

THE DEVELOPMENT OF MILITARY SPENDING IN SELECTED EUROPEAN NATO COUNTRIES AND THE RUSSIAN FEDERATION DURING 1990 - 2013

Vendula Hynková – Michal Lastovka – Oldřich Faifer

Abstract

The paper responds to the current issue of macroeconomic policies of the North Atlantic Treaty Organization (NATO) member states, when during the last recession the military budgets have been reduced several times. However, in the context of the current Russian-Ukrainian conflict and formulating new security threats, including terrorist attacks, the NATO, EU and member states' own security policies call for budgets increase for defence and intelligence services in the coming years. Apart from analysing the military expenditure development of NATO member states, the military spending development of the Russian Federation and its armament plan is involved in this paper. Increase in military spending will influence other macroeconomic variables and may incur additional cooling of foreign relations between the NATO or EU Member States and Russia. The paper includes the development of military spending (in mil. USD and as a share of GDP) in chosen European NATO member countries. The military expenditures were influenced by the recent economic recession, during which a number of states have decided to reduce military spending.

Key words: military spending, macroeconomic policy, defence budget

JEL Code: E62, H56

Introduction

Nowadays, European NATO countries and the EU members, as well as Czech Republic, have begun to modify their security strategies. They respond to new threats, respectively to the combination of a variety of threats and the states seem to require an increase in the defence budgets in the coming years. The Ukrainian-Russian crisis, the consequences of the Arab Spring – conflicts in Syria, or the activity of Islamic radicals in the form of terrorist attacks on capitals (also in Europe) are mentioned especially.

The main reasons why to deal with the issue of national security are the downsizing the military budgets (or military spending as a share of GDP) in NATO countries on the one hand, and the increasing potential security threat on the other hand.

Former NATO Secretary General Anders Fogh Rasmussen has recently commented this situation as follows: “Now, we are facing another turning point in history. The world that we helped to build after the end of the Cold War is being challenged. In different ways and from different directions. To our East, Russia’s aggression against Ukraine is an attempt to rewrite international rules and recreate a sphere of influence. At the same time, to our South, we see states or extreme groups using violence to assert their power. And overall, we see threats old and new, from piracy to terrorism to cyber attacks.”¹

The NATO is now calling for reversing falling trends in military budgets and is asking its member states to spend 2 per cent of GDP on military expenditures. The aim of this paper is therefore to analyse briefly the development of military spending in groups of countries over a defined period in both, absolute and relative figures, to compare the shares of GDP with NATO commitment and especially to explore the impact of recent economic recession on the development of military spending of chosen European NATO countries.

Besides, some countries (such as the Czech Rep.) have decided to limit mainly investment in defence spending recently that resulted in negative multiplication process (see e. g. Alexander, W., 2015: *The Keynesian IS-MR Model and Military Spending* or Dunne, J. P., Paul, J., Tian, N. (2015): *Military Expenditure, Economic Growth and Heterogeneity*).

1 Development of Military Spending of European NATO Countries in the Period 1990-2013

In this part the developments in military expenditures in absolute value and as a share of GDP in chosen groups of NATO members will be analysed during the past 24 years.

1.1 The development of military spending in Portugal, Spain, Italy, France, Germany and the United Kingdom during 1990-2013

