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**POLITICAL ECONOMY OF SECURITY REVISITED**

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## 1. INTRODUCTION

### 1.1 The Argument in Brief

This paper constitutes a modest attempt to explore the political economy of security beyond the narrow constraints of the economics of defense. Its immediate inducement was a criticism directed at the Netherlands Association of Economists for Peace (affiliated with the American organisation ECAAR: Economists Against the Arms Race). The Dutch economist Brand accused his colleagues of forgetting that in an uncertain world, weaponry derives its value from its utilisation capacity, to be used whenever the situation so requires (Brand, 1990). Primarily, he feels, the military industry has to be taken seriously. It is only after the requirements of an optimal defence in order to guarantee security, have been fulfilled, that we might think of other priorities. This type of reasoning is, however, rather uneconomic. As an economist Brand might have learned to reason from ends to means rather than the other way round. It is not the military industry that should primarily be taken seriously but the norm of security. This norm would have to be specified in certain ends which may be not only of a military but of a social, political, or ecological nature. There is no pure military security. Security is a rather difficult concept with many different aspects. Economists are currently becoming increasingly aware of non-military implications of security. In rural economics, for example, there is growing attention for food *security* as distinct from food production and consumption.

Firstly, we shall go a little further into the dialectics of security. The term 'security' appears to be used with different meanings, without much specification. Here, the paper seeks clarity. A general problem is the rather static connotation of the term, as if security could be conceived definitively at any given point in time.

Our conceptual investigation will reveal that security is connected to processes of integration and disintegration. Hence, for purposes of political economy analysis, we propose to focus on causes of disintegration. Disintegration implies growing insecurity. The paper looks at certain root causes of disintegration. In this way the security problematic may be defined, at a global as well as at specific regional, national and local levels. It is particularly the impact of militarisation that is set in a different light when not connected to a static concept of security but rather to processes of (dis)integration.

This will lead us to possible contributions of economists to an analysis of economic consequences of war and the conditions for peace. In regard to war we shall use the second Gulf War as an illustration. The ferocity of such a war and the arms race appear to be closely connected. In the

situation resulting from the end of the cold war the major challenge today is the realisation of a 'peace dividend'. Here, it is the conversion problematic that merits a great deal of attention.

## 1.2 The Dialectics of Security

The National Guards who restored order in Los Angeles and other American cities during the rebellion of 30 April — 2 May 1992 had also been in action in the Gulf region after Iraq invaded Kuwait on 2 August 1990. Thus, operation Desert Storm was followed by an operation 'City Storm'. For the troops the difference was that they now had to fight people in their own land. But the justification in both cases was the same: security. In the 1992 event, it was, however, more clearly realised that with these military means only some very limited short-term goals could be attained. Long-term security is based on the political, economic and social structures of society. This applies currently to external security as much as to internal security.

Few terms are as ambiguous and confusing as 'security'. Indeed, the security dilemma is old and well known. 'Such is the absurdity of today's world', states *The Gaia Peace Atlas*: 'the more we pursue security, the less secure we become' (Barnaby, 1988: 110). Obviously, the term security is used in two different contexts here. In the first part of the statement 'security' is perceived from the military strategist's point of view: 'the defence of one's territory from occupation and invasion; the defence of strategic raw materials and markets; and the defence of the society's political and social values' (ibid). In the second part of the statement, security is approached at the global level. But it is the lack of a fully global security system which necessitates 'self-help' by individual states. Additionally, the latter has to do with conviction which, naturally, cannot rest on force or the threat of force alone.

People's belief in certain values tends to be related to actual demonstrations that these values may, indeed, be realised. If substantial parts of the population do not see the confessed values reflected in the economic, political and social structures of society, security is threatened from within. Huge military expenditures imply a diversion of resources away from non-military needs. Is a society secure when only a slinking minority demonstrates a belief in its political structures by participating in elections? Indeed, a certain amount of tension between external and internal security is not unusual.

The term *security* is not only ambiguous and of a dialectical nature, but also ideologically loaded. We may take the ideology of 'national security' as an example here, a term often propagated by military regimes. General Pinochet in Chile connected this ideology with his paranoid image of 'the enemy from within'. This provided the justification for arbitrary powers of arrest and detention

on the part of the police (paramilitary troops). What it meant in practice was a continuous violation of 'the security of the person', a fundamental human rights norm incorporated, for example, in the 1950 Rome Treaty.<sup>1</sup>

Thus, internal security is sometimes sacrificed in the name of external security while 'national security' may be used as a justification for violating the security of the person. Beside politics, economics, too, sometimes appears to suffer from simplistic reasoning on security. An example of such simplicity was already given in the first lines of this paper.

