

Chapter 4

Analysis of Defence Expenditure

Defence expenditure is one of the most important single items of expenditure in all countries of the world. Defence expenditure ensures national freedom and gives rise to many advantages that arise from it; These advantages are affording security to life, property and trade on which prosperity of the nation depends. In the early stages of human civilization people were living in constant fear of one another. In the absence of any collective security, they depended entirely on individual physical valour, fighting skill. But with the progress of human civilization state has come into existence to grant protection to all its inhabitants as a result of which this danger to life and possession has been minimized. Defence is thus the most important duty of the state. According to Adam Smith '*Defence is better than affluence*'..... This dictum is still considered a safe doctrine for every government. Because although society has progressed, the danger of war has not yet vanished from this world. In spite of repeated attempts to end wars for ever, the world to day is as much probably more in danger of war as ever. Because of this constant danger of war and a threat to the territorial integrity and independence all the countries of the world, they are spending a high percentage of their total expenditure on national defence.

4.1 Determinant of Defence Expenditure:

Defence expenditure of a country depends upon a number of factors among which i) The population, ii) the geographical area and location, iii) the degree of economic development, iv) The state of scientific and technological progress, and v) The political conditions existing inside and outside the country are the most important. Each of these factors influences the size and composition of defence expenditure. We propose to examine this theoretically here under.

- (i) **The Population:** The population is generally regarded as a parameter of the Defence system for all practical studies. The population of a country may show a tendency to rise or fall or remain stationary. Population growth, generally, widens the scope for greater degree of division of labour. The specialization in various material pursuits, in its turn facilitates the technological innovations which might immensely affect the every pattern of defence expenditure. Therefore, we can conclude that the expenditure on defence services and population growth are positively correlated.
- (ii) **Geographical area and location:** The geographical area and location of a country plays vital role in the matter of national defence. For example, if a country is circumscribed by vast oceans and high mountains the expenditure on defence of the country, under normal conditions, will be less than that the others without these natural sentinels will have to do. In India the Himalayan range standing guard over the northern borders of India is a case in point. We can also cite another example from the world history that, it is the winter climate which is purely a product of geographical condition which guarded Russia against foreign invasions, such as by Napoleon of France and Hitler of Germany. Geographical condition of a country remains unaltered unless it happens by nature. So also is the case with the size of the country which does not usually undergo changes. Hence the area and geographical conditions are treated as a constant factors which account for changes in defence expenditure.
- (iii) **Degree of Economic Development:** It is to be noted that defence expenditure is not only different in different country because of the variation in different factors but also different in the same country at various stages of economic development. Therefore, the extent of economic development is regarded as a variable in the determination of defence expenditure. The growth of any economy is measure in terms of

its per capita income. Defence potentialities of country move with the rising per capita income. Let us take, for example, two countries – developed and the other less developed both the countries spend the same percentage of national income on defence services so, the sacrifice involved in such expenditure is greater in the case of less developed country than the developed one. This is so because the expenditure on the latest armaments and ammunition is unduly and roughly impinges upon the standard of living of the masses, which area already at low level.

- (iv) **Scientific and Technological Advancement:** Advancement of science and technology play a vital role in the determination of defence expenditure in two ways. On the one hand, the advancement of science and technology accelerate the economic growth which in turn promotes higher rate of spending on defence services, on the other hand it opens a new ground for increased, defence expenditure by way of technological and scientific innovations. The size and composition of defence expenditure has been undergoing changes as newer and newer developments take to the progress of science and technology.
- (v) **Political Condition:** Political condition prevailing in the country and abroad plays an important role in the determination of defence expenditure. A country definitely will increase expenditure on security measure whenever a war is taking place in its vicinity. It can also be noticed that the defence expenditure is also an increasing function of similar expenditure in some or all other countries, i.e. the rise in spending in defence in one country will generally lead to a similar rise in defence expenditure in other countries.

For example, during the immediate post-Independence days both India and Pakistan kept their defence expenditure high. Political instability within a country also leads to higher spending on security measures. During emergencies, defence expenditure increased

substantially, is a case in point. Thus, political conditions prevailing with in or outside a country have an important role to play in varying the volume of defence expenditure.

Out of the above five factors that determine the volume and composition of defence expenditure. The last one, political factors is most relevant to our study as this will enable us to study the nature and growth of defence expenditure from the year 1950–51 to 2000–01. The events like Indo–China War (1962), Indo–Pak War (1965) and Bangladesh Independence War 1971 and Kargil War (1999) and many other military operations had played important role in altering the very mode of expenditure on defence services in India.

