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SYMPOSIUM INTRODUCTION

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The papers in this special symposium extend the existing literature on government budgetary decisions and especially the decisions involving allocations to the defense sector. The papers fall into four logical groups: (a) the actual record and patterns of expenditures (Hewitt); (b) theories to explain these budgetary patterns and tradeoffs (Hildebrandt, and Mintz and Stevenson), (c) the policy implications of these theories (Chan and Sommer) and (d) empirical studies and individual country case examinations (Looney and Frederiksen, Brauer, and Harris).

Hewitt's "Military Expenditures 1972-1990: The Reasons Behind the Post-1985 Fall in World Military Spending" sets the stage for the papers that follow by documenting recent worldwide trends in budgetary allocations to the defense sector. The striking pattern here is that after increasing rapidly in the late 1970s and early 1980s, defense expenditures

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as a proportion of GDP began falling in 1985 in most countries. Specifically, for the more than 120 countries covered in his study, military expenditures fell from approximately 5.6% of GDP in 1985 to 4.3% in 1990, a decrease of 23%. Empirically Hewitt finds that financial and economic variables account for a large proportion of this pattern. Political factors are also found to have a strong impact on military spending decisions. Democratic countries spend the least. Countries involved in international war spend the most, followed by those engaged in civil war and so on. The other important factors are the improved world security environment and a fall in military assistance.

Clearly however, the decision to spend or not spend on defense must be taken in the context of competing budgetary categories and, for any individual country at any point in time, these considerations must ultimately determine the funding received by defense. As a framework for this process, Hildebrandt extends the theory of budgetary expense and the opportunity cost of defense expenditures. Opportunity cost is the value of the best alternative uses of the defense inputs, where value is measured in terms of willingness to pay for the goods provided by these other uses. Hildebrandt's analysis suggests that the budgetary expense for defense activities is higher than the opportunity cost. Drawing on Hildebrant's analytical tools, it should be possible for analysts to gain better insights as to the true burden of defense. Clearly armed with this type of information policy makers would be able to better assess the consequences of various defense/non-defense budgetary combinations.

The process of actually arriving at the relative budgetary shares of defense and non-defense allocations may be much more complex, however. As Mintz and Stevenson argue, guns and butter tradeoffs may occur independently of the decisions of policy makers. Even if decisions about military and non-military programs are independent of each other, and/or budgetary tradeoffs are put off to the future, the economic externalities produced by defense spending may cause tradeoff relationships between these categories anyway. There is some previous support for this position. In a series of earlier papers Huang and Mintz proposed that decisions about increasing defense spending have dampening effects on the resource pool available to society in the long-run. The size of this resource pool in turn may affect the ability of peacemakers to allocate resources to both guns and butter. Thus even if today's decisions on increasing military spending may not affect welfare spending in the short run (for example, because of the use of deficit spending), there still may be a long run effect on decisions made about future welfare programs.

Extending this literature and incorporating various Marxist writings, together with a neoclassical production function, Mintz and Stevenson develop a rigorous variant of the Marxist theory of guns-butter tradeoffs that will no doubt provide a productive new starting point for research in the area.

The time dimension of decisions and impacts is clearly developed in the paper by Chan and Sommer. Here, they find the prospects for a peace dividend in the aftermath of the cold war are clouded by substantial political incentives and economic interests that may oppose or retard military retrenchment. Here, the timing of costs and benefits works against dramatic defense cutbacks with the gains in civil production and productivity taking some time to materialize whereas the political costs and socio-economic disruption caused by lower military expenditures are likely to be felt much sooner.

An empirical study of defense spending and budgetary allocations to various programs for twelve Middle Eastern and North African/Mediterranean countries by Looney and Frederiksen also deals with budgetary contrasts in the short and longer run time frames. Their findings appear to be consistent with the Mintz/Stevenson model. Specifically they find that defense budgetary tradeoffs for their sample set of countries vary considerably and depends for the most part on whether the country is a high or low defense spender. Most importantly they find that there are probably long-run costs associated with the manner in which countries alter budgetary shares to accommodate larger defense budgets. While larger defense budgets in the high defense group may have helped economic growth in earlier decades, this impact may be negative in the future, stemming perhaps from neglect of economic services, infrastructure programs and the like.

Brauer examines another facet of defense expenditures -- their impact on human development. Here Brauer confirms the curious nature of allocations to defense in the developing world. In some instances military expenditures appear to yield positive effects on economic growth and on human development indices, in other instances they do not. Again, one suspects that these findings reflect the manner in which countries choose tradeoffs and the time frame in which these occur between defense and other major budgetary items.

Finally Harris provides an insightful case study of the manner in which defense expenditures conflict with the allocations to other budgetary categories. Using Sri Lanka as a case study, he finds that defense expenditures increased six fold in real terms between 1981 and 1991 and notes that this increase was financed principally from a reduction in capital expenditures and by a diversion of expenditures from Economic Affairs and Services, especially Agriculture. As a result, Sri Lanka's conflict has led to a reduction in GDP growth by half a percentage point per annum.

All and all, the papers in this symposium illustrate the increasing maturity of the literature on government budgetary priorities and allocations. While far from the final word on these issues, the papers presented here illustrate the evolution of this extensive literature and the agenda for further studies in the area.