In an interdependent world the non-military aspects of international security are bound to become more and more important. The World Bank recognised this for the first time in its 1990 Annual Report when it stated that many developing countries still allocate a considerable part of their government expenditure to defence despite acute needs in other sectors of the economy (*World Bank Annual Report, 1990: 46*). Indeed, during the period of 1960-85 military expenditure in developing countries increased fifteenfold. Despite a recent downward trend, more money is still spent on 'defence' than on education. The amount spent on health is less than half of military expenditure. These are not the right proportions, the World Bank feels. It is time for governments to adjust their collective expenditure in order to increase the welfare of their citizens. As alternatives to military expenditure the Bank mentions health and education.

Consequently, a new term has been coined: 'economic security'. One does not have to be a Marxist to see that economic conditions may lead to a situation which is a breeding ground for violent conflict and confrontation. Numerous conflicts in developing countries are related to economic contradictions and economic failure. Security appears to have not only military but also political, social and economic aspects. Hence political economy of security cannot be confined to an analysis of the security problematic in terms of the economic implications of defense.

Economic tools of analysis might still be used within a more integrated conceptualisation of security.

## **2. CONCEPTUAL OBSERVATIONS**

### **2.1 Peace and Security**

While the Greek word for Peace, *eirènè* (irene), used to refer simply to the period of relative calm and tranquillity between two wars, the Hebrew *Shalom* and the Arab *Salam* give the term a much deeper meaning. In the latter perception, peace is founded on right relations between individual human

beings as well as peoples, while also connected with well-being and welfare. Where order and justice are disturbed, there can be no peace. Peace implies freedom from fear. Its opposite is not simply war, but discord, disaster, misery, and, of course, violent conflict.

Security may be seen as one of the conditions for peace. It has to do with the many threats people face in their lives. Security in a broad sense encompasses safety. Safety means *protection* against disaster. You may fall in the water, for example, but with your life belt you are safe. In addition, security means a minimization of risks. Thus, it is important to take preventive measures so that you won't fall into the water. Security implies both prevention and protection. It means freedom from disaster, fear, attack and violent disruption.

## 2.2 International Security

In an international context, the term security is closely connected with prevention of and protection against external threats to a state. Here we may distinguish between three different strategies. The first is *hegemony*: security through subjugation. This is the case of one state ruling territory beyond its own borders by military means. While accepting their dependency the other states get some sort of 'peace' in return. In the long term, however, a pax Romana, a pax Germanica or a pax Sovietica cannot be maintained. Domination is broken and disintegration follows. Security through hegemony is of such a contradictory nature — peace by domination is of course a contradiction in terms — that it may be regarded as a fundamentally insecure way of providing short-term security.

In his book *Gleichgewicht oder Hegemonie, Betrachtungen über ein Grundproblem der neueren Staatengeschichte* (1948) Ludwig Dehio views European history as consisting of successive periods of changing alliances, sometimes leading to a balance of power, but at other times resulting in attempts at imposing hegemony. Clearly, the system of 'balanced security' that Europe has enjoyed since World War II could be seen as one big step forward after Hitler's attempt to establish a German hegemony. Some observations should be made here, however. Firstly, this international security system was based on bipolarity with military balance between the two superpowers and an accompanying system of 'linked' security for the other states (with relative exceptions for Great Britain and France). Apart from the dependency which this implied for the Western allies (with NATO agreeing on an annual increase of defence budgets by 3%), 'balanced security' — as based on 'balance of terror' — meant that the West had to acquiesce in a system of hegemonic security within the Eastern bloc. But the major snag was the arms competition in which this security system resulted.



'Si vis pacem para bellum': if you want peace, prepare for war. This old way of reasoning views security in terms of military balance. Optimal security is reached at the moment when quantities of weaponry and military personnel on both sides (the weapon systems), are fully in balance. The development of nuclear deterrence has enhanced this line of thinking. Economists, however, are aware of the dangers of an analysis of dynamic reality which assumes static concepts of equilibrium. For them it is no surprise that in practice, a balance based on the risk of escalation with the ultimate danger of mutual destruction does not result in a stabilisation of defense expenditure but rather to a continuous struggle for military supremacy. It is the nature of equilibrium that counts. In terms of defense expenditure the 'balance of deterrence' manifested itself as an upward spiral.

Economists know, moreover, that competition will always tend to manifest itself as long as enterprises have not become fully merged. Where competition in price and quantity becomes restricted, rivalry will primarily assume a qualitative character. It is this competition in quality which has made the arms race so terribly expensive. In his dissertation *Economic Consequences of Disarmament* W.F. Duisenberg estimated a global military expenditure of around \$100 billion in 1959. Today global military expenditure is more than ten times this amount.

