actively arm and train its military in order to prepare for violence or war. Active militarization across several countries can lead to tensions between superpowers—which leads to further militarization for pre- cautionary purposes. This creates a cycle of spending leading to high military expenditures.

Military Expenditure

The fixed amount of finances and other resources that a government spends upon:

- (a) the armed forces, including peacekeeping forces;
- (b) defence ministries and other government agencies engaged in defence projects;
- (c) paramilitary forces, when judged to be trained and equipped for military operations; and
- (d) military space activities.

This should include expenditure on:

- i. personnel, including:
 - a. salaries of military and civil personnel;
 - b. retirement pensions of military personnel, and;
 - c. social services for personnel;
- ii. operations and maintenance;
- iii. procurement;

- iv. military research and development;
- v. military infrastructure spending, including military bases. and;
- vi. military aid (in the military expenditure of the donor country)

Such spending is at its highest during wartime, but the past two decades have seen global military expenditure rise notoriously high even during peacetime.

Military Keynesianism

The economic theory that military spending can stimulate growth within the national economy, enabling a country to overcome a recession through new demand and the creation of new jobs within the military sector. This is one of the driving arguments of economists in support of the current state of high global military expenditure.

Permanent War Economy

The state of a country retaining a wartime economy of high military expenditure even during times of peace. The high militarization in the USA (as they withdraw from Iraq and Afghanistan) and Eurozone countries could suggest that they are in a permanent war economy. This is even more prominent when considering the rising military expenditure of African and Asian nation in recent years.

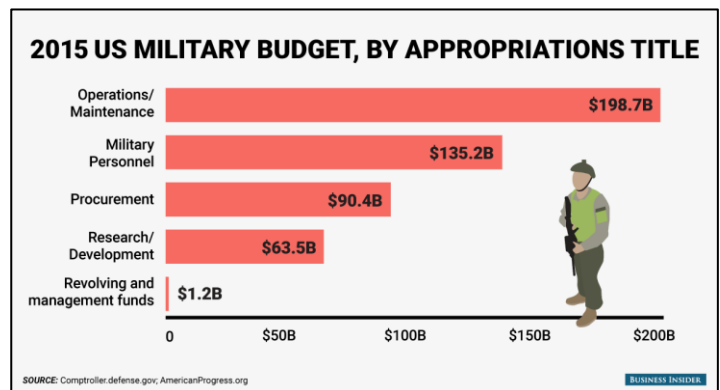


Figure 7: Permanent War Economy in USA has resulted from an unusually large military budget

War Borrowing

The process of borrowing finances from another country in order to fund military efforts. As these finances are often borrowed in extremely large amounts, nations can incur a heavy budget deficit and increased national debt that carries on into peacetime after the war is over, and lead to a strain upon the entire economy.

BACKGROUND INFORMATION

The most recent and prominent global economic recession is the financial crisis of 2007-2008. Despite taking place nearly a decade ago, its aftermath and impacts are still

evident in the global economy today. As several nations continue to increase military expenditures at a rate that is disproportional to their actual economic growth, there is a looming threat of another similar recession taking place within this short time frame.

Opportunity Cost

Every country has issues that they must tackle, whether they are at a domestic or international level. However, government funding and tax revenues are clearly limited and must be allocated to a sector based on national priority. The reason for such a high global military expenditure is that an increasingly large number of countries believe national defense to be among their top priorities, and allocate a significant share of funds to the military for this purpose. Yet, macroeconomics suggest that this might not be the best course of action—such large amounts of money provided to the military may simply not yield any results.

This is keeping in mind that the same funds could otherwise have been allocated to areas such as international cooperation, national/domestic infrastructure, education, etc. Opportunity cost (i.e. the cost of sacrificing other public services by allocating large amounts of tax revenue to the military) seems to be rising higher and higher everyday, as the middle class begins to shrink due to the financial crises in countries worldwide. Nonetheless, it seems as though most nations agree that despite the high opportunity costs, the priority of accumulating military power takes the top spot. Especially during times of peace, such a surplus of military expenditure has lead economists to believe that much of the money spent training and arming the military has gone to waste, as no wars or conflicts are actually taking place. From a macroeconomic standpoint, it can be seen as a large loss of financial investment—as there is no credible output, despite a large percentage of national GDP being spent. However, if the same money was to be invested elsewhere—such as building schools, hospitals, roads, etc.—it could lead to more tangible results for the government, and improve wellbeing of the citizens.

