

ECONOMIC GROWTH AND DEFENCE SPENDING: AN EFFICIENCY ANALYSIS OF ROMANIA'S CONSCRIPTION SUSPENSION

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Abstract: National defense is one of the key sectors responsible for maintaining national security, being considered at the same time an element of great importance and strict necessity of the public sector. The performance of defense functions and missions are closely linked to the military capabilities of this sector, which in turn depend on the budget for defense spending. This paper deals with some theoretical issues in the economic field of defense, regarding the size of defense spending in GDP and their social effects. It is also trying to carry out an analysis on the efficiency versus inefficiency in the use of defense resources, to finance the two types of recruitment systems, namely: by conscription or voluntary will. In order to be able to achieve the above, graphical analysis methods and calculation dermination method were used. The efficiency of spending public funds depends on both objective factors such as: distribution of a certain share of GDP to a certain area; attracting internal and external funding, as well as subjective factors, like: allocating resources to certain categories of expenses; allocating resources to certain defense programs; effective management of these resources by the competent structures. Therefore, for a program to be considered effective, it must meet the requirements of the collective needs of society, be rationally implemented and be sustainable.

Keywords: efficiency, defense budget, conscription, professional volunteer military.

1. Introduction

After the end of the Second World War, and the beginning of the Cold War, the field of defense underwent various and permanent changes. Romania has not been spared the influences of Eastern European political regimes or regional security threats. All these aspects had a decisive influence on the defense budget and on the organization of the army. Termination of the Cold War, the transition to democracy and Romania's intention to join NATO meant for the Romanian Army the beginning of an extensive modernization process, which had effects on the organization system and the defense

budget. In the next two chapters these effects are briefly presented, from an economic point of view.

2. National defense budget and representative budgetary indicators

The financing of the national defense system was done, mostly from the state budget. The financing of defense expenditures in Romania since 1949 reveals an upward trend, influenced by political changes and instabilities of the periods. However, this steady upward trend was marked by three periods of rapid increase in military spending, for the years 1949-53, 1980-83 and 1990-94. All these periods of

mobilization were followed by substantial reductions in military spending.

Analyzing the structure of defense expenditures throughout the period, it is observed that they had the highest level during the years of 1982 to 1983 reaching 11.9% of GDP. After 1992, the year in which the share of defense spending exceeded 6% of GDP, these have steadily decreased, reaching just over 2% in 2000,

given that in Romania, there was still compulsory military service, and over 200,000 troops. The intention to join the North Atlantic Alliance involved modernization of the army, allocating less financial resources to the field of defense, and using them more efficiently. The following graph shows the evolution of Romania's defense expenditures, as a share of GDP, between the years 1949-2016 [1].



Figure 1: The evolution of the share of defense expenditures in Romania's GDP, between 1949-2016

The figure-2 graph shows the evolution of the military personnel in the Romanian Army between 1946 and 2012. It is observed that the peaks related to the 3 periods of budget growth are also translated into an increasing of the military personnel. Observing the graph, it can be seen that with the end of the Cold War, the staff was reduced by over 20%. During the years

1990-2000, the average number of military personnel was around 190,000 soldiers, and after the years 2000 to 2006, the military force would be decreased by half. Starting with 2007 (year in which the recruitments were carried out on a voluntary basis) the average number of military personnel was around 70,000. This value has been maintained until now.