In 1981 the Palme commission (Independent Commission on Disarmament and Security Issues under the Chairmanship of Olof Palme, 1982) described the nature of a qualitative arms race. The operationalisation of improved weapon systems may convince the opponent that he is faced with a stronger military power. But the commission also noted that in the eyes of an opponent there is now an increased risk that the enemy will also *use* his military power. The country faced with this development may then decide to increase its military capacity too. The resulting arms race will lead to political tension. In an extreme event one of the countries might conclude that it must opt for a preemptive attack in order to eliminate the existing threat since the military balance of power might deteriorate only further to its disadvantage.

*Common Security* was a concept still based on opposition between different political and socio-economic systems of certain countries. But at a global level, security might be conceived in a way which does not contain the snags described above: *interdependent security*, i.e. security through socio-economic and political integration of countries. Integration with maintenance of national (cultural) identity formed the basis of the system for which Western Europe opted after World War II, in order to exclude any possibility of a new war between e.g. France and Germany. Interdependent security is in fact, a system for security without an identified enemy.

Economic interdependence among nations is not a new phenomenon. Like others before him, Jean de Bloch, a Russian banker, has described war as a way in which nations would harm their self-interest. Already a century ago he concluded: 'The soldier's importance is waning and that of the economist is on the increase'(1897, cited in Tromp, 1990: 5-6).



### 3. SOME CAUSES OF DISINTEGRATION

Conceptually, security appears to be a difficult term. One preliminary conclusion is that it is of a relative nature. Absolute security is not only impossible but dangerous, a 'dangerous Utopia' as Erhard Eppler has argued in a book entitled *Absolute sicherheit: eine gefährliche Utopie*. Besides, security has many different, sometimes conflicting, aspects. Thus, as we saw, policies for protection against perceived external threats (military aggression) may demand such a large proportion of resources that protection against internal threats is undermined.

A second conclusion is that security should not be analysed in a static context. Security of people is related to their place in the communities to which they belong while the security of a state has to do with its place in the community of nations. Such places are not fixed. What we observe in practice are processes of integration and disintegration. Security implies a 'civilising process' (Norbert Elias) towards societies that function better in terms of our needs and purposes, where social constraint becomes self-restraint and where people (or countries) perceive the common good (their common interest) at a higher level. Insecurity on the other hand arises out of a fragmentation of common interests into different parts. Through such fragmentation and the accompanying loss of self-restraint risks of violent conflict increase.

As insecurity is in fact closely connected to processes of disintegration we shall now focus our attention on some causes of such processes in an international context.

#### 3.1 Bad Governance

Processes of socio-economic and political disintegration among nations and peoples constitute major causes of violent conflicts. In analysing such processes we may first note that ethnic, religious and other types of differences have always been present in societies characterised by co-existence of different groups and so they will be in future. For these differences to erupt into disintegration, certain other factors must come into play. One is, of course, political and/or religious exploitation of ethnic and other feelings of distinction. Indeed, irresponsible leadership is an important subjective factor whose influence on conflict should not be underestimated. The popular saying that 'every people get the leadership they deserve' is too simple. Some people have very little choice indeed. But the leadership factor is not unrelated to a society's political structure. It is generally recognized today that development studies have paid insufficient attention to 'structures of governance'. This applies

not only at a national level but at the regional and international level as well.

The basis of good governance is in the rule and role of law. The core of law is the *integrity* of society which it tries to guarantee, as Dworkin (1986) has pointed out. Law regularizes dispute settlement while preventing conflicts of interest from disrupting into violent struggle. It may also regulate access to collective goods and services and shape corrective mechanisms to reduce inequalities.

There are several reasons why in many parts of the world law cannot fulfil its proper function while being abused purely as an instrument for the legitimisation of uncontrolled power. For economists it is important to realise that selective intervention in systems of markets and prices requires at least some rudimentary state authority together with a minimally functioning system of state law. *The Human Development Report* (1992) illustrates the importance of such interventionary mechanisms in a national context. In a regional and global context, however, these are almost entirely lacking. International security now requires the creation of international structures of good governance.

### 3.2 Inequality

While mankind appears to be capable of coping with certain types and degrees of inequality, there are circumstances in which inequality becomes a disruptive and disintegrative force. One factor relates to ethnicity and another to socio-cultural differences. When inequality coincides with such distinctions, it may lead to revolt as events in Los Angeles in 1992 have demonstrated. It is important to note that at a global level similar conditions prevail.

A second contributing factor is exploitation. A high degree of inequality coupled with immiserisation at the bottom results in disintegration. That some people can ride a luxurious car is easier to accept when everybody can at least ride a bicycle. Here, we may look at the ratio between the upper and lower quintiles in income distribution. The most disturbing figures within certain countries — Brazil, for example, with a ratio of 26:1 — still compare most favourably with global inequality. The same comparison for all countries according to the Human Development Report 1992 gives a ratio of 60:1, while for individual people the figure is an incredible 150:1. Here lies a major threat to global security. Apart from the polarisation inherent in such inequality, relative poverty may also be regarded as a breeding ground for divisive ideologies.

