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RSIS COMMENTARIES

Defence Spending and Military Modernisation:

SHOULD IT BE RECESSION-PROOF?

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Given the current global economic crisis, there is growing debate over whether defence budgets should be recession-proof. National security is a first-order priority for any country. Yet, militaries should never be given a blank check when it comes to spending. The decision to shield defence budgets during tough economic times is ultimately a political one.

THE CURRENT global economic crisis, and the strain that it has put on government fiscal balances, raises a potentially bristling question for policymakers and taxpayers alike: just how recession-proof should defence budgets be? At a time when virtually all government expenditures are being reduced, it is reasonable to ask whether the militaries around the world should "share the pain".

How recession-proof defence budgets actually are, of course, is a matter of public record. In the case of Malaysia, a major victim of recent cost-cutting measures being undertaken by Kuala Lumpur has been the cancellation of a 1.7 billion ringgit order for twelve Eurocopter EC-725 helicopters to replace the aging Sikorsky S-61 "Nuri" helicopter. Additionally, the competition for an airborne early warning and control (AEW+C) aircraft looks likely to be delayed to the middle of the next decade, due to a shortage of funds. Such spending cuts are not a new phenomenon for Malaysia: in 1998, at the height of the Asian financial crisis, the government slashed one billion ringgit – or more than 20 percent – from its military budget, and it was several years before defence spending rebounded.

Contrast this with Singapore, which earlier this year boosted its defence budget 7.2 percent or S$10.8 billion, up from S$10.08 billion in 2007. Defence Minister Teo Chee Hean defended this increase, arguing that a fully-funded military is a critical "insurance policy" for a country lacking any strategic depth against potential aggressors. Compared to Malaysia and just about every other country in Southeast Asia, therefore, Singapore's defence budget *does* appear to be recession-proof. Singapore may be able to maintain its level of defence spending, at least in terms of major investments in defence hardware, during times of economic crisis.

The Case for "Sparing the Pain"

There is a strong argument to be made that defence spending *should* be sacrosanct, as national defence is the first order of business of any nation-state. Any country that cannot secure its territorial viability may soon *cease* to be one. Military spending, therefore, must be tied to external threats and national security requirements. and not to impermanent economic circumstances, no matter how bleak they may be at the time. In other words, defence, like banks and the US auto industry, is simply "too big to fail."

There is something to be said about maintaining a steady level of defence spending through good times and bad. The predictability in the amount of funding that the armed forces receives helps make planning for the future less risky. It also ensures that defence projects that have long periods of gestation and high initial sunk costs are not subjected to the vagaries of the economic climate. This is especially pertinent with so-called big ticket items such as combat aircraft and naval vessels, which typically have very long procurement cycles. Terminating any such procurement in mid-stream makes neither strategic nor economic sense. The question is how bad must the broader socio-economic climate be before cuts in defence spending are contemplated, much less implemented.

The Case for "Sharing the Pain"

That said, defence budgets can never be *totally* recession-proof. *No part* of government expenditures should ever be permanently off the table. Bankrupting one's country for the sake of so-called "national security" can be just as damaging as under-funding defence. All rational defence policies have always been a careful balancing act between what is strategically needed and what can be afforded. And what can be afforded then determines strategic priorities, as much as strategic priorities drive budget-making – probably more so, in fact.

Additionally, one should not treat defence spending as something special in government budgets. Bureaucratic politics, inter-service rivalries, and even personal ambitions influence decisions in militaries as much as in other government agencies. Even in tough economic times, therefore, militaries should not be given a "bye" when it comes to spending.

In particular, one should question the wisdom of linking defence spending to some magic number. There are some in the United States, for example, who are arguing that the US defence budget should be directly pegged to four percent of GDP, arguing that current defence needs (the global war on terror, the ongoing wars in Iraq and Afghanistan, etc.) require a "stable and predictable" level of funding. And yet these advocates provide no sound military rationale for linking it to this particular percentage point; if the situation is so dire, then why not five percent or even ten? Ultimately, such an approach is a distortion of military planning – and would they accept a budget *cut* if the GDP fell?

The Economic Myth

Finally, the idea that defence spending should be protected for its economic benefits is not only morally wrong but often based on false arguments. In the first place, defence budgets are not a welfare programme; they are for protecting the country, not creating jobs. Secondly, the macroeconomic gains of military spending are often greatly exaggerated. Arms manufacturing in many countries is often an inefficient and poorly run affair, prone to cost overruns and low production runs.

The defence sector makes little overall contribution to a country's economic development while sucking up considerable public resources in the process. Meanwhile, anticipated spin-off or economic multiplier benefits – such as expanded resource utilization, commercially useful technologies, and workforce education and training – usually do not manifest themselves in large enough quantities so as to be worthwhile.

Which Course To Take?

There is, of course, no simple answer to the question of whether defence budgets should be recession-proof, any more than the issue of what constitutes optimal military spending (the "how much is enough?" question) can ever be resolved. Ultimately, defence spending is like any other type of budgeting, a matter of juggling needs, wants, and expectations.

It is also something that must be constantly reappraised so as to take into account both external actualities (such as threats) and internal realities (that is, the ability to pay). One can certainly choose to make defence spending recession-proof. But make no doubt, in tough economic times, there is no painless way to do this. It is, therefore, a decision that must be owned by politicians and public alike.

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