

DEFENSE EXPENDITURE, TERRORISM AND THE ECONOMY

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Turkey has had to combat separatist terror for a long time as of the first-half of the 1980s in its southeastern region. One of the issues that is high on the agenda lately concerning this war on terror is the expenditure for this and the impact of this expenditure on the Turkish economy. Is it that Turkey has had developmental problems due to the expenditures on this region? Would Turkey be better-off if this much money were not spent to fight terror? Does defense expenditure essentially negatively affect economic growth? Even though this looks like a rather easy question to answer at a first glance, empirical studies have shown that the answer is not that simple. The first substantial study on this subject was made by Benoit in 1973 examining 44 underdeveloped states and it was seen that defense expenditure does not negatively affect the economy; conversely, that it had a positive effect. This surprising finding has led many economists to conduct research on this subject and studies completed to this day have not forged a consensus on this issue.

The impact of defense expenditure is dependent on the composition of expenditure. NATO categorizes defense expenditure into four. These are personnel expenditure, equipment expenditure, infrastructure expenditure and other operational expenditures. Expenditure on infrastructure can contribute to development particularly in developing countries since infrastructure services built for military purposes can also be used for civilian purposes. Expenditure on personnel on the other is most of the time no different from the expenditure on public employees. What is cited as potentially causing the negative effect is the spending on equipment and other operational spending. Turkey's expenditure in line with this categorization is shown in Table 1. What strikes is an increase in the share of expenditure on equipment in the period concerned. Share of operational expenditures has peaked between 1985–1989 and gradually declined afterwards.

Table 1. Distribution of Turkish Defense Expenditure (%) (1)

	Personnel	Equipment	Infrastructure	Other operational
1980–1984	45,3	9,1	13,2	30,1
1985–1989	37,1	18,2	5,4	38,4
1990–1994	50,1	23,7	3,0	22,5
1995–1999	48,2	26,5	4,4	20,0
1997	48,4	27,0	4,2	20,4
1998	48,5	20,6	6,1	24,8
1999	47,0	25,5	8,5	19,0
2000	41,0	33,6	6,2	18,3

Whether or not defense expenditure is harmful to the economy differs from country to country. Examination of Turkey's defense spending between 1950–1994 has revealed a positive relationship between economic growth and defense spending (2). A similar study has been conducted on Greek defense spending yet it has been proven that defense spending has had a negative impact on the economy of this country (3). The most frequently used and decisive criterion on the size of defense expenditure is the ratio of the country's defense expenditure to its gross domestic product. This ratio is called the defense burden. When viewed from this angle, Turkey has the highest number after Greece among OECD countries. From this perspective, Turkey's defense expenditure seems to be high. However, when we look at the defense burdens of Turkey and other regional states, Turkey's defense burden is not prominent. While Turkey spends 4% of its revenues on defense, this number is 6.1 for Southern Cyprus and 4.6 for Greece (4). NATO data is 4.2% for Turkey and 4.8% for Greece in 1999. (5). What appears is that Greece spends a larger portion of its revenue on defense vis-à-vis Turkey.

The thesis that defense expenditure has harmed the Turkish economy is not entirely true. Relations between defense expenditure and the development of the state do not always hold. Taiwan is one of the most rapidly developing countries amid a very high defense burden. Again Israel is the country with the highest defense burden and the highest level of development in the region. North Korea on the other hand is a poor country with a very high defense burden. Therefore, defense expenditure has an optimal size. Turkey has scored the highest levels of growth between 1980–1996 and has seen improvements in indicators like foreign trade and per capita income. With a regional perspective, the increase in the number of troops in the Southeast in the post-1980 period along with the village guards system that was put in place in the region have increased the income level and purchasing power of the region. The increase in aggregate demand has increased the income level in the region. The per capita income gap between the region and other regions has narrowed. The presence of the Turkish army in the region has provided positive externalities to the region in the sphere of education and healthcare. Similarly, the prolonged deployment of the Turkish army in the region has accelerated infrastructure investments and these services were also used for civilian purposes. Clashes between the PKK terrorist organization and the Turkish army in the Southeast at this period in time have brought dynamism to the army. This has been perceived as the loss of the ability to compete with the Turkish army by Greece and led Greece to first seek for new alliances against Turkey and later on for ways of cooperating with Turkey instead of conflict. Favorable viewpoint of Greece on Turkey's EU membership can be evaluated as a product of this period. Also within this period, great efforts were undertaken with respect to the defense industry and new investments have had the effect of creating employment. Furthermore, the defense industry usually utilizes high-technology, which in turn provides positive externalities to other sectors of the economy. Defense industry, which has developed in this way, has contributed to Turkey's technological development as well.

Turkey has considerable superiority in terms of military power in Europe and in the last few years this power is being supported by modern equipment. Although the ratio of the number of troops to total workforce is as high as 3.6%, this has not had a negative impact on the Turkish economy due to under-employment, conversely, it has the effect of reducing unemployment. This indicator is 5.1% for Greece and empirical studies demonstrate that the high troop number/workforce ratio is hampering the economic development of Greece (6). Reasons why Turkish defense expenditure has a positive impact on the economy unlike in Greece can be outlined as follows:

- Military workforce in Turkey does not cause a deficit in civilian workforce.
- Defense expenditure in Turkey largely includes healthcare (42 military hospitals and GATA) and education (Military High Schools, Combat School, Military Academies)
- Military presence in the Southeast has had the effect of revitalizing aggregate demand in the region and contributed to regional development alongside combating terrorism.

When we look at the development of the defense budget (Table 2), its share in the consolidated budget declines year by year. Along with this, the exclusion of some defense spending from the budget (Defense Industry Fund) and the non-calculation of interest revenues show its share in the budget lower than it actually is. When we examine defense expenditure using NATO data, there exists an increase.

Table 2. Share of Defense Spending in Turkey in Consolidated Budget (7)

Years	Years Defense Budget Consolidated Budget
1930	30,2
1950	27,0
1970	18,2
1990	17,9
1994	15,0
1998	10,4
1999	10,1
2000	9,5
2001	12,41
2002	9,98

*2002 budget initial allocations

To conclude, the thesis that Turkey's struggle against terror has caused economic decline is not so true despite that it has had some negative impacts (animal husbandry and agriculture). Empirical findings in other countries concerning Turkey as well have shown that defense expenditure does not always have a negative effect and that it even has a positive effect. Despite acknowledging a trade-off between defense expenditure and education and healthcare seems very convincing, reduced military expenditure is not channeled towards education and healthcare most of the time. A setting of security is the chief condition for economic development, investments will be avoided once there is a feeling of insecurity. The amount of defense expenditure, which maintains a setting of security is the optimal defense spending. A lower amount negatively affects the economy and excessive defense expenditure creates adverse economic and social effects. What seems to hold for Turkey is that defense expenditure has been at a level to create a secure environment. Theses that defense expenditure has negatively affected the economy in

the period concerned do not have empirical support in view of the fact that Turkey's development in that period has been high in relative terms.

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