### 3.3 Militarisation

Senior military leaders have been invited by the American Congress to give their best guesses about the threats to America's security in a post-Cold War world, and where these are likely to surface (*The Economist*, 15 February 1992: 34 and 21 March 1992: 43). The result of such a military analysis is, of course, a military response with the following requirements: 'a basic number of nuclear and conventional forces for defence in America, American troops stationed overseas and weapons modernisation' (ibid.). We have argued, however, that security cannot rest on force or even the threat of force alone. In Europe, for example, it is particularly the disintegration of the Soviet Union and its neighbours that is posing the greatest threats. 'Unless the economies of the East start to improve soon', the *Economist* rightly observes, 'three dangers will grow: threats to democracy, risks of ethnic conflict and unwanted pressure from Easterners to settle in the West. For the foreseeable future, the keystone to Europe's security is economic recovery in the East' (*The Economist*, 15 February 1992: 34).

Economic literature on the relationship between militarisation and development reveals two different camps. Some economists like Benoit and his followers believe that military spending is positively related to economic growth (Chatterji, 1992: 236). There are also those who believe that military spending competes for resources otherwise needed for economic development; hence it has an inhibiting effect on economic growth. Benoit (1978) argued that defence spending stimulates economic growth by contributing to civilian production through the provision of food, clothing, shelter, etc. for a number of people who would otherwise live in extreme poverty. He further maintains that in some societies the military also provides education, medical care, and vocational training while engaging in a variety of engineering public works and delivering scientific and technical services to the society. Benoit however acknowledged that defence expenditure may have unfavourable effects on economic growth. The defence industry may require resources that could otherwise be used for investment. He refers to this as the 'investment effect'. Note is also taken of the fact that defence spending may generate overall low productivity.

More explicitly than the view expressed above, in the words of Inga Thorsson (1988: 533-8), 'common sense alone tells us that military preparations are an economic burden'. The Thorsson committee set up by the UN General Assembly to study the relationship between disarmament and development in 1981 stated quite clearly that the arms race and development are competitors for resources. The committee described military spending as dead-end expenditure which does not foster economic growth but rather creates a drain on scarce resources which could be used alternatively for alleviating poverty and human distress.

Quite apart from the direct effects of military expenditure, there are the side effects. Economists are quite aware that human actions may have more than just the intended effects. There are whole chains of causes and effects, sometimes with very complex side effects. In decision-making, the side effects are not always taken into account ('external effects'). The international trade in weaponry is an example here. Intended effects within the exporting countries are the acquisition of foreign exchange and the creation of employment. What is not intended is a violation of the international legal order with use of the delivered weaponry. But that is exactly what happened in the case of the Iraqi leader, Saddam Hussein, who confronted Western countries with weapons they had supplied themselves. For the importing developing countries, the objective of arms purchases is at best the protection of their national sovereignty. But militarisation also has some side effects:

- militarisation increases the financial dependence of developing countries. In order to finance the arms purchases, foreign exchange is required;
- militarisation implies a choice of development which is biased towards economic growth through large-scale technology, economic concentration, and a far-reaching degree of specialisation in production;
- militarisation also affects domestic government. In developing countries there have been many coups d'état after which a military regime took power. The administration then becomes dictatorial while using repression and violence;
- militarisation results in substantial violence when conflict breaks out.

We have to be aware that conflicts between new states cannot always be avoided. In many cases, boundaries were artificially established, cutting right through ethnic territories. Examples are the case of Biafra in Nigeria, the Horn of Africa, the claims of Idi Amin's Uganda on part of Northern Tanzania and the Gulf Region. In addition to conflicts which actually break out, we should also think of potentially explosive situations. Israel, for example, fears the consequences of military exports from the United States to Saudi Arabia. The aim is protection of the Saudi sovereignty but naturally, other consequences cannot be ruled out.

Over the past 40 years we have seen the emergence of new states whose desire for national sovereignty is manifested in maintaining a costly army and purchasing weaponry. Sometimes, stability in the new states is impaired by economic patterns and ethnicity. In the case of Africa, the colonial powers are the major contributors to disintegration of the continent which is today responsible for most African conflicts. Most African states are ethnically and linguistically pluralistic with a cultural diversity that cannot easily be incorporated. Hostility becomes the order of the day. One of the root causes of this disintegration is the colonial division of ethnic home land. The Somali tribe for example is split by Somalia and Ethiopia, the Gio tribe is split by Liberia and Cote d'Ivoire.

We may note that in the whole world only 14 states were formed on a more or less homogeneous cultural basis. In this context regional integration may reduce the risks of intra-state conflicts. While militarisation generally implies growing insecurity, economic integration tends to enhance security both between and inside states. Such integration will, however, also create certain problems. For economists here lies an obvious challenge.