4.2 Growth of Defence Expenditure:

Defence expenditure in money terms increased from Rs. 168.32 crores in 1950-51 to Rs 49622.04 crores in 2000-01, showing a percentage growth of 29380.77 during the period. On the other hand, at constant price (1993-94 prices), the expenditure on this head increased from Rs. 2437.10 crores in 1950-51 to Rs. 29895.12 crores in 2000-01 and recorded a growth of 1126.65 percent during the period under study.

Defence expenditure per head of population in money terms increased from Rs. 4.68 in 1950-51 to Rs. 492.77 in 2000-01 which records a percentage growth of 10410.03 during the period. In real terms however, defence expenditure per head of population increased from Rs 67.88 in 1950-51 to Rs 296.87 in 2000-01 with some fluctuations during the period. This shows a growth of only 337.31 percent during the period under study. It should be pointed out in this connection that the rise in defence expenditure was associated with wars, it can not be overlooked that the periods of war were also the periods of inflation. The major portion of this rise in defence expenditure can be accounted for by the rapid rise in prices.

Table 4.1
Defence Expenditure at Current and Constant Prices
(1950-51 to 2000-01)

Financial Year	Total Expenditure		Per Capita Expenditure		As % of total Government Expenditure	AS % of NI
	At Current Prices (in crores)	At Constant Prices (in crores)	At Current Prices (in Rs.)	At Constant Prices (in Rs.)		
1950-51	168.32	2437.10	4.69	67.89	17.40	1.84
1951-52	196.45	2764.06	5.38	75.73	18.87	2.04
1952-53	198.34	2917.93	5.33	78.44	20.86	2.09
1953-54	208.22	2983.24	5.49	78.71	21.01	2.01
1954-55	209.81	3359.92	5.44	87.04	17.11	2.18
1955-56	205.96	3328.75	5.24	84.70	14.89	2.11
1956-57	231.55	3299.24	5.77	82.28	13.94	1.98
1957-58	206.95	2843.69	5.06	69.53	10.15	1.73
1958-59	297.79	3951.79	7.12	94.54	14.39	2.24
1959-60	258.72	3338.89	6.07	78.38	11.59	1.86
1960-61	280.94	3552.12	6.47	81.85	9.00	1.85
1961-62	312.49	3867.24	7.04	87.10	9.16	1.96
1962-63	473.91	5590.82	10.44	123.15	11.55	2.78
1963-64	816.12	8832.65	17.59	190.36	16.41	4.19
1964-65	805.8	8005.02	17.00	168.88	15.54	3.53
1965-66	884.76	8055.07	18.24	166.08	13.74	3.72
1966-67	908.59	7339.03	18.36	148.26	12.54	3.38
1967-68	968.43	7181.79	19.56	145.09	13.59	3.05
1968-69	1033.19	7457.60	19.95	143.97	14.44	3.09
1969-70	1100.88	7711.10	20.81	145.77	14.36	3.00
1970-71	1199.29	8327.97	22.17	153.94	7.17	3.08
1971-72	1525.29	10045.07	27.53	181.32	14.67	3.69
1972-73	1652.46	9831.36	29.14	173.39	13.66	3.64
1973-74	1680.8	8511.68	28.98	146.75	13.04	3.01
1974-75	2112.27	9246.09	35.62	155.92	13.92	3.23
1975-76	2462.29	11191.65	40.56	184.38	13.27	3.57
1976-77	2562.54	10919.43	41.33	176.12	11.93	3.45
1977-78	2633.64	10539.11	41.54	166.23	11.32	3.09
1978-79	2867.63	11324.33	44.25	174.76	10.34	3.15
1979-80	3273	11220.41	49.29	168.98	10.29	3.32
1980-81	3866.77	11885.43	56.95	175.04	10.93	3.27
1981-82	4651.8	13015.07	67.22	188.08	11.47	3.39

