

National Defense under Welfare State. Political Economy of Defense and Security: priorities, budget, and legal framework

Dr. Moshe Yanovskiy, Dmitry Cherny, Ilia Zatskovetsky. Draft version February, 14, 2023

The course principal issue and objectives:

- Why do modern democratic (welfare state) countries often underperform in defense and security? How do they perform compared to authoritarian regimes and to taxpayers' democracy?
- The primary objectives include providing students with essential historical knowledge for analyzing military expenditures, military justice, and the state of military bureaucracy in contrast to welfare state bureaucracy. Additionally, the course aims to enhance students' awareness of problems unique to authoritarian regimes, such as the lack of feedback and objective information, as well as a dictator's fear of a successful military leader as a potential challenger.
- Analytic skills and data sources for comparative and country case studies will be imparted to the students.

The course description

Course Timeframe: 12 hours (lectures only – w/o seminars and discussions and w/o test).

Course Prerequisites: School general History course, ability to read scientific articles in English. An introductory course in Economics is advantageous.

Understanding authoritarian policymaking is of utmost importance as the wars most pertinent to today's study have erupted as assaults by authoritarian states on democratic rivals. Delving into this issue necessitates an understanding of numerous historical events and examples, surpassing the knowledge and comprehension level of a vast majority of students. Therefore, a detailed analysis of authoritarian military politics must be reserved for a dedicated and separate study course.

#	Description of the course components	references
1	Basic assumptions: - Rationality of elected politicians, civil and military bureaucrats, public media, and voters. Bureaucrats' interest in maximizing the budget of the respective bureau and discretionary power.	Public Choice theory (see, for example Public Choice III ² ed. By Dennis C. Mueller, 2003 Cambridge University Press) Public Economy (Public Finance) see for example Hillman, 2009 ³

² Mueller Dennis C. Public Choice III 2003 Cambridge University Press, 2003

³ Hillman Arye L. Public Finance and Public Policy. Responsibility and Limitations of Government Cambridge University Press, 2009

#	Description of the course components	references
	<p>Elected politicians aiming to maximize the number of re-elections and tenure in office. -</p> <p>Authoritarian leaders fearing potential challenges and being concerned about public criticism of their regime.</p> <p>Who personally benefit from strong deterrence¹ effect caused by national Army's military actions in democratic countries in short run?</p> <p>Risks for dictator implied by the presence of successful general revered by army and respected by society.</p> <p>Public goods concept. Pure and mixed public goods. Bureaucrats' aims and incentives models.</p> <p>From the implicit assumption on benevolent, devoted, enlightened and fully informed public servants to Public Choice approach: budget of the bureau maximization and power (discretionary power) seeking.</p>	<p>Niskanen, 1971⁴</p> <p>Jasay, 1985⁵ (Bureaucrats)</p> <p>De Mesquita, 2008⁶ (voters & politicians).</p>
2	<p>Deterrence and Power. The goal is deterrence, and the mean is power.</p> <p>Balanced power. Huntington's "domains of power :"</p> <p>Economic, military, diplomatic, ideological, technological, and cultural. Ideological/cultural cause resolution to use deadly force if necessary.</p>	<p>Samuelson, 1954⁷</p> <p>Hillman, 2009 pp. 139, 169-173</p> <p>Smith V. (on voluntary supply of defense & security possibility)⁸</p> <p>Huntington, 1999⁹</p> <p>Friedman Milton Cooperation between Capital-rich and Labor rich Countries¹⁰</p>

¹ Modern attempt to reinterpret 'Deterrence': Mazarr Michael J. 2018 <https://doi.org/10.7249/PE295>

⁴ Niskanen, William A., 1971, *Bureaucracy and representative government* Transaction Books

⁵ Jasay Anthony, 1985, *The State* Indianapolis: Liberty Fund, 1998 <http://oll.libertyfund.org/titles/jasay-the-state>

⁶ de Mesquita, Bueno Ethan Politics and Suboptimal provision of Counterterror 2008 *International Organization* 61, Winter 2007, pp. 9–36

⁷ Samuelson Paul A., "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36 (November 1954): 387-89;

⁸ Smith Vernon L. Experiments with a Decentralized Mechanism for Public Good Decisions *The American Economic Review*, Vol. 70, No. 4 (Sep., 1980), pp. 584-599

⁹ Huntington Samuel P. The Lonely Superpower. *Foreign Affairs*, Vol. 78, No. 2 (Mar. - Apr., 1999), pp. 35-49 <https://doi.org/10.2307/20049207>