Economists have a further contribution to make in the analysis of the costs of war and the benefits of peace. This will be the subject of the final section of this exploratory paper.

## 4. POLITICAL ECONOMY OF WAR AND PEACE

### 4.1 The Economic Consequences of War

Lambelet has argued that 'the end of the Cold War does not mean that the millennium has finally arrived and it should be no ground for euphoria. No one knows what shape and course the former Soviet empire will take in the future, the huge Soviet nuclear arsenal still exists....' (Lambelet, 1992: 254-69). Roland F. Lehman (1991: 8) expressed scepticism that Soviet weapons of mass destruction may fall in the wrong hands. He also argued that significant sources of instability manifest themselves throughout the world, both in Europe, as seen in the Yugoslav civil war, and in other regions such as the Middle East, South Asia, and the Korean Peninsula. The risks of conflict he feels, are high in these regions, and the danger of the emergence of new nuclear-weapon states remains.

In 1990 there was a brighter hope for world peace. 'The Gulf War has ended', noted *Foreign Report* (5 July 1990: 5). That was written in July, 1990. What was meant, of course, was that the war between Iran and Iraq had come to an end. Negative effects on the arms trade were already noticeable. But a few weeks later Iraq invaded Kuwait. 'Saddam to the rescue' was the title of an article in the British *Economist* (18 August 1990: 56-8) in which the immediate consequences for the arms dealers were spelled out. The Gulf Crisis resulted in a new war whose consequences still have to be analysed fully. So far, economists have paid remarkably little attention to the major destruction and diversion of resources that this war implies. Let us make a preliminary effort here.

#### 4.1.1 Effects of the Gulf War

##### 4.1.1.1 Benefits

A view which Tim Ridell referred to as leftist was expressed in the URPE Newsletter (Ridell, 1991). 'US capitalism requires war. Without occasional wars, the economy would fall into depression. Wars head off economic trouble and stimulate corporate America.' Indeed during the time of the US engagement in the Gulf War, the US economy was showing multiple signs of weakness on its way to recession. Unemployment was estimated at 6.2%, interest rates remained high with a rise in inflation. This situation even worsened when Iraq invaded Kuwait with mounting inflation brought about by increases in the prices of oil and related products. Indeed, the Americans needed to act swiftly, if the economy was not to fall into deep recession.

Furthermore, there were the benefits for the arms traders. In the American Congress, the attitude towards new weaponry changed totally. The day of Iraq's invasion of Kuwait, the Senate immediately decided to approve a plan to keep the Stealth B-2 bomber in production (cost: \$850 million). During the second Gulf War itself, the Stealth F117 appeared on television screens all over the world.

One of the first beneficiaries of the Gulf Crisis was an American firm, Survival Technology, that traded in a device for injecting oneself with antidotes to the nerve gases which Iraq's president Saddam Hussain had in his arsenal. But also over the longer term, the consequences were substantial. The lobbyists in the defence industry stressed the many weaknesses in the American military build-up. McDonnell Douglas which already had cut its production by \$700 million per annum, suddenly saw new prospects for launching its big C-17 freight aircraft, an order which the American Congress earlier had turned down. The Gulf Crisis also brought good news for General Dynamics, the Pentagon's supplier of tanks and F-16 fighter planes.

*The Economist* (March 14, 1992) reported that since the end of the Gulf War, the United States had sold arms worth \$8.6 billion in the Middle East, mainly to Saudi Arabia. The US administration appeared now prepared to pass on to the Congress a Saudi request for 72 advanced F-15 fighters-bombers, including 48 F-15 ground attack aircraft which have never before been sold abroad.

During a meeting in September 1990, between James Baker and King Fahd, it was agreed that the King would cover the cost of the American operation during the Gulf War. This was followed shortly after the outbreak of the war by an additional promise of \$13.5 billion to the United States by the King to cover the cost of the allied operation.

Egypt, because of its support for the allied forces during the Gulf War, was also a net beneficiary of the Gulf Crisis. It was given \$1.5 billion in loans and credits by Riyadh and a debt of



\$6.6 billion owed to Saudi Arabia and Kuwait was written off (*Middle East Report*, May-June 1991).

Some countries, including Turkey for example, were given between \$3 to \$4 billion as compensation for enforcing the UN embargo against Iraq and for supporting the allied forces during the Gulf War (*ibid.*).

It is also notable that as a result of the absence of Kuwaiti and Iraqi supplies of oil on the world market because of the Gulf War, Saudi Arabia and the other OPEC states were able to increase production dramatically without undercutting prices. *Business Week* reported also that expanded pumping and higher prices could allow Saudi Arabia to earn as much as \$45 billion in 1990 (\$20 billion more than 1989) (17 September 1991: 30).

