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MILITARY AND DEFENCE EXPENDITURES IN THE CURRENT SECURITY CONTEXT. CONCEPTS AND INFLUENCING FACTORS

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ABSTRACT:

In recent years, perhaps more than ever, the world has become increasingly aware of how vulnerable it is to the harsh challenges it must face, sometimes arising out of nowhere or with causes that have spanned years and for which no sustainable solutions have been found. As the most recent challenges come from the security environment and have profound influences on economic and social life, this paper presents relevant aspects concerning the financial efforts of some states to support security and defence and brings attention to a series of factors that can determine the level of military expenditures incurred. To document this work the author has used a series of studies and databases from national and international institutions and organizations in the field, as well as elaborations by researchers recognized for the value and relevance of their opinions expressed in relation to the issues addressed.

KEYWORDS:

Security environment, conflict, financial resources, military expenditures

1. Introduction

The Instead of the expected peace after the end of the Cold War, states find themselves facing a chaotic security environment, fraught with tensions, realignments of power centres, and new risks and challenges that are harder to anticipate compared to previous periods. A very suggestive description of the current security environment is taken from the speech of the UN Secretary-General António Guterres, held at the opening of the eighth session of the General Assembly in September 2023. According to him, by bringing together various challenges from the security environment creates a landscape of "hell", with a disoriented and divided world, with state decision-makers ignoring global treaties and conventions, and with institutions that are not anchored in reality, and incapable of compromises to overcome disagreements and build peace (Guterres, 2023).

As a warning sign of the deterioration of the security environment, the Communiqué issued at the Vilnius Summit on July 11, 2023, states that "peace in the Euro-Atlantic area has been shattered", and that the factors defining the security environment, as a whole, are "strategic competition, widespread instability, and recurrent shocks" (NATO-Vilnius Summit, 2023).

The previously mentioned aspects also reflect the two overlapping crises that have disrupted the security environment in recent years, namely, the economic crisis that emerged against the backdrop of the

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health crisis from 2019-2022 (generated by the COVID-19 pandemic) and the ongoing military crisis, based on two military ongoing conflicts in different parts of the globe: in Europe, the largest military conflict since the end of World War II, the Russian-Ukrainian war that started on February 24, 2022, and in the Middle East, the Israeli-Palestinian war that broke out on October 7, 2023.

The destructive waves of the two military conflicts, to which states are powerless witnesses, add to those caused by various other armed conflicts (more numerous internal ones) that are grinding societies in various areas of the planet, and for which no peaceful solutions are yet in sight.

2. Reflections on the need for defence funding from public financial resources

Regardless of the nature of a conflict or the reasons behind its outbreak, reality shows that the financial resources have been consumed at unimaginable levels. These are determined, on one hand, by the funds mobilized for financing the conduct of the war itself and, on the other hand, by those necessary for subsequent reconstruction, impossible to bear singularly by the belligerent states, especially in the context of economies depleted by war. Assessments made by the former Ukrainian Minister of Defence (Oleksii Reznikov) and the Israeli Minister of Finance (Bezalel Smotrich, 2023), as well as other recognized international organizations and institutions (World Bank, IMF, EU), reflect that as the war prolongs, the needs for financing and the recorded economic losses increase. Given these conditions, the logical consequence is the reduction of funds generated for supporting financing and the intensification of pressure on public budgets.

Thus, according to estimates illustrated in the statement of Oleksii Reznikov, "*a day of war costs Ukraine 100 million dollars*" (Ukrinform, 2023). From the same statement, it can be seen that the national effort made for financing the war which, as he claims, is primarily done by the citizens of Ukraine through the taxes paid (thus reinforcing the reality that during wartime, significant public financial resources are diverted from financing economic and social objectives towards financing war-related needs).

