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The creation of an International Disarmament Fund for Development,

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Jacques Fontanel & Ron Smlith

Résumé : Face à la course aux armements entre les pays de l'OTAN et ceux du Pacte de Varsovie, une réduction des dépenses militaires pourrait négocié entre toutes les parties servirait non seulement à favoriser la croissance des pays concernés, mais aussi d'améliorer les ressources de l'aide au développement. A cette fin, il a été proposé la création d'un Fonds International de Désarmement pour le Développement. Cependant, plusieurs questions ont été soulevées concernant la part des ressources affectées, la définition des dépenses militaires, leur vérification, la nature des contributions, le rôle spécifique des puissances nucléaires, le rééquilibre des forces militaires, , la mise en place d'une forme d'impôt progressif, etc. Les ressources espérées sont importantes, mais il n'est pas certain que les grandes puissances soient aujourd'hui en mesure de conduire cet objectif.

Summary : Faced with the arms race between NATO and the Warsaw Pact countries, a reduction in military spending could be negotiated between all the parties would not only serve to promote the growth of the countries concerned, but also to improve the resources of development aid. To this end, the creation of an International Disarmament Fund for Development has been proposed. However, several questions were raised concerning the share of resources allocated, the definition of military expenditure, their verification, the nature of the contributions, the specific role of the nuclear powers, the rebalancing of the military forces, the establishment of a progressive tax, etc. The resources hoped for are significant, but it is not certain that the great powers are today in a position to achieve this objective.

Désarmement, Développement, aide au développement, course aux armament
Disarmament, development, international aid, arms race.

The International Conference on Disarmament for Development, sponsored by the United Nations and held in Paris in July 1986, did not excite much media or public interest in either Britain or France. The Conference resulted from an initiative by the French president, which follows a long diplomatic tradition originating in the proposals advanced by Edgar Faure and Valery Giscard d'Estaing. In his speech of 28 September 1983, François Mitterrand set the following agenda:

1. to measure the military burden and to overcome the differences on data and estimates to obtain a standard accepted by all;
2. to estimate the economic effects, domestic and international, of the growth of military expenditure;
3. to measure the relation between the evolution of military expenditure and the main factors contributing to international economic disorder;
4. to examine the possibility of meeting social goals (health, technical training, agricultural development in the Third World) using the resources freed by an organized progressive reduction in military expenditure in the major countries.

In order to achieve the fourth objective it is also necessary to ensure a favourable economic effect from the reductions in Military Expenditure and to determine how the process of conversion should be organized.

The French president asked for a Conference to be called on the link between Disarmament and Development and the creation of an International Disarmament Fund for Development (Fonds International de Desarmement pour le Developpement: FIDD).

In her response to the Commission on Disarmament France has insisted on the responsibilities of the great powers for the arms race and the necessity to establish a right of compensation for those states

that directly suffer as a result of international tensions: the 'disaster victims' of the international system. For them development aid needs to be provided through a comprehensive assistance programme, which takes account of the military dimension to the problem. With respect to resources, the objective to be attained is a Fund equivalent to 1 to 2 per cent of world military expenditure, that is between $9 and $18 billion. This is a considerable sum given that the UN Programme for Development has a budget under $1 billion.

The link between armaments and development can be maintained by the nuclear powers making a contribution proportional to their nuclear weapons. These funds should add to (and not substitute for) traditional development aid. Funds would be directed firstly to the least developed countries and particularly to those affected by conflicts.

The UN Institute for Disarmament Research (UNIDIR) has prepared, at the request of the UN General Assembly, a report on the creation of a FIDD, which emphasizes the destructive effects of the arms race on world security and the negative impact of military expenditure on national economies. It puts forward four essential principles.

- All proposals for such a Fund must rest on the willingness of the great powers to disarm.
- It is necessary to define a form for the Fund which will promote longer term progress towards international security through disarmament and development.
- The Fund should serve as an institutional link between disarmament and development; a link which has not been systematically developed in any international institution, past or present.
- The Fund would require co-ordinated action among states. Each country will need to perceive participation in the Fund as being in its own interest.

From an institutional point of view, UNIDIR presented two solutions: either the creation of a new organization, or the use of an existing organization for the management of the funds which would maintain a distinct identity within the organization.

The proposal to create such a fund has political and economic aspects. This chapter will examine the economic and organizational aspects in terms of how the resources available to the Fund might be

acquired, and the contribution such a Fund might make to disarmament and development.