#### 4.1.1.2 Costs

Beside speculations, there have been no concrete figures on the socio-economic and ecological cost of the Gulf War. Its impact is, however, devastating. Jan Tinbergen, looking at alternatives of settling conflicts other than the use of war analysed the consequences of war in terms of input and output. He states: 'War is a very expensive undertaking. The inputs are many expensive arms and many victims killed or injured and the main outputs are mass destruction and lower welfare for those who remain alive after the war.' (Tinbergen, 1985: 192) This was exactly what happened as a consequence of the Gulf War.

It is reported (*Middle East Report*, June 1991) that on February 11, 1991, after nearly four weeks of intensive bombing by the allied forces, the civilian death toll was in the range of 5,000 to 7,000. Again, on February 13, 1991, two US 'smart bombs' smashed into a bomb shelter in Baghdad massacring hundreds of women and children who had gathered there.<sup>2</sup> The Martti Ahtisaari Commission of the UN appointed to assess the humanitarian needs in Iraq after the Gulf War, could not give a conclusive report. The Commission, however, acknowledged these needs and spoke of worsening conditions in sanitation and health. It reported that about 9,000 homes had been destroyed of which 2,500 were in Baghdad and 1,900 in Basrah (*UN Report*, 1991: 40). This has created a new homeless group totalling about 72,000 people. All this still excludes the tremendous costs in human life in the military sector.

Saudi Arabia also experienced some losses from the Gulf War. During the war, some Scud missiles landed in Riyadh, and Iraqi artillery set fire to a refinery in Khafi. The Saudi stock market crashed causing a loss of about \$10 billion. Additionally, an economic burden estimated at \$3-4 billion was shouldered by the Saudis in accommodating 200,000 Kuwaitis who fled from the Iraqi invasion.

In a briefing paper issued in March, 1991 by the Overseas Development Institute (ODI, March

1991), it is shown explicitly that many developing countries were affected by the Gulf Crisis. It is recounted that from August, 1990, to January, 1991, the oil price averaged \$30 per barrel — a price nearly twice that of the previous year.

Table 1 below is taken from a reported sample of 35 poor countries which were severely affected by the Gulf Crisis. It illustrates the extent to which disintegration due to war can have adverse consequences on nations who are not necessarily parties to a conflict. For all of these countries GNP was affected by not less than 2 per cent. Yemen, for example experienced a GNP loss of about 10 per cent. Before the Gulf War, Yemen received annually about \$1-2 billion a year from Saudi Arabia and Kuwait in the form of remittances from migrant workers. As a result of Yemeni neutrality during the Gulf War, Yemeni workers in Saudi Arabia were expelled. In addition, foreign aid to Yemen from both countries was terminated (*New York Times*, 22 and 23 October 1990 and *Middle East Report*, 30 November 1990: 4-5).

**Table 1. Impact of the Gulf Crisis on Selected Developing Countries (1991)**

Countries	Oil Cost (benefit) US\$M	Non-Oil Cost US\$M	Total Cost US\$M	% of GNP
Yemen	(570)	1400	830	10.4%
Sri Lanka	140	125	265	4.0%
Sudan	75	305	380	3.8%
Tanzania	80	-	80	2.5%
Dominican Republic	150	-	150	3.4%
Paraguay	105	-	105	2.8%
Botswana	35	-	35	2.8%
Chad	25	-	25	2.5%
Mauritius	50	-	50	2.6%

Source: Box — 1 ODI Briefing Paper, March 1991.

Note: Non-oil cost refers to loss of migrant remittances and export market.

Besides costs incurred during the Gulf crisis in poor countries like Sudan (4 per cent GNP) and Ethiopia (2% GNP loss) in the form of higher oil prices and the loss of workers' remittance, the shock of the crisis occurred at a time when these countries together with Liberia, Somalia and several other countries in Africa and elsewhere were facing civil wars and/or famine. Yet, the global media had focused their interest on the Gulf War, hence, turning deaf ears to equally important crises. Consequently, the public interest in these countries was reduced during the Gulf Crisis thereby decreasing any international assistance the poverty-stricken people in these areas could hope for.

In addition to short term consequences, war has far-reaching long term effects. Thus, the costs of the international Gulf War should not be calculated only in terms of immediate destruction; in addition we may highlight the wasted opportunity to create an international system of security based on operationalising sanctions for the execution of chapter VII of the UN Charter. In the analysis of conditions for an effective system of sanctions, economists may again play an important part. Another long term effect of war is its impact on the arms race. In analysing this phenomenon, economics, again has its part to play.

## 4.2 Breaking the Arms Race

In a macroeconomic sense, Say's Law (supply creates its own demand) is a fallacy but in the microeconomic (intentional) sense, this law has a certain meaning: as an objective for enterprise policy. A firm that has something to offer does everything to create its own market.