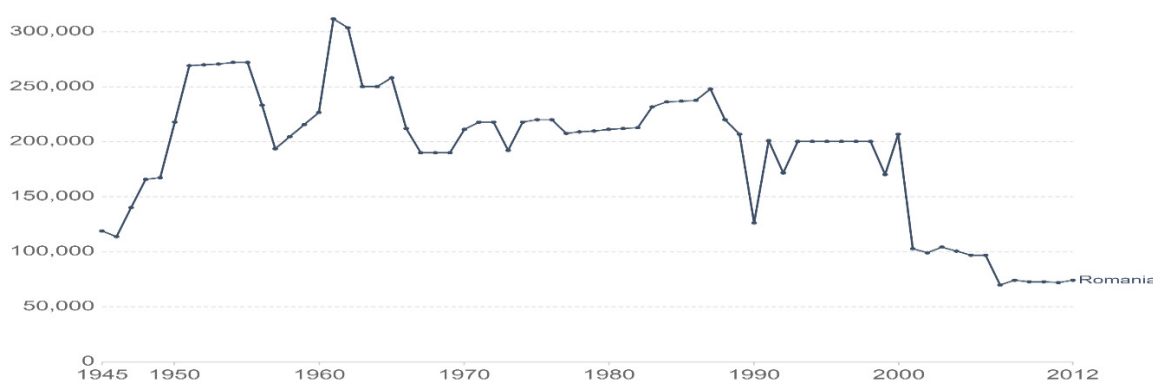


Figure 2: The evolution of the military personnel of the Romanian Army, between the years 1945-2012

The rate of militarization, as it is called in the literature, or the ratio between the total number of armed forces and the entire population of the country, is a synthetic indicator of the evolution trend of an army.

Starting with the year 2000, the graph shows the effect of the transition from the status of mass army to that of professional army.

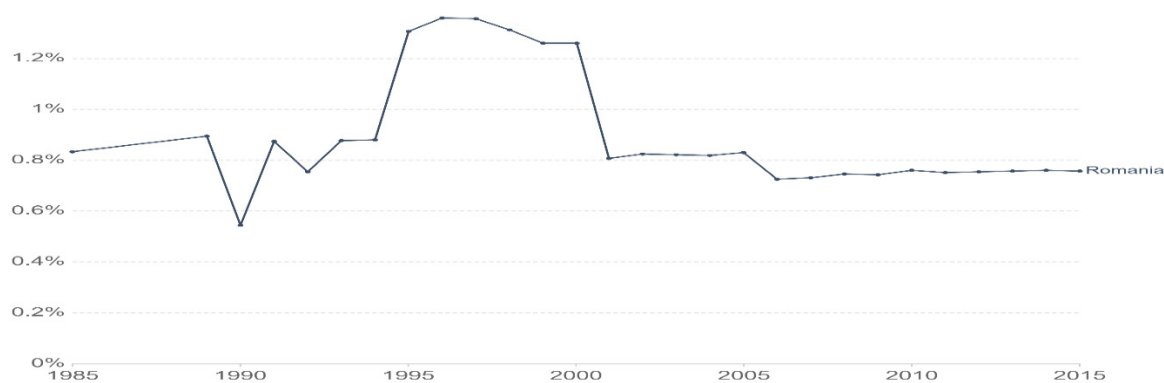


Figure 3: The evolution of the militarization rate of Romania, between the years 1985-2015

The next graph shows the evolution of staff costs per capita between 1946 and 2016. It is observable that the peaks corresponding to the 3 periods of budget growth are also included in these periods. The exception is the period 2000-2009, when military spending was steadily declining and the Military Expenditure/Population indicator,

record growth due to a faster decline in the population compared to defense spending and the slight depreciation of the dollar. This graph shows, from another angle, what are the financial efforts, supported by the population to maintain the armed forces across the national territory during the analyzed period.



Figure 4: The evolution of Romania's defense expenditures per capita, between the years 1946-2012

3. The effects of the suspension of compulsory military service in Romania

This part of the study examines the economic effects of the transition from compulsory recruitment to voluntary recruitment, in Romania's case. According to the specialized literature, it is observed that the economists were unambiguous, firmly supporting and bringing arguments to the voluntary armies. (Sandler & Hartley 1995 [2]; Warner & Asch 2001 [3] or Poutvaara & Wagener 2007 [4]). Even Adam Smith supported the theory of "the superiority, and better-regulated position of an entirely voluntary army". Smith's

arguments focused on the advantages and benefits of professionalisation and specialization of the military.