Clearly there are a range of criticisms that can be made of the approach itself. It can be argued:

- that although there are linkages between military spending war and economic performance, disarmament and development are distinct objectives that may best be achieved by separate processes;
- that large international bureaucracies, such as the proposed Fund, are often ineffective and perhaps even counter-productive ways of meeting desirable objectives;
- that certain kinds of aid to poor countries may hinder rather than help the development process.

Rather than discuss these arguments, this chapter takes the proposal, to create a Disarmament Fund for Development, on its own terms and examines the economic details involved.

Resources

In order to finance the Fund it is necessary to determine who the contributors should be; how their level of contribution should be determined, in particular the role of level of development and of level of armament in the definition of contribution rates; and how the basis of national contribution should be verified. Three principal methods of collection have been proposed—disarmament dividend, voluntary contributions and a tax on arms. Each of these methods will be examined in turn, then some specific proposals discussed.

Methods

Disarmament dividend. This method envisages the sums freed following measures of disarmament being invested in the essential needs of the population. This approach is favoured by the experts who produced the United Nations report on Disarmament for Development. They argue for the movement of resources from the military towards other types of expenditure; whether internal, for education and health for instance, or external, in the form of development aid. However there are many problems.

If disarmament is identified with arms control agreements between the major powers, it has to be recognized that these tend to release very few resources. If the Fund were linked to such

measures, the agreements would need to include an estimate of the sums that would be eventually freed and available for distribution as development aid, further complicating the negotiation. It would be preferable to link the Fund to reductions in military expenditure, but this implies the acceptance of a common precise definition of military expenditures. Trying to obtain such a definition is another UN enterprise.

A procedure of verifying the process of disarmament is required. Verification would be helped by the technical and political acceptance of the matrix of military expenditures and the method of international comparison recommended by the UN expert group on the measurement of military expenditures. Verification of military expenditures raises fundamental problems about secrecy and trust between states. There is also the problem that subscriptions based on the resources freed by disarmament are likely to provide only a transitory revenue for the Fund, rather than sustained resources.

The use of the disarmament dividend to aid development does not necessarily require the creation of a Fund to organize it and disarmament itself raises domestic political problems of conversion. This is particularly the case for countries with a large arms industry or whose balance of payments and employment depend heavily on arms exports.

Voluntary contributions. Voluntary contributions leave each state to determine their own contribution, on the model of a number of specialized funds and agencies of the UN. This is the easiest procedure to implement and already provides significant resources for a number of UN programmes; but it has enough disadvantages to mean that it is not regarded as a sufficient source of funds. The resources would be limited, there would only be a symbolic link between disarmament and development, and a system so flexible to exclude all reference to and constraint on the arms race would lose credibility. It is necessary to establish a closer link between disarmament and development than is provided by voluntary contributions.

Voluntary contributions would face particular difficulties during a world economic crisis. The developed countries threatened by inflation and unemployment are unlikely to be generous to LDCs in the absence of an obligation owed to the international community.

An arms tax. A tax on armaments where the tax base is determined on the basis of an agreed measure of military effort, has the

advantage of furnishing the Fund with a continuing flow of resources while penalizing the states who are heavily armed, by obliging them to transfer extra resources to the poorer countries. It also provides an incentive against higher military expenditure by increasing its cost.

However, it raises considerable difficulties. The problem of comparison and definition of military expenditures arises again. The difficulties of international comparison would make it impractical to link this tax to the absolute level of military expenditures. However, measures based on percentages, which can be compared across countries, such as the share of military expenditure in GDP or public expenditure, discriminate in favour of the richer countries who are better able to support their defence burden. Another alternative is to tax the arms trade, but this discriminates against the countries who have to import their arms, particularly the poor countries.

This proposal also has the implication that the amount of aid available to the Less Developed Countries will increase when the arms race accelerates, which creates a paradox, and an incentive to the recipients of the aid to encourage the acquisition of arms by donors. In addition, it is probably not politically feasible for the tax rate to be set sufficiently high to provide an incentive against arming. The advantages of the tax are the incentives it provides against arming, the verification which it implies for military expenditures and the resources it provides for the poorest countries. The disadvantage is that it could only be implemented in a climate of trust, which does not currently prevail.

Specific proposals

The objective is to chose a method of collecting resources which will be acceptable to the countries involved and which links Disarmament and Development. Hugo Sada and Alain Pipart (UNIDIR, 1984) suggest a combination of different types of contribution for different types of state. They regard the preferable method, the automatic payment of an agreed percentage of the military budgets of the heavily armed states, as facing a number of great difficulties in application. However, it seems to them that a guaranteed minimum obligatory element is needed to link disarmament and development. They consider that the five large nuclear powers have a particular responsibility in matters of international security, and that they should engage to contribute to the Fund a sum based on the number of nuclear weapons. This has the advantage of providing a precise

measure of the armaments of each state and all that is required is to fix the rate per weapon to determine the sum each state is liable to pay. Other forms of voluntary contribution are envisaged for other developed states based on the percentage of GNP, or government budget, devoted to military expenditure.