It was the American President, Dwight Eisenhower, who coined the phrase 'military-industrial complex'. Indeed the market economy cannot be regarded simply as a system of autonomous demand which manifests itself through the mechanisms of markets and prices. Galbraith showed already years ago that particularly large enterprises develop products themselves and at the same time try to stimulate demand for these products (Galbraith, 1967). This mode of operation is quite natural, particularly in cases where demand is of an institutional character rather than consisting of a large number of atomistic subjects. That is exactly the situation in the military sector, where many producers of military hardware are faced only with government on the demand side.

Hence what Brand formulated as an objective ('primarily the military industry has to be taken seriously') is a matter of fact. The process of weapon production begins with design — between one quarter and one third of all research and development takes place in the military sector -next follows production and then new arms are made operational (stationed). As for the arms trade to developing countries, there is no passive waiting to see if there is any demand for these products. Arms sales are conducted actively, through so called *merchandising*. This refers to both the dumping of obsolete

weapon systems and the sale of the most modern weaponry. Tanzania and Uganda, for example, both acquired MIG fighters as well as modern SAM system from the Soviet Union. During the war between these two African countries, Tanzania managed to shoot down three MIGs, two of which were their own.

Naturally, the new relationship between East and West implies a great change. But because of the power of supply in relation to demand, this will not necessarily result in a reverse trend in arms production. The autonomous power of supply remains substantial. Thus the SIPRI Year Book of 1990 found 'no evidence that there would be a slower pace to technological change in the military area' (*Sipri Yearbook*, 1990). It is now the employment situation that provides the argument for maintaining production. Conversion, the transition from military to civilian production, appears to occur only where governments deliberately stimulate such processes (Renner, 1990). The response of the military industry to the termination of the Vietnam war for example, went no further than diversification — reducing dependency on purely military orders — which is something different from seeking alternative production lines for the existing capacities in capital and labour.

Disarmament creates problems of structural economic adjustment. Through a considerable degree of specialization in production in combination with the tendency for firms to employ their work force while they are young and train these people themselves, temporary unemployment may easily deteriorate into long-term unemployment. In this way, employees are made into 'economic hostages' of the arms industry: the obvious need for income and work is used as a weapon in the political struggle against conversion.

Conversion appears to require policy in the form of planning alternative uses of existing resources together with a supportive policy for economic compensation. Without structural changes in arms production, it will not be possible to stop merchandising. The new UN Arms Register<sup>3</sup> will be helpful but inadequate.

### **4.3 Realising the Peace Dividend**

Naturally, the end of the Cold War had reduced the demand for weaponry. The total benefit that this might produce is termed the 'peace dividend'.

On July 5, 1990, an article appeared in *Foreign Report* entitled 'The Arms Makers' Plight'. Arms merchants had hoped to compensate the reduction in demand for the North through new orders from the South. But that turned out to be an illusion. Arms sales from the North to the South had been reduced from \$39.8 million in 1988 to \$29.3 million dollar in 1989. The American sales were

slimmed down by 18%, the British by 50% and the French by no less than 90%. Estimates of the reduction of Soviet arms exports to the South amounted to an annual figure of around \$50 billion. The major reason was that the Soviet Union was now asking cash, of which its major customers (Afghanistan, Vietnam, Cuba, Syria, and Ethiopia) were all rather short.

Trends showing a reduction of military expenditure in the South were from around 1985. Developing countries had good reasons for saving on weaponry. In the 1970s and 1980s they had already bought an incredible pile of new stock. Maintenance, replacements of parts, and ammunition were expenses. Another important factor was the high debt burden with its accompanying financial duties in terms of interest payments and repayments of loans. In total the net financial transfer from South to North rose from about \$10 billion in 1984 to about \$50 billion in 1991 (HDR, 1991: 81).

Military spending in industrialised countries was reduced from \$838 billion in 1987 to \$762 billion in 1990 — a reduction of about \$76 billion or 9%. In the developing countries, military expenditure dropped about 21% between 1984 and 1990 — a reduction from \$155 billion in 1984 to \$123 billion in 1990. In cumulative terms the peace dividend for industrialised countries, between 1987 and 1990 was about \$158 billion which is 18% of military spending in 1987. In developing countries, the cumulative peace dividend between 1984 and 1990 is estimated at about 77% of military spending in 1984. The World Development Report (1991) also reported that armed conflicts were reduced from 36 in 1986 to 32 in 1990.

**Table 1.2a Actual Peace Dividend for Industrialised Countries (US\$ billions, 1985 prices)**

	1987	1990	1987-1990
Military Spending	838	762	
Peace Dividend (Cumulative)			158

Source: *UNDP Human Development Report, 1992*. Table 5.2, p.87.

While there is some pessimism about the prospects of the global peace dividend, it is important to make a clear distinction here between the peace dividend of the South and that of the North. In the North, the peace dividend refers to savings in the form of liquid cash not spent on armaments, in the case of the developing world, this may not be the same.