Financial Year	Total Expenditure		Per Capita Expenditure		As % of total Government Expenditure	AS % of NI
	At Current Prices (in crores)	At Constant Prices (in crores)	At Current Prices (in Rs.)	At Constant Prices (in Rs.)		
1982-83	5408.3	14019.24	76.39	198.01	11.26	3.56
1983-84	6309.17	14992.34	87.26	207.36	11.33	3.54
1984-85	7136.01	15798.73	96.56	213.79	10.69	3.59
1985-86	8519.37	17669.22	112.84	234.03	11.15	3.85
1986-87	11166.49	21653.63	144.83	280.85	12.19	4.54
1987-88	13182.29	23274.81	167.29	295.37	12.96	4.72
1988-89	14939.64	24381.10	185.59	302.87	12.86	4.47
1989-90 ^{RE}	16100	24313.81	195.86	295.79	11.50	4.17
1990-91	15426.47	21048.84	183.87	250.88	9.94	3.43
1991-92	16347.05	19611.49	190.97	229.11	9.24	3.18
1992-93	17581.79	19412.19	201.63	222.62	8.86	2.99
1993-94	21844.72	21844.72	245.17	245.17	9.67	3.18
1994-95	23245.43	21179.74	256.01	233.26	8.98	2.88
1995-96	26856.22	22463.58	289.71	242.33	9.16	2.85
1996-97	29505.12	22981.50	312.89	243.71	9.06	2.70
1997-98	35278.08	25655.57	367.86	267.52	9.46	2.88
1998-99 ^P	39897.58	26394.73	409.21	270.72	8.95	2.78
1999-00 ^{QE}	47070.79	29930.88	474.98	302.03	9.10	2.96
2000-01 ^{RE}	49622.04	29895.12	492.77	296.87	9.04	2.81

Source: Defence expenditure at current prices:

- (i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.
- (ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other column are computed on the basis of the data given in Table 1, Table 2, Table 3 and Table 5.

Defence expenditure as a percentage of total expenditure however shows different picture. Defence expenditure in India formed a higher percentage of 17.39 in 1950-51, 18.87 percent in 1951-52, 20.87 percent in 1952-53 and 21.01 percent of total govt. expenditure in 1953-54 perhaps because of conflicts with Pakistan immediately after partition. Later, it started falling and reaches to 9.00 percent in 1960-61. This was because of discount of the possibility of a Chinese attack. But as the attack was to materialize the country forced to increase its

expenditure on defence. As a percentage of total expenditure it galloped to 15.53 in 1964-65. After that it started decreasing with some fluctuations and finally reached to 9.04 percent of total government expenditure in 2000-01.

Defence expenditure as a percentage of national income was roughly around 2 percent during the period from 1950-51 to 1961-62. It was after the Chinese attack in 1962, parliament had to vote a supplementary grant of Rs 100.4 crores in Nov. 1962 for defence front. In 1963-64, 4.18 percent of national income was devoted to defence. In 2000-01, 2.81 percent of national income was devoted to defence.

Therefore, it is seen from the table that before 1961-62, total defence expenditure in real term was roughly constant. After 1961-62, total defence expenditure in real terms has been growing year after. During the period under study, while total defence expenditure in real terms increased to 12 times, per capital expenditure on defence in real terms increased to 4.33 times only.

4.3 Impact of Defence Expenditure on Economic Development:

Following the above data relating to defence expenditure, let us now see the impact of defence expenditure on economic development. We have to see whether defence expenditure is a drag on and/or stimulant of economic development.

We can classify consumption as: (a) Consumption for development, or industrial consumption; (b) Consumption for the defence of the country or it may be termed as military consumption; (c) high mass consumption- it is the consumption beyond the consumption for basic food, shelter and clothing. The basic consumption needs are to be satisfied all time to keep the economy in good health, so it will be justified if we put it in the first category, i. e. consumption for development. If we analysis the present stage of Indian development, India is faced with the problem of reconciling all the above three consumption needs simultaneously. For the every process of accelerated economic development the need for industrial consumption is required while defence preparations assume

the basic and first priority shadowing all other issues because of the 'trigger-happy' and big stick policies followed by two belligerent neighbours. The need for high mass consumption is rooted in maldistribution of income in the society where great inequalities of income have existed.

There is also a problem of feeding a big size of population increasing at a very fast rate, who contributes nothing to the national production. On the basis of above fact, when we talk of transformation and modernization of the Indian economy we must recognise that what we want is the simultaneous strengthening of the material and technical bases of the economy along with defence and the means of increasing private consumption. How far can these claims, which are apparently conflicting be reconciled and in what manner presently, this is the big question.