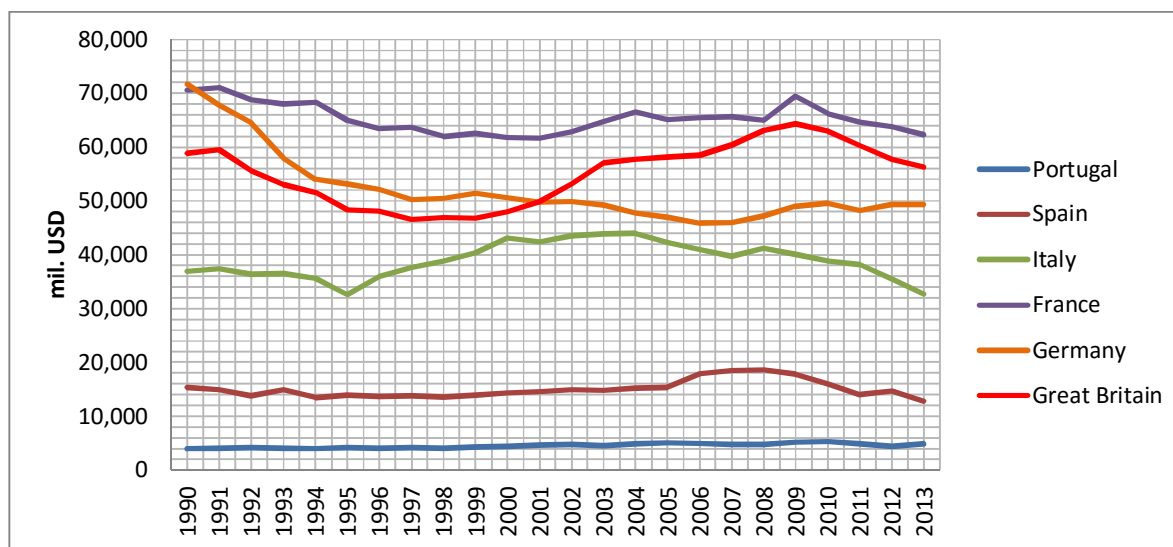
Now the focus will be put on a group of Western European countries – Portugal, Spain, Italy, France, Germany and the UK, where the development of military expenditures will be explored. As can be seen in Fig. 1, the top three countries with the highest defence expenditures are France, Great Britain and Germany. Relatively stable development of military spending is showed by Portugal and Spain (with slight fluctuations in the period 2005-2011).

The development of military spending here can be divided into three phases. The fall of the Iron Curtain and the release security environment are reflected into decreasing trend from the beginning of this period to the middle of 90s. In the next period, some countries

¹Source: Anders Fogh Rasmussen: Future NATO, http://www.nato.int/cps/en/natohq/opinions_111132.htm?selectedLocale=en.

increased military spending (the UK and Italy to a greater extent) until the break out of the economic recession in 2008, when a decline in military spending started. For example, Italy and the United Kingdom returned to the size of the military spending of the early 90s. Furthermore, Germany, as the only country in this group, increased slightly its military spending during the recession. The UK changed the trend in spending of military spending in 1999, in contrast to the declining trend in Germany and Italy, and enhanced its military spending closer to the size of the French military budget in 2007 and 2008.

Fig. 1: The development of military expenditures in the following chosen countries during 1990-2013 (mil. USD)



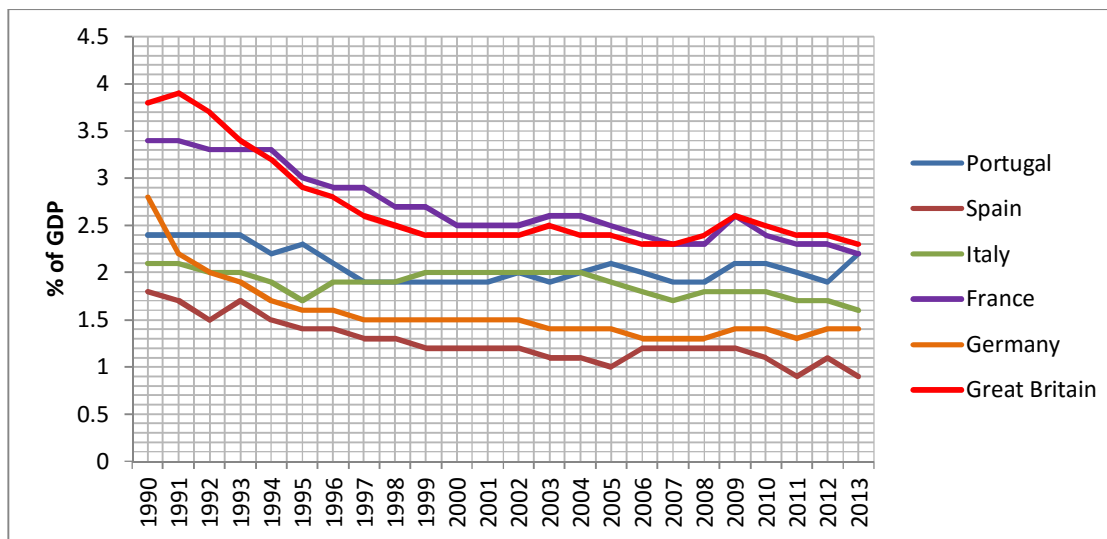
Source: SIPRI (data). Estimated figures for Italy in 2007-9.²