**Table 1.2b Actual Peace Dividend for Developing Countries (US\$ billions, 1985 prices)**

	1984	1990	1984-1990
Military Spending	155	123	
Peace Dividend (Cumulative)			119

Source: UNDP Human Development Report, 1992, Table 5.2, p.87.

For the developing countries the peace dividend comes partly from a reduction in military spending but most importantly from the promotion of more democratic regimes, settling regional conflicts and increasing spending in the area of human development. The developing world will have to deal with the reality of disintegration as a result of the dissolution of the East-West paradigm which has kept them in global political and economic bipolarism in the past. The interest of the North in the South during the cold war was the result of a struggle for spheres of influence over individual developing countries in an attempt by each of the superpowers to maintain some advantage. Multipolarism makes international relations less certain.

Despite these uncertainties, hope for the third world is not lost. The dividend in the form of a settlement of regional conflicts stands a better chance of being achieved. There is a reduction in the opportunities for external powers to manipulate regional conflicts in the third world. The implication is, therefore, that the East and the West can now better cooperate in helping to resolve regional conflicts of the developing countries. Additionally, dictatorial regimes will no longer be able to hide behind the veil of East-West rivalry. A clear case in point is the fall of Mengistu's regime in Ethiopia. We see today that Cuba and Vietnam have begun to face serious financial problems because aid previously received from Eastern Europe has stopped. Considering the present downward trend in the export earnings of developing countries and acute debt burdens, there is an even greater need for the third world to cash in on the peace dividend of the industrialised world. A complication here is the preference presently given to financial aid for the transition in Eastern Europe.<sup>4</sup>

We would argue that the world is not becoming any better or more peaceful if the third world crisis is excluded from the peace dividend. The disarmament agenda will have to include the developing countries. Otherwise, world peace will be at serious risk; there cannot be peace in the industrialized countries at one end of the globe while conflicts remain the order of the day in the developing countries. This brings us to some concluding observations.

#### 4.4 Concluding Observations

In concluding this paper, it is important to remind ourselves that while it may be true that the end of the Cold War creates hope for a more peaceful world, in the absence of global as well as regional processes of integration this expectation may become an illusion. This paper has indicated the part economics may play in the analysis of both the consequences of war and militarisation and the conditions for peace.

A key phrase in economics is 'freedom of choice'. Economists are not easily inclined to bow before words like 'inevitability'. In their book *The Origin and Prevention of Major Wars*, Rotberg and Rabble point to the dominant feeling of 'fatalism among the statesmen during the last days of peace' (Rotberg and Rabble, 1989: 352). A similar attitude was noticeable during the last days before Gulf War II broke out. In such a situation, economists will wonder if the consequences of war have been sufficiently analysed and if the alternatives to war have received sufficient attention. What is decisive in the end, is of course, the political will, but in the process of the formation of political will, a full analysis of alternatives is of great importance.

Another key phrase of economics is 'scarcity'. In this regard, an interesting change in terminology is rather striking: from 'factors of production' to 'resources'. The analysis of the use of natural and human resources can no longer be seen merely as an analysis of production possibilities; it is also important to look at the problem of waste in which all material production and consumption ends.

The immediate destructive effects of war in terms of human and natural resources and capital goods are enormous, as the second Gulf War has once again demonstrated. It is highly questionable whether politicians who are faced with the possibility of war pay sufficient attention to these costs. Indeed, just the preparation of war requires a gigantic use of scarce resources for human survival; one should also think here of the problem of waste that arises after the non-use of the arms.

The core of economics is not in the term 'order' — effectively organizing production, distribution and consumption for whatever ends — but in terms like habitation and sustainability. Even a perfectly organized war remains 'archical' chaos and, hence, is contrary to the nature of economics: looking for ways in which the earth might be habitable for both human beings and nature. In this time of increasing interdependence, economics may acquire the nature of a peace science.





## Notes

1. See article 5 of 'The Convention for the Protection of Human Rights and Fundamental Freedoms', signed at Rome, 4 November 1950, *European Treaty Series*, No. 5.
2. The US is yet to make information available on Iraqi or Kuwait civilian casualties.
3. UN General Assembly Resolution A/RES/46/36, *Transparency in Armaments* 'requests the Secretary General to establish and maintain at the United Nations Headquarters in New York, a universal and non-discriminatory register of Conventional Arms, to include data on international arms transfers as well as information provided by Member States on military holdings, procurement through national production and relevant policies...'
4. *The World Development Report* argues, however, that both the objectives of fostering development needs for the developing countries and providing financial assistance for the problems associated with the transition in Eastern Europe can be achieved simultaneously from the peace dividend of the North. It is reported (WDR, 1991) that the saving derived from reduction in military spending in the West averages about 4% of Western countries' GNP which is about ten times the official development aid to developing countries.



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