Another joint assessment published in mid-June 2023 by the World Bank Group, the European Commission, the United Nations, and the Government of Ukraine, regarding the total needs for reconstruction and recovery of Ukraine for a period of 10 years, shows that it could exceed 411 billion USD (equivalent to 383 billion Euro), which is 2.6 times the actual GDP of Ukraine in 2022 (World Bank, the Government of Ukraine, the European Union, & the United Nations, 2023).

Regarding the financial implications of the second conflict, according to the estimates of the Israeli Minister of Finance, the direct cost of the war alone is expected to amount to "*246 million dollars per day for Israel*" (Bezalel Smotrich, 2023). Moreover, the official draws attention to the total costs of the war, which, besides the direct costs also include indirect costs (mainly generated by economic losses) and the need to re-evaluate the national budget for 2023-2024, considering it is "*no longer relevant*" in the context of a partially paralyzed economy (Bezalel Smotrich, 2023). Furthermore, the financial newspaper Calcalist, quoted by Reuters, shows that subsequent preliminary evaluations by the Ministry of Finance estimate that, under certain conditions, if the conflict with Hamas is prolonged between 8 and 12 months, the war with Hamas will cost Israel over 50 billion dollars, approximately 10% of Israel's gross domestic product (thedailystar.net/ news/world/israel-hamas-war).

Based on just two statements regarding the costs of two ongoing conflicts, it can be observed that the

duration of a conflict and the increasingly sophisticated means involved raise costs and reduce the availability of the resources that could later be dedicated to reconstruction. The data revealed help to create a clearer picture of the need for financial resources to strengthen security, with the estimated volume confirming the general assessment that "peace and security are expensive".

3. Concepts and factors of influence of expenditures in the field of security and defence

3.1. Definitions of military and defence expenditures

Before delving into a discussion about influencing factors, we shall review some of the approaches regarding the concepts of military expenditures, defence expenditures, and defence budgets, that are deeply impacted by the identified factors. Clarification is necessary for subsequent evaluations, as without a distinction between these, confusion and errors in interpretation can arise. Internationally, there are standardized definitions such as those of the UN, IMF, and NATO (Kumar, 2017), but in many situations countries prefer to use their own definitions, adapted to their security interests, excluding certain categories of expenses (such as expenses for research and development in defence).

According to the United Nations Expert Group Report on the Reduction of Military Budgets, military expenditures "*are measured as the value of flows of goods and services in the military sector over the course of a whole year*" (United Nations, CEPAL, 2005).

NATO's definition of defence expenditures, which most institutions and many researchers reference in their reports and analyses, shows that they are considered "*as payments made by a national government specifically to meet the needs of its armed forces, Allies, or the Alliance*". According to the same definition, "*A major component of defence expenditures is the payments for armed forces funded from the budget of the Ministry of Defence (MoD)*" (NATO/ def-exp-2023, Press & Media, 07 July 2023).

According to a definition derived from NATO, SIPRI includes in military expenditures "*all current and capital expenditures for: armed forces, including peacekeeping forces; defence ministries and other government agencies involved in defence projects; paramilitary forces, if they are considered to be trained and equipped for military operations; and military space activities*" (sipri.org.milex/ definitions).

Military Balance defines military expenditures as "*the cash expenditures of the central or federal government to cover the costs of the national armed forces*" (CEPAL, 2005).

In its definition, RAND Corporation includes aspects that lead both to the source of financing for military budgets and to the allocation of defence expenditures, which are presented as "*The part of the national budget that is allocated to defence, covering expenses for salaries, training and health care; maintaining and acquiring weapons, equipment, and facilities; financing military operations and developing new technologies*" (rand.org/topics/military-budgets).

The International Classification of Government Functions (COFOG), used by the EUROSTAT database, includes in its Classification of General Public Expenditure by Function (COFOG), under the function "Defence", the following: defence expenditures, structured as: military defence, civilian defence, foreign military aid, research and development in defence, and other defence expenditures not included in other categories (COFOG, Eurostat).

