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Note on the paper by Blackhaby and Ohlson
Military Expenditures and the Arms Trade

Jacques Fontanel

The economics of military expenditures
MacMillan, Lodon
1987

Data on military spending is highly controversial, with important political implications. Blackhaby and Ohlson point out the lack of knowledge about military spending and the arms trade, and they raise questions about their definition and the existence of military secrecy. This chapter raises several questions, such as the quality of these data for the work of economists, the importance of military expenditure by item and content (nuclear or non-nuclear weapons), and the difficulty of the verification process.

Les données concernant les dépenses militaires soulèvent de nombreuses controverses, avec des implications politiques importantes. Blackhaby et Ohlson rappellent l'insuffisante connaissance des dépenses militaires et du commerce des armes, et ils soulèvent toutes les questions relatives à leur définition et à l'existence du secret militaire. Ce chapitre soulève plusieurs questions, telles que la qualité de ces données pour les travaux des économistes, l'importance des dépenses militaires par poste et contenu (armes nucléaire ou non), et la difficulté du processus de vérification.

Note on the paper by Blackaby and Ohlson by Jacques Fontanel, Centre d'Études de Défense et Sécurité Internationale, Grenoble
Information concerning military expenditure raises numerous controversies, not the least of which are the political implications. The Soviet proposition of a 10 per cent reduction in military expenditure by the permanent member states of the Security Council in order to aid the development of Third World countries immediately came up against the need for an internationally accepted concept of military expenditure and the institution of adequate verification procedures. The Soviet Union, however, still opposes the disclosure of detailed information in the name of military defence secrets.

The outstanding paper by Frank Blackaby and Thomas Ohlson reminds us above all of the weakness in our statistical knowledge of military expenditure and the arms trade. It exposes several inadequacies which are worth noting: the diversity of definitions, the secrecy which surrounds national defence and the technical difficulties in comparing the expenditures.

- (1) The definition of military expenditure still offers a great margin of uncertainty in the use of the definition made by the various sources of information. Thus the differences which are apparent from the estimates made by NATO, USACDA and SIPRI often arise from their narrow or wide conceptions of military expenditure. Contrary to USACDA, SIPRI includes military aid, civil defence and paramilitary forces in its definition of military expenditure. It is agreed that the gap observed between these two institutions would be reduced if a standardised concept of military expenditure were used. The United Nations' Group of Experts responsible for collecting and publishing military expenditure have presented a very interesting project. Three fundamental principles have been retained:
 - (a) Information required of States should not be excessive.
 - (b) The statistics required should be fairly general and should allow a general understanding of the structure of expenditure in each country.
 - (c) Data should be subject to verification.

The military expenditure matrix proposed compares rows of expenditure classification (operational, purchases and construction, research and development) against columns by mission or programme (strategic forces, land forces, naval forces, air forces,

transactions are either unknown or little known. According to SIPRI, and contrary to the USACDA estimates, the United States is the largest supplier of arms in the world, far ahead of the Soviet Union.

- (3) International and historical comparisons of military expenditure are confronted with numerous technical difficulties. Specifically, the price of military materials is related to special characteristics which make the determination of an index very difficult: the rapid evolution of military technology, one-off products, product quality improvements not always accurately reflected in the prices, oligopolistic or monopsonistic markets, the absence of market prices, partial imputing of the costs of research and development. . . . No complete and coherent information exists relative to the evolution of military expenditure in constant currency because, in spite of the SIPRI estimates, the methods of adjustment are not sufficiently precise. Moreover, price systems vary with methods of production and their significance is therefore not directly comparable. As far as international comparisons are concerned, it is not sufficient just to use exchange rates. Purchasing power parity is undoubtedly more accurate, but it is difficult to apply without detailed information on materials, prices, and quantities. Currently, international estimates of military expenditure are very imprecise and the Member States hardly seem to concern themselves with the fact that if information is power then the absence of information is a risk. As for the question of security, this risk certainly helps feed the trade in armaments.

The chapter by Frank Blackaby and Thomas Ohlson underlines the difficulties encountered by SIPRI when trying to present a complete enough picture of military expenditure and the transfer of arms. It shows the hypotheses used and clearly indicates the inadequacies of SIPRI's estimates. However, we must admit that these figures are generally considered the most trustworthy of those currently available. This chapter raises several questions:

- (1) First, econometricians are reproached for using the figures published by SIPRI. The modesty of this institute demonstrates the importance which it accords to the quality of the data collection and its wish to protect its readers and users from making hasty interpretations. What then should the econometricians do? Should they wait for data which is both precise and verifiable? If

this is the author's proposition, bearing in mind the gaps of unknownness which affect the majority of economic information, then econometricians will join the ranks of the unemployed. In our opinion, after having made extensive use of the SIPRI data, these figures should be used, even if it has to be with great caution. By preventing the analysts from remaining exclusively in the area of deductive methodology, we could avoid the development of a myriad of theories which are contradictory but at the same time all equally coherent and logical when we take account of inherent assumptions. What do you suggest?

- (2) In our opinion we should look closer at the details of military expenditure. Global figures do not always give an indication of the country's military effort. A more precise analysis is required and we consider that the work conducted by The Group of Experts at the UN on Arms Expenditure Reduction should encourage SIPRI to widen as far as possible its statistical information. Could you give as complete a picture as possible of what SIPRI includes in its calculations of military expenditure?
- (3) Figures in terms of stocks should certainly be included. Unfortunately, this procedure is, to say the least, delicate. Have you started work in this area?
- (4) How do you obtain your statistical information? What are your sources?

This very stimulating chapter seems fairly pessimistic, because it underlines the inadequacies of certain information. In proceeding in this way, the authors emphasise that recognising that the inadequacy exists is in itself knowledge. Putting the problem this way also means preparing to resolve it. Which is a resolutely optimistic attitude.

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