For example, the Global Policy forum has attested that the “United Nations and all its agencies and funds spend about \$30 billion each year”. Several member nations have also been called out for not paying their full dues and also cut their funds for the UN—resulting in a total UN budget of \$384 million for the year 2010. This led to the UN being forced to cancel or cut back on operations worldwide. In comparison, the money owed by member nations to the UN is less than 1.8% of the world’s military annual budget.

At this point, it is of paramount importance to consider the role of an unstable regional or global environment in countries' decision to sustain high military expenditure. More specifically, it is worth noting that following the Arab Spring and the rise of China, global military expenditure began to rise again, after declining between 2011 and 2013, reflecting the complexity of economic decisions over military spending when political and security instability emerges.

Global Economic Crisis of Late 2000's

An excessive amount of subprime mortgage loans—facilitated by Wall Street—leads to a snowball effect worldwide, creating the worst global recession since the Great Depression. Diminishing energy sources further escalate the problem, creating tension and straining foreign relations between Eastern and Western blocs. However, the rising threat of terrorism against both the East and the West leads to one common budgeting trend during the recession—most countries refuse to cut their military budgets, in an effort to maintain their international strength and dominance in what are incredibly strenuous times for most world economies.

Theorists have also suggested that this is part of a century-long cycle: every recession is followed by a renewed interest in national militarism. This could be explained by the fact that a recession is one of the most compromising positions any nation can put itself in. Thus, reinvigorating its military sector—usually using a renewed flow of funds or restructuring—is seen as a surefire way to reshape its image. A strong military force serves as both a literal and symbolic representation of a country's prowess. By cutting the military budget during harsh financial situations, a country would be showcasing its vulnerability to its enemies. For countries that have negative or strained foreign relations with aggressive world powers—such as the United States with the Democratic People's Republic of Korea or the Kingdom of Saudi Arabia with the Islamic Republic of Iran—showing any sudden vulnerability could be disastrous, as the main factor determining their dominance in their respective blocs is their military prowess.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America (USA)

Since the First World War, the USA has been a key player in several global conflicts. Within the past century, the US military has actively fought in several wars, namely the World War, I the Russian Civil War, World War II, the Korean War, the Dominican Civil War,

the Vietnam War, the Gulf War, the Bosnian War, the War in Afghanistan, the Iran War, the Libyan Crisis, the War in Pakistan, and the War Against IS. This highly active USA military trend stems from the end of the Cold War, when the United States had officially branded itself as the most influential world superpower.

Since then, the US military has played an intervening role in several world conflicts—particularly in favor of establishing democracy worldwide. The concept of Military Keynesianism has also resulted in a permanent war economy. Recently, the US Military has become infamous for its War on Terror within Afghanistan and Iraq (sometimes also counting Pakistan by extension). The War on Terror has been the primary allocation for the national American defence budget, and led the US military expenditure at its peak up to 42% of the global military expenditure.

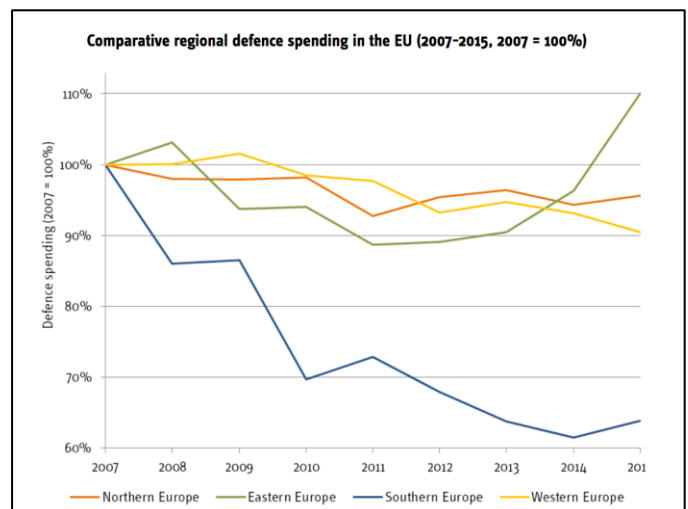
During mid-2007 and 2008, subprime mortgages and predatory lending practices in the American housing market led to the recession at Wall Street—which would eventually grow and spread worldwide to become the largest global financial crisis since the Great Depression of the 1930s.

⁷However, the most defining factor from the US on the topic was their refusal to cut military funding. In the public sector, tens of thousands of jobs were lost—but efforts were taken to maintain the ongoing military operations abroad, particularly the War on Terror. Thus, the US government’s passion for militarism cannot be diminished as the nation continues to invest heavily and consistently in its armed forces. Whereas the global crisis forced most nations to cut back on military expenditure, the US chose to maintain its usual expenses as much as possible so as not to compromise their international military presence.