After the end of World War II, and during the Cold War, compulsory military recruitment was the dominant mode of peacetime recruitment in the European and NATO space, until the mid-1990s. Since 2011, most countries have abolished conscription. The only EU countries still using compulsory recruitment are Austria, Cyprus, Denmark, Estonia, Finland and Greece. Romania suspended compulsory military service for young population, aged 18-36 years since 2007, choosing the

transition to a professional army based on voluntary recruitment.

NATO countries have been and are among the main contributors to peacekeeping and NATO aspires to maintain a global military presence. Increasingly number of victims (due to terrorist attacks, civil wars, etc.), and the decreased internal support for ongoing operations, stressed the importance

of volunteer recruitment and the acquisition of high-tech equipment, given that NATO wanted to maintain the highest capabilities. NATO members, including Romania, have been active contributors to peace and crisis management operations around the world. The agenda of international missions since 1999 is as it follows:

Table 1: NATO peace and crisis management operations around the world [6]

Ongoing missions		Accomplished missions	
Kosovo	1999–	Bosnia and Herzegovina	1995–2004
Monitoring the Mediterranean Sea	2001–	Republic of Macedonia	2001–2003
Afghanistan	2003–	Pakistan earthquake relief op.	2005–2006
NATO Training Mission in Iraq	2004–	Counter-piracy Gulf of Aden 2008	2008
Supporting the African Union 2005–	2005–	Counter-piracy Gulf of Aden	2009–

Participation in international missions requires effective expeditionary capabilities and rapid deployment of troops in order to respond effectively to crises. In the security environment, developed after the Cold War, the prospect of collective defense and integration into NATO, with participation in missions throughout the area of responsibility of the alliance, made it possible to reduce military personnel, and adopt the system on a voluntary basis. Moreover, the alliance leaders considered conscription recruitment as a vestige of the Cold War.

Although the missions were increasing in complexity, the economic, demographic and social context was varied in NATO countries when the military service became voluntary. Some common factors were identified that led to the suspension of compulsory military service. The main arguments were:

- compulsory military service was levied as an unfair tax, applied to the conscripts.
- obtaining a higher retention rate for staff employed on a voluntary basis;
- the dynamic geostrategic environment that was constantly changing after the Cold War.

Compulsory military service violates the principle of work efficiency, and requires all young people to have a military occupation for a certain period, regardless of their relative productivity. As a consequence, it hardens the economy due to the fact that jobs are not assigned to those who are relatively more productive in their achievement. As a result, the fit between people and jobs becomes inefficient. The benefits of specialization are seen when individuals become more productive due to the experience and frequent practice of a profession. Likewise, effective military operations, requires an advanced degree of training and expertise in handling complex weaponry systems.

Recruits were usually paid much less than the wage alternative in civilian life (the labor market), plus the fact that there was no compensation for the loss of civil rights and freedoms or even for the loss of their lives during exercises or missions. It should be noted that compulsory military service is a difficult option, with large forces and costly for the state. Performance incentives in a compulsory recruitment system were usually negative, often taking the form of

punishments. Thus, maintaining a minimum degree of compliance became coercive.

It was found that the recruitment of military volunteers improves both the conditions of military life, the quality of training and the achievement of superior results. The volunteer recruitment system offers benefits such as post-service training and education, in-network medical services and health care, as well as on-call pensions, attract, motivate and retain trained staff.

Another argument shows that the efficiency of military service on a voluntary basis also comes from a higher rate of staff retention. Indeed, for the military system, voluntary employment is more effective due to longer terms of service (and therefore staff get higher qualification levels; long-term expenses are lower; and the demand for new recruits becomes lower, implicitly their training costs are decreased). Retention policies normally include a contractual commitment, usually in the form of a fixed-term, contract that includes: initial training and a subsequent period of employment.

Although the Cold War was followed by reductions in military budgets and reductions in troop numbers, it was found that the level of military salaries and the annual costs of training volunteers were higher than in the case of compulsory military service. For the defense budget, a mass army is generally cheaper than a professional army, because recruits are not paid at market value for their work and are

not given benefits, such as health plans, family assistance, retirement provisions, etc., such as professional soldiers. But better trained volunteer military personnel, generates certain savings, offset by smaller dimensions of professional armies (allowed due to increased productivity and efficiency). In fact, the advantages generated in the economy by the productivity of young people (who no longer have the obligation to enroll) can be added. They can be employed according to their training and satisfaction in the labor market, and thus have a much higher efficiency for themselves and society.