On the basis of above analysis in the underdeveloped countries, industrial consumption has to be given top priority as it is through this that the economy can expect to develop a potential for military consumption and increased mass consumption. For purely economic reasons defence expenditure is a 'leakage' at of the income stream, and unlike the capital goods mark a remarketed rise in the production of defence goods can not enlarge the productive capacity of the economy. This clearly shows that at any point of time in respect of the given limited resources the nation is faced with the choice of production more or less of either defence goods or consumer goods. On the other hand if the resources are diverted to the building of the productive capacity for preparing defence goods, particularly armaments, at the cost of economic development of the country to the extent that such limited resources are not capable of being utilised for purposes other than production of defence goods. Thus due to the diversion of resources away from development to defence, the net result of this diversion will be the scarcity of consumer goods for civilian consumption and if this civilian demand is not met in check, an undue price rise is likely to upset the entire situation.

If we consider the average figures of defence expenditure before and after the year 1962 – 63, it will be seen that an additional amounts of Rs 1,223.21

crores on revenues account and Rs. 146.93 crores a capital account are being regularly diverted per year to finance the need of defence of the country. Had the country been free to utilize the resources for the betterment of the living condition of the masses of Indians or had this amount been regularly made available for financing the economic development of the country, not only would it have relieved Indian to a large content from present pressure of scarcity of goods and services but would also have augmented the productive capacity of the economy and to a considerable extent the pressure on price would also have been reduced.

The above fact, resulted in the failure of the Third Five year plan to such an extent that ever since the resulted trauma has gone to destabilize the entire planning process and programme of the country. It had also impact on a number of other factors which are not to be over looked. During this period our foreign exchange reserves have been just the minimum necessary required under legal obligation. Throughout there has been severe pressure of imports. This is one of the reasons which explain the existence of unutilised surplus capacity in a number of industries including also industries catering to defence needs. The agricultural sector was not seen up to the expectation. The result of all these, has been reflected in the unprecedented rise in prices which touched a higher level of 409.9 in 1979 – 80 in the rise of index number of whole sale prices of all commodities compared to 116.1 in 1961–62, the year immediately after which the defence expenditure was stepped up.

The level to which the defence expenditure has grown is causing concern, as is evident from a number of observations made by eminent economist as well as politicians. To answer the question as to what extent will devence expenditure affect development, professor D. R. Gadgil commented that 'we must choose a certain level as being the compromise between what we can afford and what we think we must have. Such a level will be consistent with our need both of defence and development. Any extension of devence expenditure beyond the present level will surely be at the expense of development. Ashok Mehta did not relish the enormous amount of money being spent on the country's

arm forces (*Economic Times*, December, 22 1968). These indicate the debit side of the defence expenditure. On the basis of their arguments it may be stated that defence expenditure does work as a drag on development.

Samuel B. Griffith (Griffith, S.B., 1966) enumerates the many diverse elements that makes a country military potential. A large number of these elements such as standard literacy, the capacity of its indigenous science, technology and industry to develop its basic resources advantageously, the quality of its dealership at the directive levels; its communications and transport and such other factors, are created, built and developed in a country in the every process of growth of the economy and that is why it is said that in the modern era the defence of a country is rooted in its economic strength. As the defence of a country is strengthened, it is but natural to expect that these constituents of defence potential also improve. To the extent defence expenditure brings about these improvements, it works as a stimulant of economic development.

The well-known fact of human nature is that it exerts itself to the maximum possible extent in situations of emergency like war or threat of war. We have seen in our country that the resources that were lying idle with the people in the form of contribution to the gold bonds to meet the need of foreign exchange, for the defence preparations people who were protesting against a number of tax measures in peace time, gladly accepted new tax measure even though these measure further reduce disposable incomes. If enemies of India can create trouble for us at any time on our frontiers, created a psychology of developing our military potential at the earliest on a competitive level. This in tern, led to efforts at devising new techniques of production, large-scale import substitution, especially in the industries which provided raw materials and components for use in the defence sectors, development of the air force including manufacture of various types of air craft, rapid strides in the production of electronics, construction of ships, production of jeeps, trucks and other motor vehicles, constant and continued research to improve technical skill and efficiency, large-scale training of technicians and technical personnel; development of roads in the border areas which have been lying unknown and hence unutilized and

unexplored regarding their content of resources and development of the means of transport and communications. Above all there was the strongest possible incentive to prepare the nation to undergo privations not only for the defence of the economy but also its development. It can not be denied that all these have had their contributions to make towards the economic development of the country. Therefore, national defence and development effort should not only go hand in hand, but should also be viewed as interdependent to a large extent. It would be unwise to counterpoise defence and development – they in fact reinforce one another in many areas and activities.

Reference:

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