When using the share of military spending to gross domestic product (GDP), this indicator is important to determine and fulfill commitments towards NATO. If we look at its development, a long-term downward trend can be observed, with significant declines occurred in the period from 1990 to 1999, followed by a stagnation with a slight increase in military spending till the break out of economic recession in Europe in 2008. Many states decided for reducing the military budgets during that recession. Since 2012, Portugal and Germany have begun to increase its military spending. Fig. 2 demonstrates the shares of GDP, three large countries – Spain, Germany and Italy spend less than 2% of GDP on defense (Italy since 2004). The recent economic recession caused a slump in aggregate output leading up to a negative value rate of real output and to increasing internal state debt. Central Government

²SIPRI military expenditure include all current and capital expenditure on the armed forces, including peacekeeping forces, defence ministries and other government agencies engaged in defence projects, paramilitary forces when judged to be trained, equipped and available for military operations and military space activities. Source: http://www.sipri.org/research/armaments/milex/milex_database/definitions.

debt in Portugal, Spain and the UK increased roughly 2-times causing a pressure on cutting government spending.³ Government debt is a serious problem limiting the multiplier effect when increasing government (military) expenditures; see for example “...effects of government spending on the economy as well as the estimated multipliers significantly differ by the level of debt.”(Kim, W., 2015).

Fig. 2: The development of military expenditures as a share of GDP in Portugal, Spain, Italy, France, Germany and Great Britain during 1990-2013 (% of GDP)



Source: SIPRI (data). Estimated figures for Italy during 2007-2012.

Governments of some major countries of Western Europe are realizing now that it is or will be inevitable as soon as possible to increase military spending, especially military investment spending and the idea that government spending generally crowd out private investment spending is starting to be rethought – for example see: “As a result, we show that military equipment and private investment are complementary to one other “(Malizard, J., 2015).

1.2 The development of military spending in Denmark, Luxembourg, the Netherlands and Belgium during 1990-2013

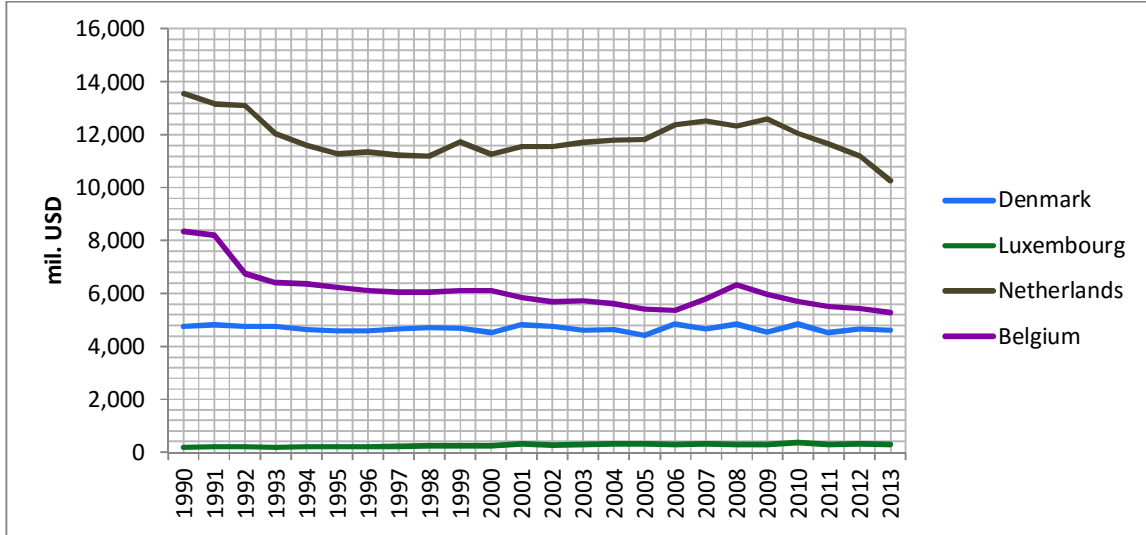
Fig. 3 demonstrates the development of military spending in this group of countries for the period 1990-2013. They are countries with a relatively small area, so they spend less spending on defence (mil. USD) compared with the previous larger countries. Again, three phases can be observed as in previous graph, and the reduction of military spending in the last phase due to the recent economic recession. The Netherlands, followed by Belgium have been markedly

³Portugal showed 75.9% debt as a share of GDP in 2008 and 122.8% in 2012, Spain showed 33.5% in 2008 and 65.9% in 2012 and the United Kingdom 54.3% in 2008 and 92.2% in 2012).