¹⁰ <http://fff.org/explore-freedom/article/cooperation-capitalrich-laborrich-countries-part-1/>

#	Description of the course components	references
	<p>Cases of authoritarian, taxpayers' democracy, and welfare state democracy for selected "domains"</p> <p>Economic and military power changes caused by the growing welfare state. Supply chains' problem and the market economy.</p> <p>Erosion of Industrial leadership of the West and the challenge of resilience in the Army supply (weapons, ammunition, means of communication, etc.). Principal reasons behind the industrial decay.</p> <p>How to avoid both - autarky which causes backwardness and dependence on of foreign governments' favor at the height of the war.</p> <p>History of two de-industrializations UK & US - searching for reasons behind: that to blame - Big business' greed or Big Government thirst for power?</p> <p>Problems of Authoritarian regime with the economy (poor property rights protection; extreme case – socialist centralized economy) and innovations.</p>	<p>R.Cobden speech July 22 1864¹¹ on Government manufacturing establishment.</p> <p>The Sopwith Aviation Company story – war on "excess profit" during WWI in UK.</p> <p>US Aid for Israel – A Historical Overview¹²</p>
3	<p>Butter vs. Guns. Assessing how to measure the government's real choices and priorities.</p> <p>Exploring the principal choices of taxpayers' democracy, authoritarian regimes, and welfare-state democracies.</p>	<p>Hillman, 2009, Holcombe 2008¹³, Hoppe, 1999¹⁴; Hoppe, 2003;</p> <p>See also the review at Yanovskiy, Zatskovetsky 2017 (including Supplementary materials)¹⁵</p>

¹¹ <https://api.parliament.uk/historic-hansard/commons/1864/jul/22/government-manufacturing-establishments>

¹² <https://dx.doi.org/10.2139/ssrn.2403748>

¹³ Holcombe Randall G. Why Does Government Produce National Defense? Public Choice, Vol. 137, No. 1/2 (Oct., 2008), pp. 11-19

¹⁴ Hoppe Hans-Hermann Private production of Defense Essays in Political Economy Mises Institute May, 15 1999 <https://mises.org/library/private-production-defense-0>; Hoppe Hans-Hermann The Myth of National Defense: Essays on the Theory and History of Security Production 2003 <https://mises.org/library/myth-national-defense-essays-theory-and-history-security-production>

¹⁵ Yanovskiy Moshe, Zatskovetsky Ilia "How Butter beats the Guns" *Defence & Strategy*, 2017 Volume 17, Number 1 (June 2017) pp.141-154 doi:10.3849/1802-7199.17.2017.01.141-154; <http://www.obranastrategie.cz/en/archive/volume-2017/1-2017/articles/how-butter-beats-the-guns.html>

#	Description of the course components	references
4	<ul style="list-style-type: none"> - Historical review of the costs of defending democracy. - Examining various ways of taxing for defense spending. 	Yanovskiy, Zatskovetsky 2017 review (first and foremost see Barro, 1987 ¹⁶). Kreps, 2018 ¹⁷ : Does honest taxation 'pays back'?
5	<ul style="list-style-type: none"> - Analyzing the factors behind the surge in social spending. - Identifying old and new factors contributing to the rise in public debt. - Addressing the dictator's dilemma: choosing between investing in more military strength to protect the regime against revolt or engaging in "generous" welfare spending to bribe the public. 	Yanovskiy, Zhavoronkov, Shestakov, 2013 ¹⁸
6	How butter beats the Guns: Universal Suffrage, -> Lefts parties as a new mainstream -> social (welfare) spending and Governmental regulations expansion	Yanovskiy, Zatskovetsky 2017 Yanovskiy, Zhavoronkov, 2018 ¹⁹ , British case before WWII – Smith Peter ²⁰
7	Evaluating Success and Failure in Social Spending Impact vs. Military Spending Outcomes: The Emergence of Modern Military Justice and Private	Yanovskiy, Zatskovetsky 2017 Eloranta, 2004 ²¹ ; Cardoso Jose & Lains Pedro (ed.) ²² , 2010;

¹⁶ Barro Robert J. "Government Spending, Interest rates, prices and budget Deficit in the United Kingdom, 1701-1918" *Journal of Monetary Economics* 20 (1987) 221-247.

¹⁷ Kreps Sarah. *Taxing Wars. The American Way of War Finance and the Decline of Democracy*. Oxford: Oxford University Press, 2018.