According to some researchers in the field, military expenditures are "*an identifiable measure of the resources dedicated to the military by a country*" (McGerty, 2022), and the military budget, (also identified as defence budget), is "*the sum of financial resources dedicated by a*

state to the formation and maintenance of an armed force or other essential methods for defence purposes" (https://en.wikipedia.org/wiki/Military_budget).

From another perspective, the Global Report defines the defence budget as "*a basic document ,..., that determines the strategic allocation of public resources to various defence functions,..., a planning document that outlines key priorities for defence for a particular financial year*" (Global Report, GDI 2020).

As noted, the existing differences in the treatment of security and defence expenditures make it difficult to define military and defence expenditures, but often the differences are not substantial. It is also observed that the difficulties in defining the concept also hinge on different approaches, i.e. functional versus institutional approaches to defence (Brzoska, 1995).

In conclusion, while maintaining certain reservations regarding possible interpretations, it can be appreciated that, within the broader sphere of military expenditures, are included both the expenditures that ensure the fulfilment of the external function of the state/national defence (Hewitt, 1991) and those arising from fulfilling responsibilities as a contributor to regional, European, and global security (assumed depending on the state), as well as those made for maintaining internal security. Defence expenditures, with a narrower sphere, reflect the necessary funds (mainly provided by the state budget) that finance the activities assigned to the armed forces (Law 45/1 July, 1994, art.10).

3.2. Factors influencing expenditures in the field of security and defence

The analysis of the factors determining military and defence expenditures is based on questions concerning the volume of funds consumed in different periods of time and, on one hand, and, on the other, on the differences between states and/or regions of the globe. What causes State X/states that usually have a low level of military expenditures to increase their level at a certain point? What are the reasons that lead states in the same area/region, or from different areas/regions, to spend more on security and defence, as compared to others?

By examining some of the substantial studies or scientific works that refer to the analyzed subject, it can be seen that through different methods of investigation, the authors convincingly demonstrate the need for increased attention to these factors, as their manifestations and impact can differ from one situation to another. It is often observed that, in their research approach, authors converge towards a group of common factors: political, economic, and military (Maizels & Nissanke, 1986; Ling, Ruixing & Lei, 2014), or they follow influences through the prism of the environment in which they develop: internal and external (Conrad & Souva, 2020). At the same time, studies that consider particular situations concerning a state or an organization/NATO, as well as those that follow certain major influential factors in singular situations, such as: the outbreak of a crisis (C. Mölling, 2012; V. Holcner, 2019; Tao et al. 2020); the risk of a conflict (Collier & Hoefler, 2006) or the outbreak of a war (Cordesman, 1999; Clements & Gupta, 2021; Seiglie, 2022) are not to be neglected, and as will be shown, greatly influence the approach to military expenditures.

Since the issue of factors influencing the level of military expenditures is extremely vast, the analysis will focus on those that are considered, in the current period, the main driver of the increase in defence expenditures by a series of states and that put pressure on public budgets. As previously shown, the factors that influence states' decisions regarding the assumption of a certain level of security funding responsibilities can come from both their internal and external environment.

The internal factors that constantly influence the level of military expenditure

of a state, grouped into: political factors; military factors and economic factors (Maizels & Nissanke, 1986), are manifested in certain conditions of the environment in which they develop, which means that their influence differs from state to state.

At a deeper analysis, the following factors can also be identified as having a major impact on military and defence spending: geostrategic factors, which are influenced by the level of threat experienced by each state, the impact of the outbreak of conflicts (especially if they in the proximity), new global security challenges (globalised and diffuse threats and risks), climate change (which acts as a multiplier of security threats and risks), migration flows, etc.

A key moment when the political factor exerts its influence on military expenditures is when the ruling class of the state (political decision-makers) makes decisions regarding the allocation of financial resources for the fields of security and defence. Such a moment is when Parliament adopts the state budget law, proposed by the executive, a law that encompasses the budgetary provisions of all public institutions benefiting from budgetary funding, including those in the field of security and defence. The approved revenue levels for financing the expenditures provided for in the budgets of each of these institutions denote the priorities of the political class in power for the budget year for which the law is adopted and assuming responsibility in front of the voters, who are to be the beneficiaries of the investments made in security and defence.

