



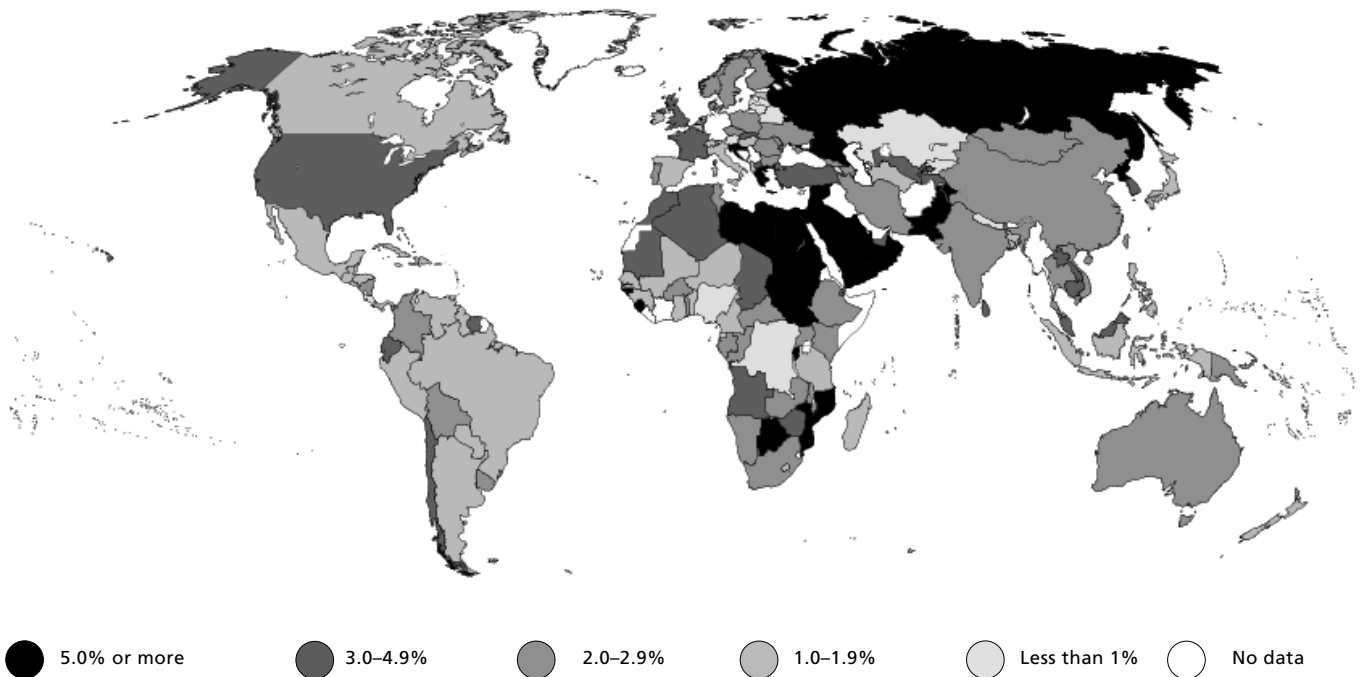
Demilitarization of Economies

Although data on defense expenditures are not among the most reliable, it is possible to observe that **developing countries**, despite their lower incomes, tend to spend a similar and sometimes larger share of their **gross domestic product** on armed forces and weaponry than do wealthy **developed countries**. This can often be explained by country-specific factors, such as regional conflicts, aggravated ethnic relations in these countries, and political totalitarian-

ism based on military strength. Historical and cultural traditions and the extent of the borders that need defending also play a role in determining defense spending (see Map 12.1 and Data Table 3).

Security from external threat is important for a country's development, and national defense is a traditional government function. So is high defense spending a problem?

Map 12.1 Defense expenditure, percent of GDP, 1994



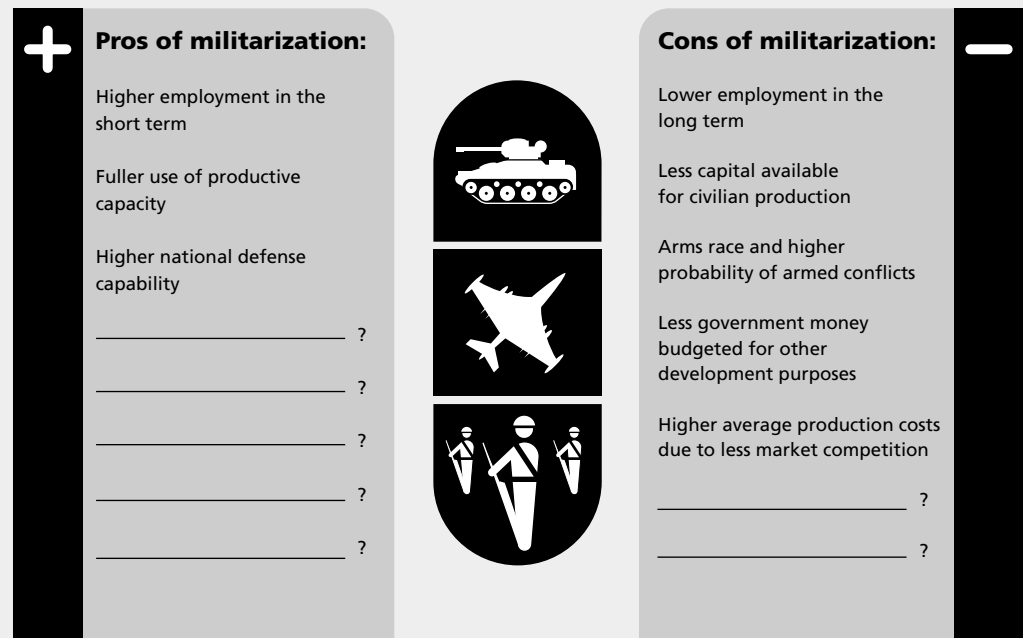
Some would argue that militarization of an economy can contribute to **economic growth** by increasing employment and putting to fuller use existing productive capacities, thus increasing output of goods and services (Figure 12.1). But there are many reasons to believe that in the long run high defense spending may impede growth and development.