Other states also suffer from internal debt. Germany is disconcerted quickly by its economy out of recession (in 2009 the fall in production of -5.6%, but in 2010 4.1% and 3.6% in 2011) and the German internal debt raised from 41.7% in 2008 to 55.2% in 2012. Source of data: Worldbank (<http://www.worldbank.org>).

affected by this recession, while Denmark and Luxembourg have maintained not decreasing defence budgets.

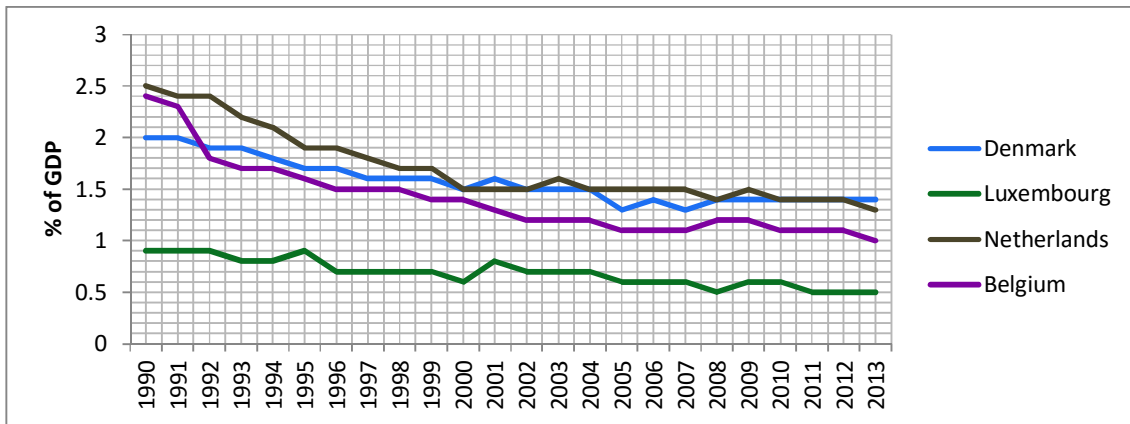
Fig. 3: The development of military expenditures in Denmark, Luxembourg, Netherlands and Belgium during 1990-2013 (mil. USD, at constant 2011 prices)



Source: SIPRI (data). Estimated figures for Luxembourg during 2008-13.

All countries in this group experienced a downward trend after the fall of the Iron Curtain to the beginning of the new millennium. Then the shares stagnated, but the recent recession sparked renewed decline (except Denmark that maintained a constant share of 1.4 % in the 2008-2013 period).⁴And all states have spent less than 2% of GDP on defence since 1996, as can be seen in Fig. 4.

Fig. 4: The development of military expenditures as a share of GDP in the following chosen countries 1990-2013 (% of GDP)



⁴This group did not increase the internal debt of states during 2008-2013 as much as some countries of the previous group. The lowest debt is shown in Luxembourg, having government debt at 20 % of GDP (but in 2005 only 3.7 % of GDP). Source of data: Worldbank (<http://www.worldbank.org>).

Source: SIPRI (data). Estimated figures for Luxembourg during 2008-13.