European Union (EU)

A large majority of European Union nations are known for excessive military spending. Nations included amongst the top 15 worldwide include: United Kingdom, France, Germany, and Greece.

However, the financial crisis meant that European nations now only spent an estimated 85.5% of their initial military expenditures before the recession. Southern European



⁷ From SIPRI Annual Yearbook

Figure 8: Fall in Military Expenditure in Europe after the financial crash

countries cut back the most, with Eastern Europe to follow. Their economies were relatively weaker to begin with (compared to Western and Northern European countries) and they suffered extensively from the crisis. This meant that their defense policies had to be adjusted to match the new state of the economy. However, conflict with the Russian Federation in Crimea has led to a renewed interest in military growth. Thus, 2014 started a sharp increase in military expenditures in Eastern EU countries that still continues today.

⁸Meanwhile the military expenditure of Western European countries can be seen as a high opportunity cost, since the same finances could be reallocated and used to resolve deficits and regional financial crises in Greece, Italy, and Spain-

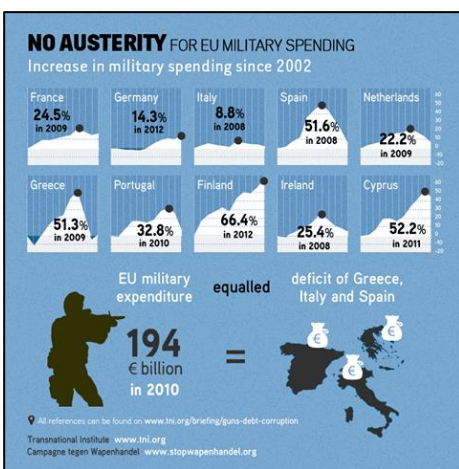


Figure 9: EU Deficits vs EU Military Spending

Japan

This current fiscal year, Japan has put into place its new record-breaking budget for the Japanese military. A 1.5% increase from last year, the current military expenditure budget for the 2016-2017 year stands at \$41.4 billion. Surprisingly, the original request from the Ministry of Defense proposed an even larger \$49.4 billion budget, in

order for Japan to strengthen its military presence and upgrade its military technology and build new bases.

As Japan builds up its military and accumulates more weapons, it develops into a significant player for the nearby nations of China and South Korea, but also for its ally, the United States which occupies several military bases within the country.

Despite certain downfalls during the 2008 crisis, the Japanese economy mostly managed to hold its ground and regain most losses in a quick manner. Therefore, their military has managed to undergo a slow, steady, and constant rise—as opposed to the unstable sharp increases or decreases experienced by the US and European countries.

⁸ Van Deusen, Augustus. "European Union Fraudsterity." *Thinking Machine Blog*. Thinking Machine Blog, 26 May 2013. Web. 27 July 2016.

Republic of Korea (South Korea)

Amid growing threats from the Democratic People's Republic of Korea (DPRK or North Korea), the Republic of Korea (South Korea) has in recent years decided to keep expanding upon their already large military budget. The annual rates of increase currently stand at a whopping 7%. This is an unusually high annual rate of increase in military expenditure for a nation that is officially still in peacetime. Between the present year and 2020, the projected growth of the South Korean military spending is expected to amount to an estimated \$214.7 billion.

Republic of India

Recently, India has also decided to initiate an increased national military expenditure. The projected increase in the military budget for 2016 is expected to be around 8% higher than the previous year. In sharp contrast, the increase between the years of 2014-2015 was only about 0.4%.

India is therefore gearing up to be among the top 5 military spenders worldwide, moving up from its current place in the 6th position. An emerging economy with extremely high growth rates, its nature is reflected in the rapid growth and development of their military as well—where a large allotment of funds revolves around the recruitment of new soldiers and the procurement of latest weapons technology.

People's Republic of China

China has announced plans of increasing the budget for the People's Liberation Army by 7-8%, resulting in a final budget of \$150 billion in 2016. As a rare exception, this is a smaller projected rate of increase than the previous years—where the rate of increase averaged at around 10.1%. China could be —alongside the United States— one of the key players in case of a new arms race that is emerging alongside the economies recovering from the 2008 crisis.

Kingdom of Saudi Arabia

Saudi Arabia's recent and ongoing war with Yemen has resulted in record high military expenses. In order to meet the demands of its armed forces, Saudi Arabia increased its military budget to nearly double the amount of what it was ten years ago, in 2006. This has also resulted in Saudi Arabia taking the 3rd place for military expenditures worldwide, pushing Russia down to the 4th position instead.