Based on the analysis of the relationship between the type of political regime of some states and the level of their military expenditures, a number of researchers, including Conrad and Souva, have concluded that democracies maintain a smaller defence burden (proportion of expenditures) than non-democracies (Conrad & Souva, 2020) and that countries characterized as multiparty democracies spend less on the military than others (Hewitt, 1991). In turn, in their empirical research, Bove and Brauner note that military regimes would support a higher level of military expenditures (Bove & Brauner, 2011).

Clements and his colleagues consider the likelihood that "*a country will spend more on the military when it faces significant political instability*" (Clements, Gupta & Khamidova, 2021).

Furthermore, Connolly highlights that "*The extent of the defence burden is essentially a political choice and is shaped by whether the government and the population of the country are willing to accept the allocation of limited resources for defence expenditures instead of other areas of public spending...*" (Connolly, 14 July 2022). Thus, if the funding choices made by the government (reflected in the level of allocations to various areas of public spending) target an increase in defence spending, the decision may be taken at the expense of other areas that are in direct competition for resources with the field of defence.

An example of political choices considered to be inconsistent with the regional and national security challenges facing the state are those of the political class in the Republic of Moldova, which through its defence funding decisions, described as "chronic underfunding", has contributed to the degradation of the defence sector (Veaceslav & Lipcean, 2020).

As an expression of military factors, a series of strategic documents specific to each state are illustrative (Ling, Ruixing & Lei, 2014). Through specifically mentioned provisions, they give the trajectory of the expenditures necessary to be made in order to meet the security and defence objectives and describe the resources that the state should provide in order to be able to sustain them.

Specific to Romania, we can mention: Romania's National Defence Strategy of 30 June 2020 for the period 2020-2024; Romania's Military Strategy of 11 August

2021 and Romania's Security Strategy of 30 December 2021. A few references in their content, referring to financial resources, are suggestive to reinforce the above, as follows: in the National Defence Strategy of the Country, in the chapter Defence Dimension, it is pointed out that "*The national political agreement on increasing defence funding to 2% of the Gross Domestic Product, creates the premises for the modernisation of the Romanian Army and the consolidation of its status as an increasingly respected international partner*" (Strategy, 30 June 2020, p. 176), and in the chapter Public Order Dimension, it is stated that the directions of action are aimed at "*Ensuring human resources, material, financial and informational means ... necessary to maintain and develop the operational capacity of the competent institutions...*" (Strategy, 2020, section 178).

In Romania's Military Strategy, arguments are put forward for "*continuing to ensure defence resources at the level of 2% of the GDP*" (meanwhile raised to 2.5% of the GDP with the approval of the CSAT – Supreme Council of National Defence), since "*it represents the foundation for the continuity of the development of Romania's military capabilities at strategic level*". Also, regarding the resources needed to achieve the military objectives, it is stated that "*the strategy is based on compliance with the National Political Agreement on increasing defence funding for the period 2017-2027*", which would allow "*the execution of concrete steps to modernise the military instrument*" (Military Strategy, 2021, Chapter II). At the same time, it is pointed out as a responsibility of the Romanian state authorities that "*the Romanian Government provides and allocates the financial funds necessary to ensure/achieve the defence resources that are planned and used by the military structures...*" (Military Strategy, 2021, section D).

Among the objectives of Romania's Cyber Security Strategy, one of the measures stipulated is "*Efficient allocation of financial, technological and human resources*" (Strategy, 2021, section 4.1.3), and from the perspective of the major interest of international organisations of which Romania is a member, towards cyber security (part of the extended security), the importance of increasing "*the degree of allocation of resources from the GDP to this field*" is revealed, as well as that of "*the absorption of funding for the development and consolidation of research and innovation in the field of cyber security*" (Strategy, 2021, section 4.3.4).