¹⁸ Yanovskiy, Zhavoronkov, Rodionov Political Factors Behind Cuts and Surges in Government Spending: The Effects on Old Market Democracies and Post-Communist Countries" *Problems of economic Transition*, vol. 59, no. 4, 2017, pp. 294-320 2017, doi: 10.1080/10611991.2017.1321418; see also 'Democracy of 'Taxation-Redistribution' and Peacetime Budget Deficit (December 14, 2013). Gaidar Institute for Economic Policy Working Papers 0078. <http://dx.doi.org/10.2139/ssrn.2367861>

¹⁹ Yanovskiy Moshe, Zhavoronkov Sergei. (2018) Universal Suffrage: The Century of Corrupting Incentives? New Perspectives on Political Economy Vol. 14, No 1-2, 2018, pp. 63-89. Available at SSRN: <https://dx.doi.org/10.2139/ssrn.3436438> .

²⁰ Smith Peter C. "The Great Ships Pass: British Battleships at War 1939-1945" Cerberus Publishing, 2006

²¹ Eloranta Jari "Warfare and Welfare? Understanding 19th and 20th Century Central Government Spending" Warwick Economic Research paper #699, 2004 Department of Economics, The University of Warwick <http://wrap.warwick.ac.uk/1489/>

²² Paying for the Liberal State. The rising of Public Finance in Nineteen-Century Europe Cambridge University Press, 2010

#	Description of the course components	references
	Military and Security Companies (PMSC). Temporary solution?	Yanovskiy, Zhavoronkov, Rodionov 2017 ²³
8	How military success has been valued and paid off by the Government since Universal Suffrage establishment; the challenge of gifted military leaders. Rising of the modern military Justice. Why does hostility towards military success come together with hostility towards business success (changes in Government structure, political demand for business regulation; “social” bureaucrats’ incentives.	Keiler, 2009 ²⁴ , Fletcher, 2010 ²⁵ , Yanovskiy, Zatcovetsky 2017; Israel case: Yanovskiy, Zatcovetsky, Ginker 2015 ²⁶ ; 2018 ²⁷
9	Diminishing Willingness of Society to fight – the factors (since France, Belgium, 1940). Welfare state: one-shot or finitely repeated game vs. infinitely repeated games (‘In long run we all are dead.’ Are we?)	Welfare state clients’ moral; Family and Civil Society decline (Eberstadt, 2013 ²⁸); Kreps, 2018; de Tocqueville on family and society.
10	Israel country case: evolving priority of Israeli Mainstream Lefts. Security strategy's changes and dynamics of terror's casualties. Incentives causing October 7 2023 disaster. Political economy of military Alliances. Value of ally for unelected decision-makers (diplomats, military bureaucrats etc) [predictability, readiness to comply negotiated decisions] vs. value of ally	Zatcovetsky et al., 2014 ²⁹ ‘Evolving Priorities of Israeli Left: from welfare to Security and back’ US Aid for Israel – A Historical Overview.

²³ Yanovskiy, Zhavoronkov, Rodionov Political Factors Behind Cuts and Surges in Government Spending: The Effects on Old Market Democracies and Post-Communist Countries" *Problems of economic Transition*, vol. 59, no. 4, 2017, pp. 294-320 2017.

²⁴ Keiler J. F. "The End of Proportionality" <http://www.carlisle.army.mil/usawc/parameters/Articles/09spring/keiler.pdf>

²⁵ Fletcher G.P. "The Law of War and Its Pathologies" Working paper in preparation to Herzliya conference 2010, IDC, 2010 <http://www.herzliyaconference.org/Uploads/3050LawWarPathologies.pdf>

²⁶ <https://dx.doi.org/10.2139/ssrn.2425418>

²⁷ To Kill Hope? In Search of a Reliable Strategy to Fight Terrorism Jewish Political Studies Review, Volume 29, Numbers 1–2 2018 <https://dx.doi.org/10.2139/ssrn.2745935> or <https://www.jstor.org/stable/e26500668>

²⁸ Eberstadt Mary. *How the West really lost God*. Conshohocken, PA, Templeton Press, 2013

²⁹ <http://dx.doi.org/10.2139/ssrn.2425418> The first version of the report has been prepared for the 2012 Miami Public Choice Society Annual Conference

