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Military in politics and budgetary allocations

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ABSTRACT

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This paper investigates the effect of military involvement in politics on budgetary allocations for defence. We employ a variety of econometric models, including pooled OLS and panel data with fixed effects and control for other known determinants of military spending. To deal with endogeneity issues, we also use an IV methodology and find that a higher degree of military involvement in policy-making increases the probability that the military obtain a larger share of output. *Journal of Comparative Economics* xxx (xx) (2014) xxx–xxx. University of Essex, United Kingdom; University of Genoa, Italy; University of Essex, United Kingdom, CSEF, Italy.

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1. Introduction

Following the so-called “Arab Spring”, a revolutionary wave of protests and disorders across the Arab world in 2011, scholarly research on civil-military relations has become one of the fastest growing areas in economics and political science. This paper explores an important yet overlooked facet of the civilian oversight of the armed forces, the relation between budgetary allocations for defence and the military involvement in politics.

Military spending is a sensitive economic issue and its impact on economic growth, development, international debt, corruption, and on the risk of armed conflict have been extensively explored by a number of scholars (e.g. Gupta et al., 2001; Dunne et al., 2005; Collier and Hoeffler, 2006; Aizenman and Glick, 2006; Lin and Ali, 2009; Pieroni, 2009; Smyth and Narayan, 2009; Heo, 2010; Dunne and Smith, 2010; Alptekin and Levine, 2011; Kollias and Paleologou, 2013). Given the considerable amount of variation in military spending across countries and over time, another important research area is on the factors determining the demand for military spending (i.e. what a country wants in terms of troops and equipment). A country's economic wealth, political systems, armed conflicts and the military expenditure of neighbours and rivals are usually found to affect defence spending (see e.g. Dunne and Perlo-Freeman, 2003b; Goldsmith, 2003; Dunne et al., 2008; Nordhaus et al., 2012).

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While economic and international determinants have been widely explored by this burgeoning literature, none of the above accounts explains the influence of institutional actors in allocative decisions, in particular whether and to what extent the role of the military in domestic policy-making affects patterns of defence spending.¹ We anticipate that not only the armed forces are central in bringing about institutional change, as the recent events in Egypt in 2013 suggest, but the extent to which they intervene in politics is one of the key dimensions along which military spending differs across countries.

Most of the existing literature on the political determinants of defence spending focuses on differences between democracies and autocracies and finds that autocracies devote more of their economic resources to military spending than do democratic systems (e.g. Hewitt, 1992; Goldsmith, 2003). In a novel work, Albalade et al. (2012) find that presidential democracies spend more than parliamentary systems on defence, whereas its interaction with a majoritarian electoral rule reduces the defence burden. Their results are consistent with Linz (1990) theory: the armed forces can act as a leveraging power in situations of institutional conflicts between the president and the parliament. If the military is capable of exerting this influence, this should be mirrored by higher defence burdens (see Albalade et al., 2012, p. 288). In this article, we further explore to what extent military influence over the decision-making process has consequences for the allocation of resources and the level of budgetary support acquired by the military.

Coups d'état, which are usually followed by the installation of a military regime, are the primary way by which the military exerts its institutional influence. Yet, in most cases the political role assumed by the military fits more easily along a continuum rather than within clearly distinct boxes. Several civilian nondemocratic regimes survive with the external support of the military, and even consolidated democracies where civilian control of the military is the norm are not immune from a degree of military influence. By explicitly taking this factor into account, we consider more subtle linkages between the political influence exerted by the military and the amount of resources diverted to their apparatus. We use the International Country Risk Guide (ICRG) system (Howell, 2011), a model for forecasting financial, economic, and political risk. In particular, we look at one subcomponent of the political risk, "military in politics", which measures the military participation in government on a six-point scale. This scale can be used as a barometer of the extent to which civilian political institutions are penetrated by military personnel, factions and interests.

To assess the impact of military in politics on budgetary decisions, we use a large panel of 135 countries for the period 1984–2009 and include a variety of model specifications to deal with the presence of correlation within countries, time-invariant unobservable confounders and endogeneity concerns. We begin Section 2 with a short discussion on how characteristics of civilian-military relations may account for the relative power of military institutions to extract budgetary resources from the state. Section 3 discusses the data and the panel data methodology, while Section 4 presents our empirical results from pooled and fixed-effect models as well as instrumental variable (IV) estimators. Section 5 provides concluding remarks.

2. The demand for military spending

Models of military spending typically show that a country's defence budget is significantly affected by the security environment, including the military expenditure of allies, rivals and potential enemies (see Smith, 2009, for an extensive review). While external factors are certainly important, domestic institutional factors should also hold explanatory power. In fact, constitutional systems and electoral rules have important implications for the size of the government and economic policies (Persson et al., 2000, 2007) and affect military spending (Albalade et al., 2012).

We argue that civilian-military relation peculiar to a country is conducive to a specific degree of military involvement in politics which, in turn, affects the level of defence spending. We do not neglect other important reasons for arming, but accept that the military has good motives for acquiring more resources, from rent seeking to the pursue of status and prestige of the armed forces within a society. In particular, as Allison and Halperin (1972) put it, career officials believe that the health of their organisation is vital to the national interest and depends on securing the necessary capabilities, leading to attempts to maintain or increase the budget. This is particularly relevant since the end of the WWII, when the increasing sophistication of military capabilities has made the guidance of military officials essential to policymakers. Military leaders have become important provisioners of expertise on matters of security and budgeting (Flynn, 2013). While in theory when an optimal level of military burden is achieved, the marginal security benefit of an additional unit of spending is equal to its opportunity cost, in practice the calculation is complex given the inherent uncertainties associated with the assessment of security needs and the presence of competing interest groups such as the arms manufacturers and the military. These groups have their own interests in higher military expenditure and may therefore present the threats "as more pressing than they are" (Smith, 2009, p. 88). In fact, according to the bureaucratic politics theory (e.g. Halperin and Clapp, 2006), policy is the product of interactions between several different individual actors. The position that each actor holds, which depends on an actor's stance vis-a-vis other agencies and interests, determines his power to shape the policy-making process. This theory predicts that all bureaucratic organisations should be subject to this kind of wrangling over resources, and "the military in particular provides an excellent test subject given its emphasis on rank, structure, and hierarchy" (Flynn, 2013, p. 6). The military must compete with other interests in a budget game in which all actors, including the civilian bureaucracy, will

¹ The strength and nature of the Defense Industrial Base (i.e. the military-industrial complex) and the degree of involvement of members of the military in its board, is another crucial aspect connected to the level of military involvement in politics.

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