First, militarization tends to decrease an economy's capacity to meet people's basic needs, such as food, housing, and medical services. This is because increased military production leaves less national **capital** (**physical, human, and natural**) for the civilian sector of the economy, which produces consumer goods and services. In addition, high military spending leaves less

money in the government budget for dealing with social, environmental, and other development issues. Militarization also hinders an economy's **efficiency** because a lack of competition in the military sector often allows military producers to feel less compelled to cut their production costs. As for the additional employment allegedly provided by the military sector, this is only a short-term effect: military production tends to use proportionately more capital equipment and less labor than civilian industries and so creates fewer jobs than could be created from a similar **investment** in civilian production, particularly services.

With the end of the Cold War in the 1980s, both Russia and the United States were able to significantly lower military

Figure 12.1 The pros and cons of militarization



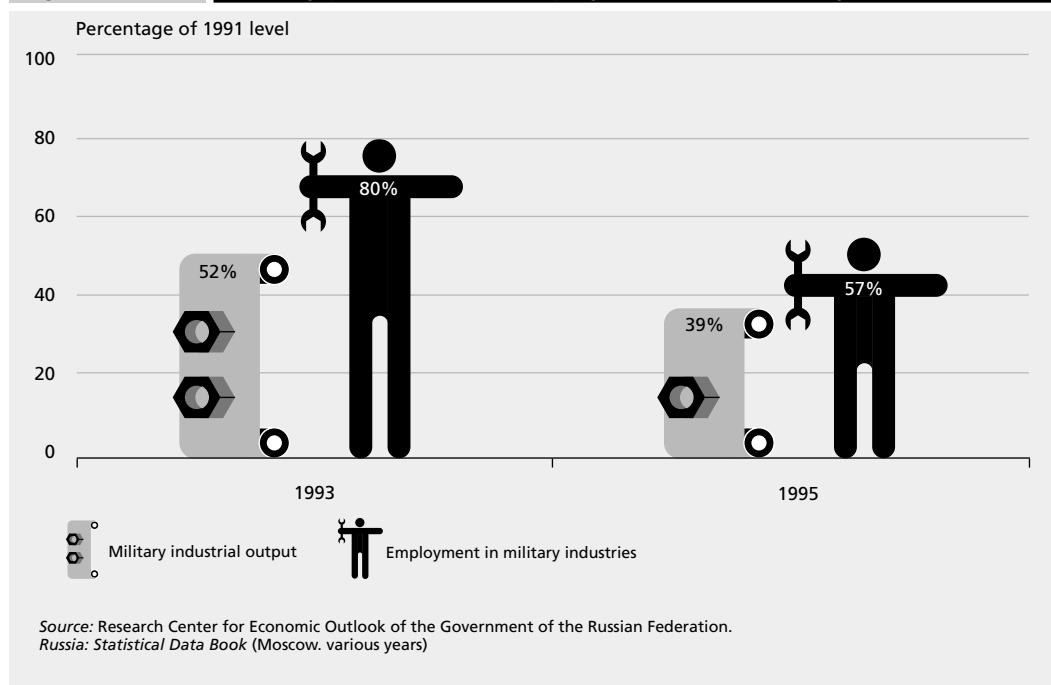
spending. In the United States the share of military spending in GNP dropped from 6.1 percent in 1985 to 3.8 percent in 1995, while its share in central government spending fell from 26 percent to 17 percent. In Russia military-industrial production (such as production of weapons and ammunition) and employment in military industries also decreased drastically (Figure 12.2). But the share of military spending in the Russian central government budget is still high—more than 30 percent—due to the absolute contraction of the budget in the 1990s.

Converting Russia's defense industries into civilian industries has turned out to be more complicated than was expected. It requires significant investments that are currently unavailable from the government

or from defense enterprises. The problem is aggravated by the fact that for security reasons many of the biggest military enterprises are located in specially built "closed" cities, the residents of which have practically no alternative employment opportunities. As a result the main short-term effect of decreasing government military contracts is increased unemployment in former closed cities and reduced incomes of their populations.

Despite the negative social consequences in the short term, demilitarization of the Russian economy is expected to bring positive economic and social results once the transitional crisis is over and economic growth resumes. It would be contradictory to continue building the military arsenal while at the same time paying the

Figure 12.2 Military production and employment in Russia, early 1990s



high costs of destroying weapons in accordance with the international agreements signed in recent years. For example,

destroying chemical weapons costs about 10 times more than it does to produce them.