Alliance membership may also lead to higher military spending by Alliance member states (e.g. NATO), as the security guarantee "is not for free". However, in addition to the obligation provided for in the Treaty to pay the quota established to the Alliance budget, membership also implies investments in military capabilities, in order to reach the level of compatibility with partner states (these involve substantial financial efforts given the very high costs of the technology in the current force endowment). In addition, the states that respect their membership, which guarantees that they are beneficiaries of security, also have the role of security provider, which implies participation in the operations conducted by the Alliance and, automatically, bearing the costs that are incumbent on it. From the above, it could be interpreted that once a country joins an alliance, it increases its security expenditure, which would discourage other possible entry options. But it is important to look beyond the figures, as in the current security context no single state would be able to bear the burden of security spending alone. In conclusion, even if security costs increase overall, they become bearable by being shared among members.

In what regards the behaviour of states within an alliance, the literature notes that there may be situations in which a state adopts a free rider behaviour, which leads to a reduction in its own defence spending, but

also to an increase in spending by the other partner states, which thus take over part of the unfulfilled obligations of the former.

The growing need for funds to cover the costs needed to meet the Alliance's global security requirements led the Alliance to call on member states to commit to increasing defence resources to at least 2 % of GDP annually (over 10 years) and to allocate at least 20 % of the defence budget for investment (The Welsh Summit, 2014).

The pledge to fully meet the defence investment commitment made at the 2014 Wales Summit was reaffirmed at the Madrid Summit in 2022. Afterwards, at the 2023 Vilnius Summit, under pressure of unfulfilled commitment and need for resources, the Allies agreed to a renewed commitment to achieve at least 2 % of GDP investment in defence, recognising that more is urgently needed to meet our commitments as NATO Allies in a sustainable way (NATO Summit 2023, Vilnius, para. 27). Despite all the commitments made, the data made public shows that in 2022, out of the 31 Allies, seven (Greece, United States, Lithuania, Poland, United Kingdom, Estonia, Latvia) met the criterion of spending 2% of Gross Domestic Product on defence, one less state than in 2021, when the criterion was also met by Croatia (NATO Annual Report 2022).

From the perspective of Alliance membership, as a factor influencing military expenditure (in this case NATO) it is relevant that, according to the data made public, the Eastern NATO states have higher increases than the Western states. As an example, the ten Central and Eastern European states that joined the Alliance in 1999 and 2004 (Figure no. 1) have increased their defence spending in relation to their GDP by an average of more than 65% between 2014 and 2022, while the average for the founding members (excluding Iceland) is less than 20 %.