Federative Republic of Brazil

The growth of military expenditure in Brazil is based upon a strategic plan: by investing large sums of money into the Brazilian military, the government hopes to eventually establish a self-standing military and/or arms industry which can reduce (or eliminate entirely) the need to import goods or services internationally.

Commonwealth of Australia

Australia is the leading power in the region identified as Oceania. With their upcoming defense budget proposed to reach upwards of \$195 billion, Australia can easily be seen as a world military power and a strong contender for the Asian regional arms race.

United Arab Emirates (UAE)

The Union Defense Force of the UAE has been entangled in the Yemeni War alongside their strongest and closest ally, Saudi Arabia. This has led extremely large increases in their defense budgets, a large amount of which are used to import arms internationally. In fact, the combined import of arms by the UAE and Saudi Arabia alone exceeded all arms imports made in the whole of Western Europe. The UAE economy was quick to recover from the 2008 crisis, but it is currently on the brink of a second crisis threatened by sudden changes in oil prices.

Russian Federation

Weakening oil prices and the weak ruble have led to a national economic crisis within Russia. Together, both these factors have forced Russia to lower its military spending by 7.5% from the previous year. Nonetheless, it is still the 4th largest spender worldwide.

Islamic Republic of Iran

The Iran Nuclear Deal has greatly boosted the Iranian military. This is due to deals made in the pre-revolutionary era that were cancelled during the uprisings and instability in Iran. The recent Nuclear Deal means that the US will have to begin to pay back the debts it owes to Iran—meaning that a sharp increase in military expenditure may not be so far off in the future for Iran. The US is projected to send a single shipment of \$400 million in the near future, a small portion of the larger total amount of \$1.7 billion.

Stockholm International Peace Research Institute (SIPRI)

The Stockholm International Peace Research Institute (SIPRI) is one of the most



influential think tanks on the globe. This international institute uses open sources to research and publish publicly available information upon arms control, armaments, conflict, and disarmament.

Among its most distinguished yearly publications is the programme based upon Military Expenditure (MilEx) and Arms Production. It is widely regarded as the official authority and most reliable source on any matter pertaining to global military expenditures, as well as the growing arms trade.

International Institute for Strategic Studies (IISS)

Another famous global think tank, focused upon arms control and deterrence of nuclear weaponry. It has become famous for the annual “Military Balance”, a publication providing a comprehensive and thorough assessment of worldwide military forces. The IISS also runs the Shangri-La Dialogue, an intergovernmental summit attended by defense ministers and military chiefs of a large majority of nations worldwide. These summits allow the “Military Balance” annual publication to be full of insightful information regarding global defense economics and military strategic spending.

TIMELINE OF EVENTS

Date	Description of Event
1947	The year that tensions between the post-WWII Eastern bloc and Western bloc began to escalate. Rather than delving into peacetime following the Second World War, both blocs—particularly the United States of America and the Soviet Union—began to further invest in their military defense budgets and weapons research.
4 April, 1949	The North Atlantic Treaty Organization (NATO) is signed, forming an international military alliance—spearheaded by the United States of America at the time, with the intention of strengthening its defense against the Soviet Union. The members agreed to mutual defense against any threats or attacks from an external party, thus confirming that they could no longer fully demobilize after World War II.
25 June 1950-27 July 1953	The Korean War serves as a proxy war, and allows world powers to once more heighten their defense expenditures. At this point, Asian

	and South East Asian powers are also becoming key players in the arms race.
14 May 1955	The Soviet Union and its satellite states sign the Warsaw Pact in direct retaliation to NATO. The Arms Race may not be official, but it is now escalating at a higher pace than ever before. The expenses are unprecedented, now with the novel worldwide interest in nuclear weaponry and technology.
17 January 1961	Dwight D. Eisenhower, in his final televised address as President, expresses his concerns about US foreign policy—and its effect on other nations in driving up arms trade. He urges his successor to deal with the ‘military industrial complex’.
6 May 1966	The Stockholm International Peace Research Institute (SIPRI) is founded as an international research organization, meant to promote transparency in military funding—with the ultimate goal of limitation and reduction of the modern global arms race.
1970s Energy Crisis	Western Europe, North America, and Australasia begin to suffer from a petroleum crisis. Middle Eastern countries benefit from increase in prices, and leaders such as the Shah of Iran are highly supportive of this.
16 January 1979	The Iranian Revolution solidifies—as the Shah is exiled, the newly reformed Islamic Republic of Iran becomes a key player in the arms race in its own right. They are seen as an aggressive power by neighboring Saudi Arabia, and both countries drive up their military spending in a Middle Eastern arms race that continues to this day.
1980s	The global economy enters another recession, however countries such as Japan and the United States are able to recover fairly quickly—and the global impact was far more minimal than predicted initially.
26 December 1991	The dissolution of the Soviet Union marks the official ending of the Cold War, but at this point most world powers are far too invested in permanent war economies to be able to return to an immobilized military state.