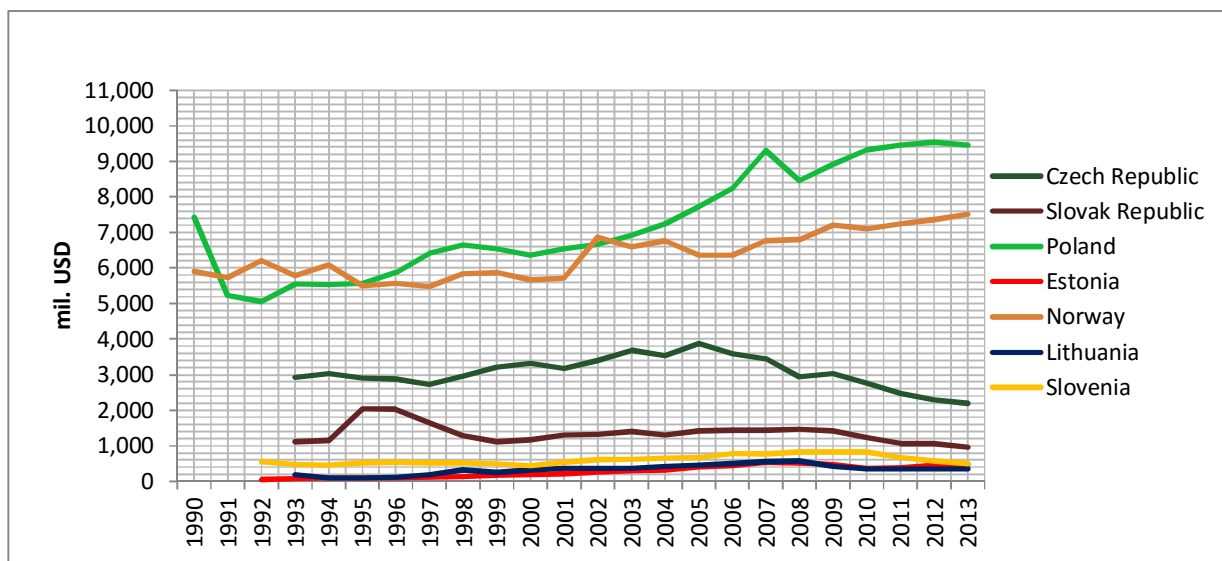
1.3 The development of military spending in the Czech Republic, Slovakia, Poland, Denmark, Estonia and Norway during 1990-2013

Military spending had been reduced gradually until 1997 in the Czech Republic when the decline stopped on the value of 2,723 mil. USD. As can be seen in Fig. 5, the trend reversed between the years 1998-2005 and the Czech Republic had been showed an average of 2% of GDP due to the modernization and professionalization of the Czech Army. Starting from 2005 military expenditures have been falling again and due to the economic recession they decreased very sharply. Although military spending declined, the Czech Army introduced a modern type of combat vehicles and subsequently delivered new handguns.

The Slovak Republic doubled its military spending after its independence in 1993 as shown in the Fig. 5. Its economic boom can be explained for an increase in military spending during 1994-95. But due to political circumstances and economic situation military expenses have been decreased until 1999 to 1114 mil. USD. Since 2001, due to the war in Afghanistan, military spending had been increased again. However, it has been dropping up to 960 mil. USD.

Poland is a high-level military country and has been showing an increasing trend since 1992 with a drop in 2008 due to recession. Polish army is constantly being modernized. Poland modernizes mainly its combat squadrons (helicopters) and subsequently its tank battalions. In 2014 Poland budgeted 10,673 mil. USD.

Fig. 5: The development of military expenditures in the following chosen countries during 1990-2013 (mil. USD, at constant 2011 prices)