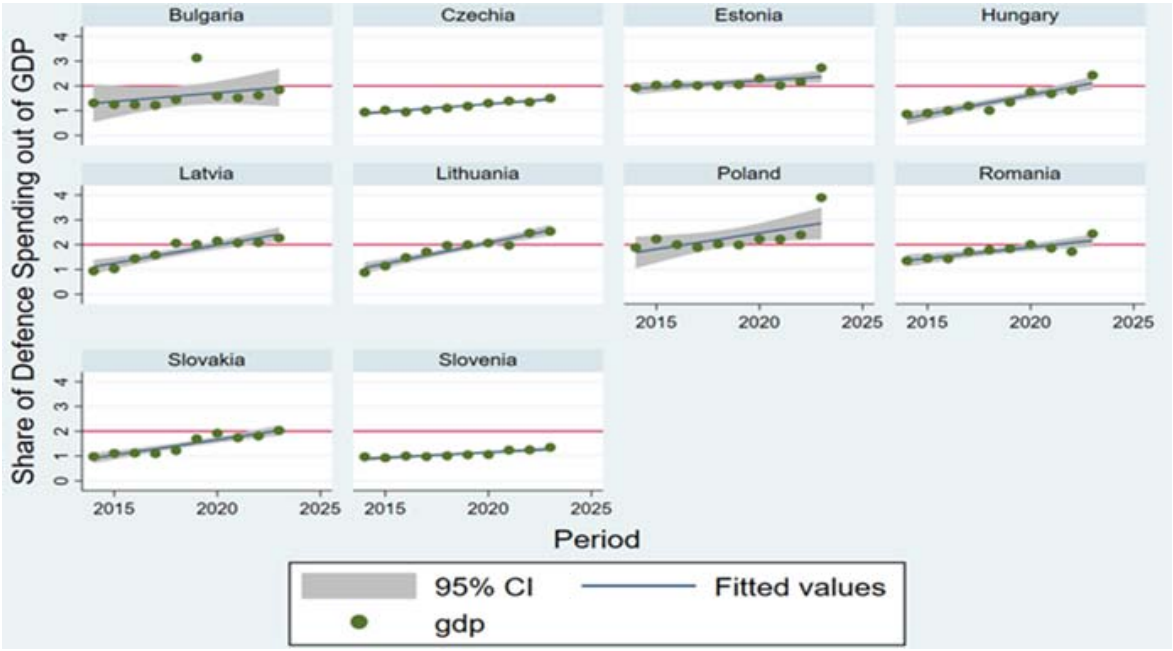


Figure no. 1: Percentage of the GDP allocated to defence between 2014-2023 (countries that joined NATO in 1999 and 2004)
(Source: data from NATO 2023)

Of the 10 countries considered, Poland stands out with 2.22 % in 2021, 2.40 % in 2022 and an estimated 3.90 % for 2023. In terms of Romania's defence spending as a percentage of the GDP, it can be seen that after reaching 2 % of the GDP in 2020 (2.01 %), two years of reduction followed: in 2021, Romania spent 1.86 % of

GDP, and in 2022, it spent an estimated 1.72 % of the GDP on defence (SIPRI; NATO). The commitment for defence expenditures in 2023 is 2.5 % of the GDP (Supreme Council of National Defence, 2022).

According to specialized literature, one of the main reasons for the differences lies in the major change in the security landscape in Eastern Europe following Russia's illegal and illegitimate annexation of Crimea in 2014, and the heightened threat experienced by the European states (Military Balance, 2022).

The strong impact of the strategic factors on the states' military expenditures is supported by the conclusions reached by a number of renowned SIPRI researchers (Tian et al., 2023) as well as from the Higher School of National Defence Studies in Madrid (Fonfría & Grinei, 2012). They are united in the belief that strategic factors such as proximity or the actions of an "enemy" have a positive and significant effect on the level of military expenditure. For relevance they point out that in 2022, total military spending in Europe amounted to $480 billion, 13% higher than in 2021, marking an increase of 38% compared to 2013. The authors have no doubt in stating that "*the main driver of the year-on-year increase in military spending in the region*" is the Russian invasion of Ukraine in February 2022. This confirms the accepted assumption in the literature that strategic factors such as proximity or the actions of an "enemy" have a positive and significant effect on the level of military spending (George & Sandler, 2018).

Due to its complexity, the economic factor influences security and defence spending through several channels, the most important of which are: government revenues, budget deficit and public debt, and inflation. There are many analyses and pro and con opinions, as to how each of these influences military spending, and which measures states can take to intervene in one area or another in such a way that none of the domains is affected.

Taken as a whole, these economic factors generate a state's economic power and, through the flow of financial resources to the state, support the budgets from which defence is being financed. References to budgets, revenues, economic or budgetary burden of military or defence spending are mechanism that facilitate the understanding of the fact that economic disruptions can affect the level of support for defence spending, but also that the reverse relationship is valid.

The link between these factors is also highlighted in the 2023 edition of The Military Balance which states that "*while competing strategic factors have contributed to increased defence spending, economic challenges have weighed on public spending decisions*" (The Military Balance, 2023). It is thus understood that the factors influencing a state's public revenues and expenditures indirectly influence its defence spending.

