

THE
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OF
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A
GLOBAL
PERSPECTIVE

ETHAN BARNABY KAPSTEIN

THE POLITICAL ECONOMY OF NATIONAL SECURITY

A Global Perspective

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3 4 5 6 7 8 9 0 DOC DOC 9 0 9 8 7 6 5 4 3

ISBN 0-07-034256-3

This book was set in Palatino by General Graphic Services, Inc.
The editors were Bertrand W. Lummus and Fred H. Burns;
the production supervisor was Annette Mayeski.
The cover was designed by Nicholas Krenitsky.
The photo editor was Barbara Salz.
R. R. Donnelley & Sons Company was printer and binder.

Library of Congress Cataloging-in-Publication Data

Kapstein, Ethan B.

The political economy of national security: A global perspective /
Ethan B. Kapstein.

p. cm.

Includes bibliographical references and index.

ISBN 0-07-034256-3

1. National security—Economic aspects.
 2. Defense industries.
 3. Military-industrial complex. I. Title.
- HC79.D4K37 1992
338.4'76233—dc20 91-23566

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A Global Perspective

Written under the auspices of the
John M. Olin Institute for Strategic Studies
Center for International Affairs
Harvard University

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To my students

PREFACE

Writing in 1941, Edward Mead Earle argued that “in modern times . . . we have constantly been confronted with the interrelation of commercial, financial, and industrial strength on the one hand, and political and military strength on the other. This interrelationship is one of the most critical and absorbing problems of statesmanship.”¹ It is that interrelationship which forms the subject matter of this book.

The international system is characterized by anarchy, by the absence of central authority. Within that anarchic world, states must pursue the twin goals of security and prosperity. While states are increasingly adopting the logic of economic liberalism and the global division of labor in their pursuit of wealth, public officials charged with defense policy remain preoccupied with achieving autonomy in foreign affairs and military superiority over all possible rivals. There is thus an underlying tension between nationalistic conceptions of security and the globalization of economic activity. The exploration of that tension provides one of the major themes of this book, and it justifies the need for a new text in the political economy of national security, a text that treats the problem of defense economics in the context of the “open” rather than “closed” nation-state.

Providing for defense is one of the costliest economic activities of every state. But despite the influence of the defense sector on economic performance, industrial policy, and international economic relations, students and policymakers have gone a generation without a book that examines these and other critical policy issues. This work was written to fill that gap.

In preparing the text, I have consciously borrowed from many of the classic works in defense economics of the postwar era.² These studies, written mainly during the period 1950–1960, made manifest contemporary concerns about the political and economic implications of a large peacetime “military-industrial complex.” It should be recalled that this was a period of awesome change in the international system, characterized by the enormous work of postwar recovery, the threat of U.S.–Soviet tensions leading to nuclear holocaust, and regional conflict throughout the third world. The economic burdens of defending democracy around the globe weighed heavily on American and western leaders. As we would only discover in recent years, the burdens of defense were even greater for Soviet rulers.

In the early 1980s, with the renewal of cold war tensions and a massive defense buildup in the United States and other western countries, public concern over the malign effects of defense spending became prominent once

more. Scholars like Paul Kennedy of Yale suggested that the mismatch between defense commitments and economic capabilities had doomed one great power after another throughout history, with important lessons for the United States and, even more pointedly, the Soviet Union.³ A great debate raged in scholarly journals and the popular press over the relationship between defense spending and economic performance, and the decline of at least one superpower—the Soviet Union—seemed causally related to the high levels of defense spending it had maintained since World War II.

Public concern with issues at the interface of economics and national security was not limited to the potentially malign effects of defense spending. One of the most troubling developments of the emerging new world order is the proliferation of advanced weaponry. States like Iraq were able to amass powerful arsenals on the basis of the arms trade and the globalization of defense-related industries. High on the policy agenda of the United States and other powers in the 1990s is the question of how to control and contain the spread of such weaponry.

Despite the renewed public interest in the economic dimension of national security, students have been without courses and textbooks that explored this issue area. In most universities the study of international relations has become bifurcated, with political economy representing one distinct subfield and security studies another. The teaching of economics has become increasingly theoretical and mathematical, with relatively little attention paid to applied problems. But, clearly, these academic offerings leave a curricular void. If students are to be prepared for the real world of the national security official and industry executive, they should be knowledgeable about both the politics *and* economics of defense issues.