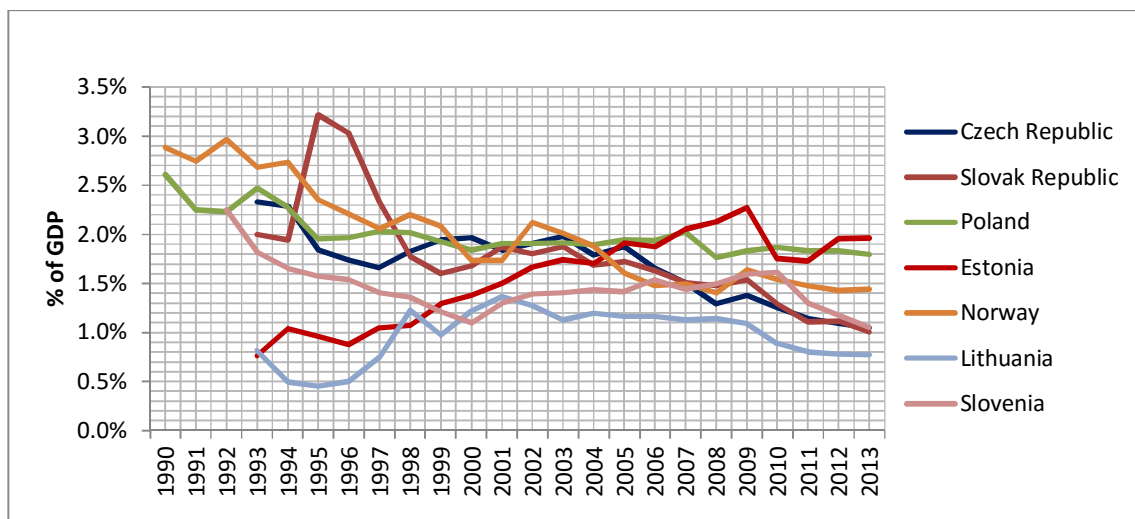
Source: SIPRI (data). Estimated figures for Lithuania during 1993-5 and Slovenia during 1992-4.

Despite the recent economic recession, Norway is showing increasing military spending. In 2014 Norway showed the amount of 7,261 mil. USD. In addition, Norway is not an EU member and its 258,000 soldiers are ready to fight and the country owns 63 aircraft and 52 tanks.

After the breakup of the Soviet Union in 1991, Estonia declared independence. The last Russian troops left the country on August 31, 1994. Estonia has increased slightly its military spending during the period. In 2014, military spending was already at 2% of GDP. Estonia, compared to other countries, does not own any fighter planes or tanks. Military expenditures reported in Lithuania have slightly rising trend as shown in the Figure 5. After the 2008 starting of recession, this led to a reduction in military spending. Lithuania has almost exclusively mandatory military spending, and still has a huge number of soldiers - 5,350 soldiers and 3 tanks. Slovenia had been started to increase military expenditures during the first decade of new millennium, but the country has been reducing its military spending since 2010 due to worsening economic situation and in 2014 this country showed only 489 mil. USD (in comparison with 2008, it was 823 mil. USD).

Fig. 6 illustrates, besides other factors, the impact of recent economic recession, thus starting from the year 2008 the shares of GDP in all countries have started to fall (only Estonia has changed this trend since 2011). And not all countries from this group have been showed the decreasing trend since the end of Cold War, in comparison with: “...the end of Cold War has significant negative impact on defense expenditures of former east-European countries.” (Topcu, M., Aras, I. , 2015).

Fig. 6: The development of military expenditures as a share of GDP in the following chosen countries during 1990-2013 (% of GDP)



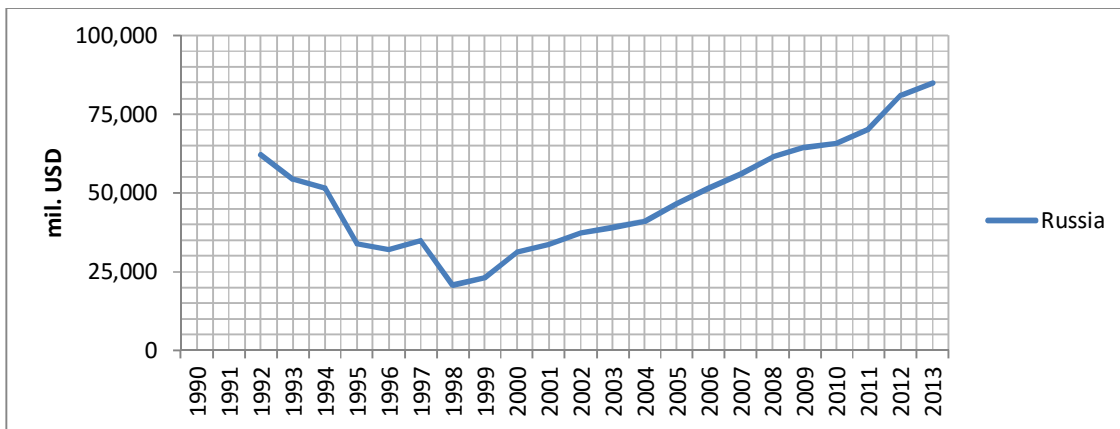
Source: SIPRI (data). Estimated figures for Lithuania during 1993-5 and Slovenia during 1992-4.