#	Description of the course components	references
	for voters [capacity to deter mutual enemy] – case Israel-US, sheds light on similar cases globally. Free-riding allies. 2% of GDP, NATO countries, Canada, Germany.	Hillman Arye L. (2009) Public Finance and Public Policy ³⁰
11.	National Security: fighting terrorism and the carrot instead of the stick. Why deterrence idea has been fallen from grace?	London, 2005 ³¹ ; Yanovskiy, Zatskovetsky, Ginker, Zhavoronkov 2018 ³² ; Yanovskiy, Zatskovetsky 2017;
12.	Lessons from the Ukraine War: Preliminary Insights and Economic Weakness, Society's Readiness to Fight, and Prerequisites for Foreign Military Assistance (Comparing Ukraine and Israel). <i>Both cases (assaults on Ukraine and Israel) are important for further analysis of authoritarian military politics in framework of dedicated study course.</i>	https://ukraine.liveuamap.com/ Yanovskiy, Socol. Probability of development of nuclear weapons by Ukraine. Defence & Strategy Vol. 23, No 1 (June 2023) https://doi.org/10.3849/1802-7199.23.2023.01.092-108

Essays themes examples

- Factors influencing the choice of umbrella-giving, umbrella-taking, or neutrality status.
- Aumann's interpretation of war, peace, negotiations, and ransom payments; rationalizing "irrational" behavior of democratically elected leaders paying ransoms.
- The inclusion of girls in combat units as a political decision-making example (considering incentives for military bureaucrats, commanders, and conscripted/volunteered girls).
- Discrimination in access to combat units' participation: pros and cons.
- Ratification of the 1977 Protocol: principal factors behind the decision-making process.

³⁰ Hillman A. Public Finance and Public Policy. Responsibilities and limitations of Government. NY: Cambridge University Press, 2009.

³¹ London, Joshua. Victory in Tripoli: How America's War with the Barbary Pirates Established the U.S. Navy and Shaped a Nation Turner Publishing Co.. 2005

³²Yanovskiy, Ginker, Zhavoronkov, Sergei and Zatskovetsky, Ilia, To Kill Hope? In Search of a Reliable Strategy to Fight Terrorism. *Jewish Political Studies Review* Volume 29, Numbers 1–2 (2018) pp. 27-57 <https://www.jstor.org/stable/e26500668> or – free access: <https://jcpa.org/article/to-kill-hope-in-search-of-a-reliable-strategy-to-fight-terrorism/>

- The eagerness of military justice in the US³³ and Israel to apply unratified norms of the Protocol³⁴.
- Japan's WWII military failures: unique and universal aspects for non-democratic countries (e.g., hunger among soldiers on islands).
- The potential and real challenges posed by successful military leaders to authoritarian rulers, spanning from ancient times to the present, with a comparison to US history.
- The issue of broken feedback during wartime.
- The history of the adoption of the M-16 assault rifle by the US Army.
- Ukrainian War and NATO munition shortages (155-mm³⁵ & more³⁶) and principle reasons behind the supply failure.

The learning outcomes:

Upon completing the course, students are expected to:

- Differentiate between pure and mixed public goods.
- Possess foundational historical knowledge of how democracies covered military spending during war and peacetime, understanding the typical military burden, including repayment of military debts.
- Provide relevant specific democratic country stories explaining how institutional changes between WWI and WWII, particularly the consequences of universal suffrage implementation, shaped modern approaches to defense and mixed public goods provision.
- Outline post-WWII developments since the end of the Cold War, encompassing the period from 1990 to 2001 and the latest developments.
- Explain the incentives of principal groups, including voters (taxpayers and tax-spenders), civil and military bureaucrats, and elected politicians.
- Understand the distinctions between the original 1949 IV Geneva Convention³⁷ and the amended June 8, 1977 Protocol 1³⁸ version regarding the responsibility for civilians' lives.

³³ Law of Land Warfare Manual, FM 27-10, Chapter 2, Paragraph 41; modern 2015 version: <https://www.defense.gov/Portals/1/Documents/pubs/Law-of-War-Manual-June-2015.pdf> p. 61

³⁴ <https://ihl-databases.icrc.org/ihl/INTRO/470>

³⁵ <https://www.defensenews.com/land/2023/10/06/us-army-awards-15b-to-boost-global-production-of-artillery-rounds/>; <https://www.reuters.com/business/aerospace-defense/us-army-says-it-needs-3-billion-155-mm-artillery-rounds-production-2023-11-07/>

³⁶ <https://www.csis.org/analysis/rebuilding-us-inventories-six-critical-systems>

³⁷ <https://ihl-databases.icrc.org/ihl/INTRO/380>

³⁸ <https://ihl-databases.icrc.org/ihl/INTRO/470> see Article 51, para 4 and 5b

- Articulate how the deterrence effect saves money for taxpayers and protects the lives of all people in the country.