Fortunately, the void is slowly being filled. Thanks to the support of such organizations as the John M. Olin Foundation, the Pew Charitable Trusts, and the Ford Foundation, a number of academic programs in economics and national security have been established at universities around the country, including Harvard, Columbia, Chicago, Duke, Maryland, and UCLA. These programs, which bring together political scientists, economists, and other scholars, are shedding light on such issues as, *inter alia*, weapons procurement, the economic effects of defense spending, the arms trade, and the role of defense industries in the domestic and international economies. In addition to offering new courses in defense economics, professors at these and other universities are expanding existing courses in political economy, security studies, public policy, economics, and history to include material drawn from the defense sector. It is hoped that this book will support their efforts.

As codirector with Professor Raymond Vernon of the Economics and National Security Program in the John M. Olin Institute for Strategic Studies at Harvard, and as a professor of international relations at Brandeis, I have felt compelled to write a new text in the political economy of national security. Having taught courses without such a book, I always found myself scrambling to assemble an eclectic package of readings, and colleagues have reported similar experiences.

A book such as this, however, provides at best a snapshot of a field of study at a particular period of time. I have not written the work with the anticipation that it represents the "last word"; if anything, it's more the "first word," given the paucity of recent books on the subject. The selection of topics and the range of coverage represent my subjective estimation of the important issues in economics and national security, and I am aware that other scholars would have made different choices.

The book begins with an introduction that provides a brief overview of the major theoretical approaches to the political economy of national security—namely, liberalism, neo-mercantilism/realism, and Marxism/Leninism. These three traditions, well known to social scientists, have all sought to describe the search by states for security and prosperity in the international environment. Each provides unique analytical and prescriptive insights regarding the defense economy, which will reemerge in the substantive chapters of the book.

The next chapter explores defense economics in historical perspective. This brief review suggests that many of the macroeconomic, microeconomic, and international economic issues that occupy public officials today have long historical roots. Such issues as defense spending, industrial policy, dependence of foreign suppliers, and economic warfare have concerned statesmen for hundreds of years. From a historical perspective, defense has been among the most prominent economic problems of rulers.

The book is then organized into parts that focus, respectively, on "macro," "micro," and "international" issues. The "macro" chapters deal with defense spending and budgeting and with mobilization and war. The "micro" chapters are occupied with the defense-industrial base and weapons procurement. The international chapters examine the economic relations of military allies, the arms trade, and the problem of providing national security in a global economy. The concluding chapter discusses policy implications and provides suggestions for future research.

One of the major points the book tries to make is that national security is and always has been embedded in the international economy. Thus, at the macro level, defense financing has often been provided by foreign countries, while at the micro level states have sought men and materiel overseas. In each chapter, the international dimension is stressed.

The book, in fact, has a global and comparative focus that its predecessors generally lacked. The chapter on the defense-industrial base, for example, includes discussions on the Soviet Union, Japan, Europe, and the developing countries. The chapter on national security and the global economy examines the diffusion of advanced technology around the world and the challenges that presents for policymakers. The defense economy is not a "closed," national system, but it is an integral part of the world economy. If students gain an understanding of this "globalization" of the defense economy, my objectives for the book will have been largely fulfilled.

The reader will note that each chapter contains a selected bibliography and a large number of footnotes. In addition, a complete bibliography appears at the back. This reflects my philosophy of what a good textbook should do, and

that is to stimulate the student to engage in further study and research. The notes will lead the student to important books and articles in each issue area, providing assistance as he or she prepares research projects.

The large number of notes also reflects the fact that this book has been written on the shoulders of hundreds of scholars, past and present. I am grateful to my colleagues at Brandeis, Harvard, and other universities for the tremendous support they have provided during the writing of this book. I would also like to express my appreciation to the many government officials and industry executives who have given freely of their time in support of this and other projects completed under the auspices of the Economics and National Security Program. One of the great pleasures of being an academic is interacting with stimulating colleagues, and I have written friends an endless stream of IOUs in the process of researching and writing. In extending my thanks, a special word is owed to four scholars who have done so much to support my work in economics and national security: Robert Art, Seyom Brown, Samuel Huntington, and Raymond Vernon. I would also like to thank the scholars who reviewed part or all of the text and made useful comments, including Michael Barnett, Steve Chan, David Haglund, Michael Mastanduno, David Rosenberg, and Kamal Shehadi.

The book, however, is dedicated to my students. They were early supporters of this project, and I wrote the book with them in mind. I thank them all, and hope the final product justifies their interest and support.