This system has two dangers. First, it puts the five nuclear powers in the same category though their level of development is different, and it is not evident that they all should be accorded the same status. Second, although the calculation of the number of nuclear weapons is easier than military expenditures, it does not permit a correct appreciation of the force of each state and it gives perhaps too much weight to stocks as against investment. It treats the weapons of 1975, which remain in the inventory, as being of the same value as the weapons newly installed in 1986.

This method emphasizes armaments but forgets development. The developed countries which benefit directly, by treaty, or indirectly by the nuclear umbrella of the superpowers are not taxed, with the consequence that China, a poor country, has to finance the Fund while a rich country, like Japan does not.

Marek Thee argues that the disarmament dividend must constitute the fundamental formula for the activities of the fund. To avoid dispute he proposes to adopt the contribution principle based on the general order of magnitude of military expenditures. A system of taxes will be put in place to avoid making tolerable the arms race on the basis of a formal or informal agreement among the interested countries. In addition voluntary contributions will be encouraged. For its creation the FIDD needs to receive an initial subscription of 0.5 to 1 per cent of world military expenditures. The five nuclear powers would make a contribution of 60 to 65 per cent of the budget (24 to 25 per cent by the US and USSR, 4 to 5 per cent for the other three). The rest will be furnished by UN members in proportion to their declared levels of military expenditure. Thus all states will be contributors, with a higher rate of tax for the nuclear powers.

This proposition has a number of difficulties. The problems of orders of magnitude must not be underestimated. The estimates of military expenditure are very different depending on the sources used. If the tax on arms is presented as desirable, the terms of its applications are not explained. It could be based on military expenditures or represent a tax on the construction (and eventually the possession) of each missile. One could also imagine different tax rates for different types of equipment. It seems better to take account

of a measure using a harmonized definition of military expenditure. Again is difficult to imagine this Fund functioning without considerable trust between the states.

Evaluating the propositions

The objective of the exercise is to mobilize and use resources in order to provide incentives for disarmament, symbolize the link between disarmament and development, and create some institutional momentum. From the point of view of resources the fundamental questions are then: who pays, on what basis, in what form and how much?

With respect to who pays: there is no doubt that the richest, most heavily armed states should be the principal contributors. But how is this group to be defined: the superpowers, the large powers, the nuclear powers, the richest states, the most heavily armed, the permanent members of the Security Council, all states? The problem is complicated because there are both poor heavily armed states and rich lightly armed states, and there is no obvious way to take account of the specific features of each case. In particular, the security needs of states differ and there is no objective basis for deciding whether a particular state is 'over-armed' relative to its needs.

It is very difficult to establish a just criterion that can both reduce the arms race and help the developing countries. It would be an anomaly if developed countries protected by a superpower did not have to pay, while a poor country like China would be a principal contributor. The criterion of being a nuclear power does not put sufficient weight on the link between disarmament and development.

There are many principles which seem applicable:

1. The countries which furnish the resources should be the countries judged as having high incomes according to the UN definition.
2. The developing countries may participate in providing resources, but are not bound by the international agreement.
3. The developed countries which do not benefit by a treaty or military protection have a lower obligation unless their military expenditures are relatively high, for example over 3 per cent of GNP.
4. All the other developed countries should participate in the creation and financing of the Fund.

5. The international regional organizations can contribute voluntarily to express unity of action among the countries which they represent and to develop the image of cooperation necessary between states. The purely economic international organizations might be excluded, but it is reasonable to expect a contribution from those with a military function such as NATO and the Warsaw Pact. The participation of the alliances would have the advantage of making concrete the link between disarmament and development and having a certain symbolic value.
6. The institutions of the UN and the principal organisations for development and regional integration should be involved in the operation of the Fund.

With respect to the basis of contribution: the agreement could be expressed in terms of the physical numbers of weapons, nuclear or conventional, as is usual in arms control negotiations. The agreement could refer either to stocks of weapons, with perhaps some allowance for age and quality of the weapons, or it could refer to the construction of weapons or to net additions to the stock of weapons. An assessment based on military expenditures raises more difficulties than one based on physical counts, because of all the problems of definition, measurement and comparison. Verification will raise difficulties whatever the scheme.