Although the budgetary costs of conscription are lower, the total social costs could be substantially higher compared to the case of a professional army. The use by coercion itself suggests that the real costs of compulsory military service, are larger than the budget ones, and its abolition offers society certain opportunities.

Conscription implies a distorted factor-price ratio between labor and other factors of military production, which leads to oversized manpower and too little investment. This is indeed reflected in the share of personnel expenditure in military budgets. As the following figure illustrates, the pressure on personnel spending on military budgets in countries with voluntary (professional) forces is lower than in countries where conscription is practiced, so:

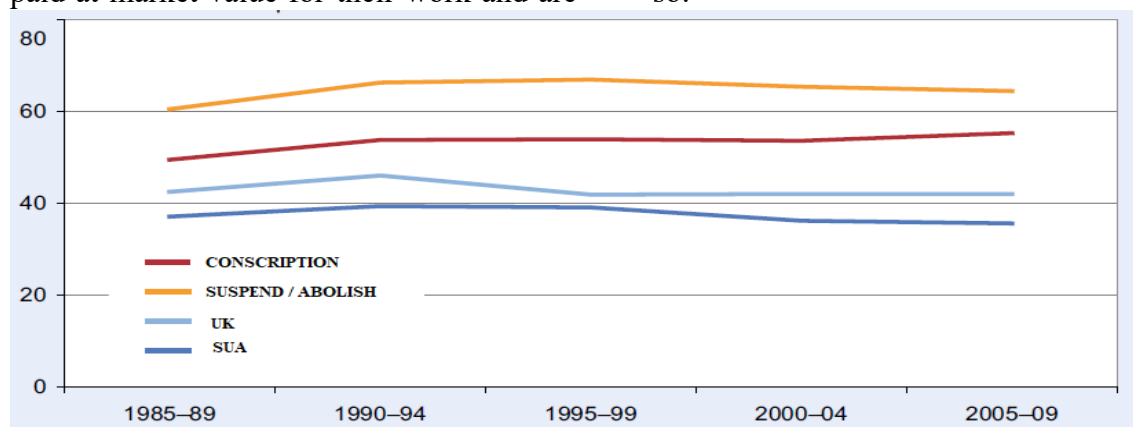


Figure 4: Pressure on personnel spending on defense budgets in countries with professional armies or conscription armies.

This image reflects the potential for changes in the share of investments and other expenses in relation to staff costs: where there has been a relative increase in staff costs, there has also been a relative reduction in investment - and vice versa.

However, the issue does not end here. With the end of the compulsory service, attracting and retaining high quality personnel was a challenge for all armies, including the Romanian one. As a result of much better opportunities in the private sector, the military has had to adjust wages to align with those in the private sector. Because the demand and the offer of the military personnel are subdued to the labor market, the military finances and human resources staff had an essential role on the debate of the conscription suspension.

Romania suspended compulsory military service for young people aged 18-36 in 2007, choosing to create a professional military, based on volunteer recruitment [6].

The effects of suspending compulsory military service or of professionalizing the army, by switching from the mass army to the professional army, are diverse. But the most desired effect is lowering the budget costs. Of course, in order to get an overview, it is necessary to assess what the real cost is, considering economic and social development of a professional army compared to an army of conscripts. The answer to this problem is not an easy one, and the budget cost becomes difficult to be identified due to the multitude of variables that can be taken into account. But, even by simplification, if these variables were reduced only to the costs of training conscripts and remunerating a military volunteer, the equation would look like this. In 2002, the total cost of a conscript for Romania reached the amount of 62,306,000 lei per year, or the equivalent of 1,860 US dollars/year meanwhile the remuneration for a volunteer soldier reached the amount of 100,201,000 lei, or the equivalent of 3,000 dollars/year [7]. At that time, the most economical choice would indicate the