11 September 2001-present day	Lead by the United States, the global War on Terror begins. Consisting of various military operations, this is one of the costliest military expenditures in history—funded by dozens of different states. The United States once more states itself as the dominant world military power. Presently, this also includes the fight against Islamic State—the most popular reason for countries to be driving up their defense budgets.
Late 2000s Financial Crisis	Initially starting as a subprime mortgage loan issue, this crisis turned into the worst global recession the world has ever seen since the Great Depression. The main feature separating this recession from previous ones in history is the limited impact it has on global military spending—majority of nations chose to compromise their national budgets elsewhere, leaving the military untouched.

- Official military spending history of all countries from 1988-2015:

<https://www.sipri.org/sites/default/files/SIPRI-Milex-data-1988-2015.xlsx>

- Official military spending history of NATO members from 1949-2015:

<https://www.sipri.org/sites/default/files/SIPRI-NATO-milex-data-1949-2015.xlsx>

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

- [A/RES/35/142B](#)
General Assembly Resolution on the Reduction of Military Budgets, 1980. This is the earliest successful UN resolution on the topic, and the first time that the United Nations has indicated concern about the escalating defense budgets worldwide.
- [A/RES/56/14](#)
Resolution on Objective information on military matters, including transparency of military expenditures, 2001. After more than 2 decades since the initial resolution, the General Assembly once more decides to take action.
- [A/RES/70/21](#)

The most recent resolution from 2015, once again based upon Objective information on military matters, including transparency of military expenditures. This recalls *all* past resolutions on the matter.

The complete list of other UN Resolutions on the matter can be found here:

<https://www.un.org/disarmament/convarms/milex/>

PREVIOUS ATTEMPTS TO RESOLVE THE ISSUE:

Please note that due to the sheer scale and global magnitude of this issue, it has been nearly impossible for any single country or organization to attempt resolving the issue worldwide. Few governments can singlehandedly provide the efficiency or finances required to fund large changes globally. Thus far, only the UN has been able to exert the international influence required to initiate any resolutions on the matter.

POSSIBLE SOLUTIONS

Cutting overhead costs is perhaps the most suggested manner to reduce excessive military expenditure. Overhead costs in the military can take up a large amount of the allocated budget, with administrative costs going up all the way to 50% of the total allocation. In literal capital terms, this can be upwards of a few billion dollars—a large amount of money that is sought-after by all kinds of other causes, such as education or healthcare. A simple way to cut such overhead costs is by limiting how much money per capita can be annually allocated to the military—either in relevance to the gross domestic product or the country's current military needs.

Retirement ages for non-combat personnel are also a topic to be evaluated considerably. Many countries ask those employed in military services to serve for around 20 years before they can retire, with veterans' aid and other pensioner benefits to be allowed for the rest of their life. However, this may seem financially unsustainable when there are tens of thousands of non-combat personnel retiring every year, and earning the same benefits that were originally designated for soldiers having served in active combat. Policy changes regarding the matter have been suggested in multiple nations, but the actual change has yet to be realized.

Overstaffing is another common problem in the military that tends to be very costly. There are several departments in most large military programs that include non-combat ground personnel with no active duties or responsibilities who also happen to earn higher salaries than the average civilian. A large portion of the national budget is therefore poured into supporting these jobs which return very little output in the end. By thoroughly evaluating the current organizational structure and the functions served by each department of the armed forces—particularly non-combat personnel in peacetime—a country can easily restructure its military to ensure efficacy when investing large sums of money into it.

Finally, the clearest and most obvious solution is to simply immobilize the national military in times when the armed forces are not required in active defense of the country. However, as discussed throughout this guide, there are very few nations actually willing to do so—as that would possibly undermine their prowess as compared to both their allies and their enemies. Countries no longer just aim to be powerful by their own set standards; they aim to be powerful in *relevance* to other countries around them. Possibly losing their spheres of influence is not a compromise any large military nation wishes to make. Thus, such a solution can only be made in a mutual decision where all signing nations agree to either limit or reduce their military spending. This can be done through a series of treaties, allowing countries time to adjust to the military system and/or size. Yet, treaties signed only in bloc can render the entire bloc powerless against a competing bloc. Ideally, if countries from multiple opposing blocs were to each form their own similar treaties—the issue could easily be resolved as neither bloc would have to feel weaker than the other. However, it is easy to see why this theory might be hard to transfer onto reality.

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