It is likely that a crisis, through its economic impact, will affect budgetary income and that defence funding requirements become impossible to meet at the required level, which will generate and expenditure cuts. A good example is the economic and financial crisis of 2007-2008, when EU Member States' defence expenditure level fell from €183 billion in 2008 to €159 billion in 2014 (eda.europa.eu/docs).

High military spending is sometimes a response to active warfare (P. Collier, 2006). Consequently, in response to new security threats, most EU Member States have announced substantial increases in their defence budgets (in some cases even exceeding 2% of GDP) by 2022. The increase in current military expenditures occurs against the background of lower tax revenue growth (due to the COVID-19 pandemic), and the implementation of fiscal consolidation measures needed to ensure fiscal sustainability, which makes feasibility even more burdensome (Clements, Gupta & Khamidova, 2021).

International data support the assessment that in the context of an armed conflict, such as the Russian-Ukrainian one, the military expenditure of states increases, especially when it comes to investments happening in states in the vicinity of the conflict, a phenomenon which also amplifies the pressure on budgetary resources. Selected data show that the highest percentage levels of military expenditure in government spending are in Poland (one of the highest levels in NATO), and Romania (Figure no. 2).

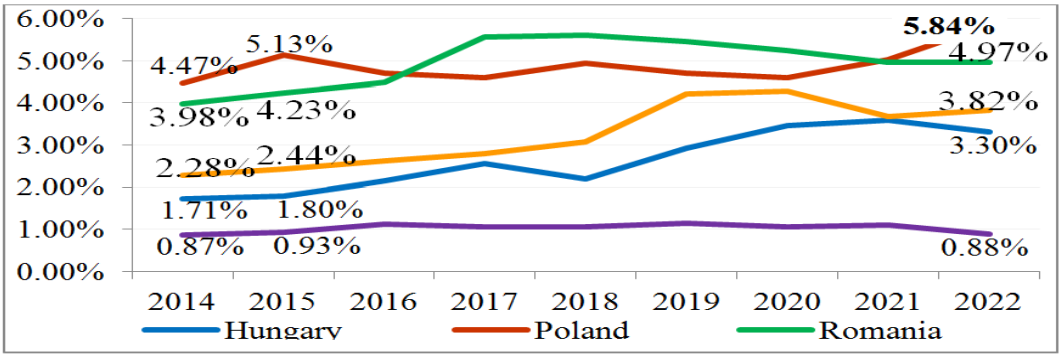


Figure no. 2: Military expenditure by country as percentage of government spending
(Source: data from SIPRI 2022)

The increases set by Romania have attracted the attention of the Fiscal Council, which recognises that the current military and geopolitical context calls for increased defence and security spending but, in their view, "*additional pressure on the public budget could lead to a possible increase in the stock of arrears*" (Fiscal Council Annual Report, 2022). It should also be noted that Romania is going through a period burdened by legislative, fiscal, and budgetary prerequisites imposed by the International Monetary Fund (IMF), the European Commission (EC) and the World Bank (WB). In view of the current military and geopolitical context and taking into consideration the need to increase defence expenditures, the Council's specialists consider that "*a significant increase in tax revenues is a pressing need, and a priority in economic policy*" (Fiscal Council Annual Report, 2022).

Another factor that deeply impacts countries around the world is inflation. If it continues to rise, it will put even more pressure on defence budgets, as rising prices in the overall economy will disrupt the correlation between the expenditure incurred and the levels initially set.

4. Conclusions

The security risks and challenges that typify an environment in which contagion and instability are spreading with increasing rapidity are affecting populations and economies and require states to be more responsive to the needs of the institutions providing security. Proper assessment of financial needs in the face of limited resources is particularly important because as military spending increases, other categories of expenditure will come under pressure. Covering them requires consumption of resources, but financial resources underpin investment in other resources, and ensuring that they are adequately covered requires accountability and a good understanding of the needs and consequences of underfunding. The factors that amplify the level of defence expenditures are not only domestic, but also external, each of which can have an impact on the response capacity of the institutions with responsibilities in this area.

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