2 The development of military spending in Russia during 1990-2013

Military expenditures in the Russian Federation (Russia) have been influenced by many factors. As the successor state of the USSR it had to cope with a legacy in the form of loads after a much larger state formation. The army was no exception. Its budget of 291,082 million USD was necessary to reform. Data from 1991 are missing probably due to the reforms. If we compare the years 1990 and 1992, there is a huge decrease of about 228,782 mil. USD. We can observe this trend in almost every country after the USSR fall. The release of security threat concerned Russia the most. Spending was decreasing till 1998 where it hit the bottom. Since 1998 stable growth has been occurring with slight deceleration in 2009-2010, as can be seen in Fig. 7.

Recent economic recession, the Ukraine crisis and a fall in oil price have influenced the *Russian Armament Programme* (GVP) that has been postponed recently till 2025 (the previous was approved for the period 2011-2020). The aim if this programme or reform is to modernize the Russian Armed Forces and it means that about 70% of armoury should be modern by 2025. This programme is supposed to be very expensive (The GPV-2020 estimated of about 23 billion rubles).

Fig. 7: The development of military expenditures in Russia during 1992-2013 (mil. USD)



Source: SIPRI (data). Estimated figures for the whole period.

During the period in Fig. 7 Russia was spending about 4% of GDP in average for defence (for example 4,0% in 2012, 4,2% in 2013, according to SIPRI). This increasing trend in the Russian defence budget has caused concern in the states around the Baltic Sea. Huge spending of Russia is generally given mainly by the size of the country and also by the historical experience and relationships with surrounding countries form the

budgeting.⁵ Factors explaining the growth of military spending could be mainly increasing presence of NATO bases in Europe, European unification, growing power of China and also recent civil war in Ukraine.

Russia has the 2nd most powerful military power in the world (after the United States). Russia “wins” the 1st place in many military aspects. Stated number of military personnel is 766,055 men. Russia uses a combination of professional army and conscript system.⁶ All weapons systems used by Russia are made in Russian weapons factories, which makes Russia independent on import in case of military equipment. On the other hand, export of weapons forms significant part of Russian economy and helps to enforce foreign interests. Main importers of Russian weapons and weapon systems are China, Algeria and Vietnam. Security environment of Russia since 1990 has been influenced by many conflicts (the 1st and the 2nd war in Chechnya, war in South Ossetia and recent civil war in Ukraine). Moreover, Russia is developing some of the most advanced tanks in the world.

Conclusion

On the basis of examination of the development of military spending of European NATO countries are evident causes changing the trend. Firstly, it was the fall of the Iron Curtain and the release of defence policy in terms of reduction of military spending. Secondly, armies (including the establishment of new state armies) needed to modernize and many have undergone a professionalization, thus military expenditures began to increase gradually. However, this trend has been influenced by the last recession starting 2008 onwards.

In the new environment NATO countries have begun to realize the importance of defence policy, and these days some states initiate to increase its military spending and meet the NATO commitment. This situation is similar to development of military expenditures in European countries in half of 90s when the importance of the defence policy was stressed, it can be found for example in Handbook of Defense Economics: “*Despite the recent slowdown in the rate of increase of defense spending, the level of defense expenditures continues to be high in most parts of the world.*” (Hartley, K.; Sandler, T., 1995).

Acknowledgment

⁵Russia would have to cover 22,407 square kilometres of land borders and 37,653 km of seashore in case of a threat.

⁶The number of trained and capable-of-service backups is estimated about 2,485,000 men.

Russia possesses the world largest amount of nuclear warheads and its means of transport (1,600 active warheads and 8,000 more as backup) and is able to deploy 15,398 tanks.

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Contact

Vendula Hynková	Michal Lastovka	Oldřich Faifer
University of Defence	University of Defence	University of Defence
Kounicova 65, 612 00 Brno	Kounicova 65, 612 00 Brno	Kounicova 65, 612 00 Brno
Vendula.Hynkova@unob.cz	Michal.Lastovka@unob.cz	Oldrich.Faifer@unob.cz