Ethan Barnaby Kapstein

Notes

1. Edward Mead Earle, "Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power," reprinted in Peter Paret, ed., *Makers of Modern Strategy* (Princeton, N.J.: Princeton University Press, 1986).
2. These include James Schlesinger, *The Political Economy of National Security* (New York: Praeger, 1960); Charles Hitch and Ronald McKean, *The Economics of Defense in the Nuclear Age* (Cambridge, Mass.: Harvard University Press, 1960); Klaus Knorr, *The War Potential of Nations* (Princeton, N.J.: Princeton University Press, 1956); George Lincoln, *Economics of National Security* (Englewood Cliffs, N.J.: Prentice-Hall, 1954); Jules Backman et al., *War and Defense Economics* (New York: Rinehart & Co., 1952); Lester Chandler and Donald Wallace, *Economic Mobilization and Stabilization* (New York: Henry Holt and Co., 1951); and Horst Mendershausen, *The Economics of War* (New York: Prentice-Hall, 1943).
3. Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987).

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Introduction: Theoretical Approaches to Defense Economics

“... national wealth is increased and secured by national power, as national power is increased and secured by national wealth.”

—Friedrich List (1789–1846)

States must seek both security and prosperity in an anarchic international environment. Few states in history have been autarkic, or enjoyed complete self-sufficiency; most have had to rely on the world economy to provide the money and materiel needed for defense and war. The purpose of this introduction is to elaborate some of the theories that have analyzed the policies pursued by states as they seek to achieve wealth and power in the international system.

The relationship between economics and national security has been subject to a long and rich theoretical tradition. Here, three of the most prominent paradigms are briefly discussed: neo-mercantilism/realism, Marxism/Leninism, and liberalism.¹ The theories are well known to social scientists, but few scholars in recent years have consciously applied them to issues in the defense economy.² Of course, other ideologies, such as fascism, have also explicitly linked economics and security; indeed, it was Nazi minister Hermann Göring who made famous the phrase that Germany aimed at making “guns, not butter.” The influence of fascism and other ideologies on social science scholarship and policymaking in the contemporary world is, however, muted.

NEO-MERCANTILISM/REALISM

Mercantilism, the economic doctrine most closely associated with defense economics, dominated international thought from the sixteenth to eighteenth centuries. In the words of one of its great students, Edward Mead Earle, it “was a system of power politics.” The object of mercantilism in domestic politics was to strengthen the state vis-à-vis society, while in international politics it was to increase the state’s relative power. These goals were unified through government policies aimed at developing the state’s “commercial, financial, military, and naval resources.” To this end, the state intervened in the domestic and international economies to further its political and military objectives.³

Mercantilists held that in the pursuit of wealth and power, countries must possess large reserves of gold—gold that would be needed, among other things, to finance warfare. Since gold was used to pay for goods and services in international trade, this meant that states should seek to run balance-of-trade surpluses. Thus, it was through trade that states achieved wealth and, by extension, security. Contrary to popular conception, mercantilism is not synonymous with autarky, though it did hold that states should promote domestic defense-related industries.

Indeed, mercantilism’s promotion of “infant industries” is one of its most prominent legacies. In his famous “Report on Manufactures,” presented to the U.S. Congress in 1791, Secretary of the Treasury Alexander Hamilton articulated one of the most nuanced conceptualizations of mercantilist doctrine. Hamilton argued that “not only the wealth but the independence and security of a country appear to be materially connected with the prosperity of manufactures.” He said that many of the “embarrassments” suffered by the colonies in their struggle with England were due to dependence on foreign suppliers for defense materiel. A fuller discussion of early mercantilist views appears in the following chapter, which treats defense economics in historical perspective.

Aspects of mercantilist doctrine have enjoyed a renaissance in recent years, through neo-mercantilist and political realist interpretations of international relations.⁴ Political realists believe that the most important observation that can be made about the international system is that it is anarchic, that there is no sovereign to enforce agreements between states or maintain world peace. War breaks out because no authority can stop it. International relations is a “zero-sum” game where one state becomes more powerful only at the expense of another. Accordingly, international politics is a “self-help” system in which states can look only to themselves for survival.

A fundamental proposition of the realist tradition is that a powerful state must possess a strong economy. Such an economy is characterized by a relatively high level of gross national product, advanced technology, and a foundation of rich human and natural resources. For the realist/neo-mercantilist, state intervention is appropriate to advance national security objectives. On a purely material basis, realists would perceive the United States and the Soviet Union as exceptionally powerful countries, given their relative self-sufficiency. Japan and Germany would be viewed as having severe constraints on their ability to