The resources available to the Fund are likely to be provided in many different forms. The obvious form is the donation of money by the contributing states. However, in a number of cases, the currencies contributed will be non-convertible and could only be used for purchases from the state that provided them. These states will thus receive contracts as a counterpart of their aid. In certain cases, particularly for conversion purposes, the gift of goods and materials could form part of the contribution, including perhaps military products freed by disarmament, which could be put to civilian uses. In addition, if the Fund made development loans as well as grants, the repayments and interest payments would, in the longer term, provide an additional source of finance.

The final question is how much finance the Fund will have. To be effective, the Fund needs to have substantial resources, and the rate of contribution has to be assessed accordingly. Total military expenditures are so large that quite small percentage contribution rates yield considerable revenues. The Soviet Union has proposed a 10 per cent reduction in the military budgets of the permanent

members of the Security Council, and the transfer of 10 per cent of this sum to the developing countries. Currently, this represents about $6 billion. The Sada-Pippart proposition involves about $1 billion; the Thee proposition, involves the contribution of between half and one per cent of total military expenditures, which represents between $4 billion and $8 billion of aid. In practice, given the economic situation facing the contributors, it is unlikely that such sums could be realised.

Contribution

A Disarmament for Development Fund would redistribute the resources liberated by a reduction in military expenditure in such a way as to contribute to development. The precondition for the effectiveness of the Fund, is a real measure of disarmament or at least a reduction in the speed of the arms race, which would reduce the insecurity of the system. The economic position of the developing countries is very serious. The international financial system is threatened by the large outstanding debts, and international monetary instability threatens the weaker countries. Economic insecurity itself increases international instability and encourages rivalry thus fuelling arms races.

The role of the Fund would be to use development aid to reinforce the process of disarmament for development and to reduce this economic insecurity. In order to see how this might be done, it is necessary to define the beneficiaries of the fund, the criteria used for distribution, and the form of the contribution the Fund could make to the international system.

The Less Developed Countries would not be the only beneficiaries of the Fund. The developed countries would also benefit through the reduction of the arms race, and the release of resources for other purposes. There is no doubt that after the initial difficulties associated with the conversion of military industry, the developed countries would gain from the reduction in defence expenditures. The dividends from disarmament would benefit the system as a whole. The initial contributions from the developed countries should make allowances for the costs involved in reducing production in the arms industries.

In disbursing aid the Fund may take account of various considerations. Since it is necessary to maintain a link between the activities of the Fund and disarmament, it should be a principle that

countries involved in war or who are excessively armed do not have access to the aid, while the poor countries who make a real effort to disarm should have privileged access to the Fund. It should also attach a high priority to projects which aid the conversion of arms industries to peaceful uses. Disbursement of the aid could be made dependent on recipients providing information on their levels of military expenditure.

In general, aid from the Fund will be complementary to other international development aid, and the grants and loans will be distributed on similar terms. However, the Fund should also have a specific role in providing a link between disarmament and development.

Alain Pippart and Hugo Sada suggest five specific types of action that the Fund may support. These include financing peace-keeping operations; supporting the creation of nuclear-free or conflict-free regional zones; providing investments, such as transport and communications, which encourage cooperation in potential war-zones; help to the victims of war and insecurity; and the encouragement of regional disarmament measures. These proposals involve a very narrow conception of the link to disarmament. Care would need to be taken to ensure that the Fund was not placed in a very delicate position, by making military-political interventions in situations which may have East-West dimensions or in which there is no willingness to compromise by the participants.

Another possibility is to use the labour and capital embodied in military forces for economic purposes. For instance, a state may offer or lend some military specialists to provide infrastructure in poor countries, such as construction of bridges and development of airports. It may provide military personnel and equipment as part of disaster aid. This already happens to a certain extent and raises other difficulties associated with possible militarization of the development process and the use of troops provided under humanitarian cover for other purposes.

It seems necessary to broaden the scope of the Fund beyond such narrow military dimensions and extend its actions to three fundamental problems of development: conversion of military industries to civil application; expansion of civilian Research and Development in the Third World; and the improvement of agricultural production. Thus the fund would confront the major issues in development, the diversion of resources to arms, the lack of technology and the prevalence of hunger. The aid to R&D would also counteract the

belief in some Less Developed Countries that the promotion of military industry is a way to obtain technological spin-offs. In general, the most effective way of providing the aid would be through loans at low interest rates, which would provide some incentives for productive investment in conversion, technological development and agricultural production.

Although there are many problems associated with the distribution of the resources of the Fund, which would need to be resolved; the Fund does have the possibility of making a major contribution, both symbolic and effective, to the promotion of the processes of both disarmament and development. Given the potential of the Fund, it seems worthwhile conducting a serious analysis of how it could be constituted and organized in order to judge whether the project is feasible and desirable, and the extent of its contribution to the international system.

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