conscription option. In addition to these aspects, the expenses for the professional military increases, due to the adjacent costs such as: the provision of a house; conversion; social protection of their families; and re-insertion into civilian life. But analyzing in the long run, the costs of training of the professional military are lower compared to those needed to train the conscripts in the long term. But with the professionalization of the military, staff reductions can be made. Basically, with a smaller number of soldiers, the expenses would be lower and, at the same time, by giving up conscripts, the expenses with the incorporations made three times a year are eliminated. In other words, long-term defense budget costs can be reduced without affecting the military's ability to carry out its tasks.

The period of the years 2000-2006 was a bit different, because during this period, there was a gradual transition from military conscription to a professional military. During this transition period, the number of professional soldiers increased from year to year and the number of soldiers in term decreased from year to year until it was completely eliminated.

The following calculation shows the situation of the troops in the Ministry of Defense for 1989 and 2002. Thus, in 1989, 115,837 soldiers were enlisted in the term. Associating with this the number of military training cost for 2002 (about 1860 U.S. dollars.) results in an expense for 1989 of \$215,456,820. Making the same calculation for 2003, the situation would be as follows: \$59,520,000 would be spent on 32,000 conscripts (\$ 1860 / military / year), and \$ 59,100,000 would be spent on \$ 19,700 contracted (\$ 3,000 / military / year). Basically, the expenses for 2002 are 118,620,000 dollars for both categories of soldiers.

Based on the presented, some observations can be made: 1) the level of budgetary funds required for 2002 is much lower than the level required for 1989, taking into account the reduction in staff. So the

transition to a professional army is financially convenient; 2) although, in 2002, the cost to a professional soldier was \$ 3,000 a year, and for a full-time soldier, only \$ 1,860 a year was spent. Overall, spending tends to be lower for a professional than a conscript army. Therefore, even with smaller staff, equipped with modern technology and effectively trained, the requirements of national defense could be met.; 3) with the financial resources used in 1989 for the military in term, at the level of 2002 71,800 professional soldiers could be hired on a contract basis – even in these conditions, such numbers would be well above the level recommended to our country by international NATO treaties.

Other issues that the military institution and its leaders had to face with the professionalization of the army, consisted in maintaining recruited military personnel, already qualified and trained, for a longer period in the army, as well as in its withdrawal (or reintegration into society). These problems did not exist during the time of the conscription and for which solutions had to be found.

The Romanian Army has gone through an extensive process of modernization and continuous reorganization, reaching in 2020 to occupy a very good position in the world military rankings. It is a reliable partner of NATO and the EU, and successfully represents Romania in all international missions. The Defense Staff, through the public page, informs that in 2020 the Romanian Army participates with troops, and military personnel in 24 international missions under the auspices of NATO, UN, EU, or other specific missions of the

coalition.

Global Firepower, through the study “*2020 Military Strength Ranking*” [8] for 2020, ranks Romania as 39th in the world and 13th in Europe. Global Firepower's final ranking uses over 50 individual factors to determine a nation's PowerIndex ("PwrIndx") score. The military forces, financing, logistics, state geography, military capabilities, population, economy, industry, infrastructure are targeted.

6. Conclusions

Labor market constraints on recruiting volunteer soldiers were a major inconvenience in the transition from the mass army to the professional army. If for conscription it was important only to ensure its legitimacy, for a professional army there is a permanent concern, namely: personnel management. Also, other variables can intervene here, such as: the volume of the demographic resource (age group 20-26 years old), the decrease of the birth rate, the migration, the increase of the number of those who study higher education, etc. In this context, the military, as a budgetary institution, cannot compete equally with private companies in terms of the wage; the related advantages offered by the employer; resources for advertising and staffing; the attitude of young people towards the state and military service. It is enough for one of these variables to modify, for problems to arise in the recruitment of volunteers. These issues are sensitive, and are constantly changing. They must be continuously analyzed by specialists in order to always find the best solutions, in order to have a professional and an efficient military at the same time.

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