Military Preparation and Possible Models for the Defense Budget Increase

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***Synopsis**: At present, strenuous efforts are being made to prepare for military struggles, and urgent but rational decisions should be made on a model for defense budget increase. The following article analyzes defense budget needs based on the existing budget situation and concludes that China's present "gradual" budget increase model is no longer in line with the cyclical fluctuations of defense expenditure or military preparation needs. The model for the defense budget increase should be transformed from a "gradual" to "leaping" pattern.*

Defense expenditure is the material foundation for building up the armed forces. Faced with the grim need for the military preparation at present, the defense budget increase is bound to exhibit different characteristics from those under ordinary circumstances. Therefore a pattern of growth has to be chosen based on the requirements for military preparation and inherent dynamics of China's defense expenditure.

1. The defense budget needs to be greatly increased during a military preparatory period

A basic measuring stick in deciding whether military resources are distributed evenly and soundly enough is to see whether the troops' resource needs are met properly. Therefore, a reasonable budget increase is relative to an increase that meets the needs of the armed forces.

Historically speaking, China's defense budget has been kept at a relatively low level for a considerable period of time after the reforms. Although this might have contributed positively to China's priority of economic development, this "enduring" attitude has also done damage to the morale and construction of the military. For over a dozen years, the armed forces have suffered from serious imbalances in supply and demand. The obvious result of these imbalances lies in the obsolete military equipment and poor facilities at airports, harbors and front lines. Faced with the grim task of correcting historic shortages and pressing military needs of the present, the difficulty in increasing military expenditure is immense.

There are two plausible strategies to ensure sufficient preparation for a smooth military struggle. One is to quickly increase the defense budget in a short period of time. The second is to increase the effectiveness of the existing defense budget through structural readjustments within defense expenditure—a so-called “soft expansion.” Optimizing the defense budget structure is certainly one of the most important ways to increase

effectiveness. For instance, cutting the number of troops might reduce expenditure and improve technology, but the flip side is that reducing troops on a massive scale will also be reducing military strength at times like this. Besides, disarmament can only be done on a limited scale, and often the improvement of weaponry does not always mean that fewer people are needed. For example, de Bernard, the former French Chief of Staff of the Armed Forces, once pointed out, "A tank that takes two people to control takes 46 people to maintain. It takes 60 people to manage the repair work and maintenance of one aircraft and the airport facilities necessary for this aircraft. Such mathematics proves clearly that when you see powerful machines on the battlefield, it is really only a change of scene for the people. Machinery is not going to reduce the number of people needed, but only serves to change the position from horizontal to vertical." [1] Shavezhky, an early military economist from the former Soviet Union, believed that the problem did not stop here. According to him, military technology was different from production technology in that the development of military technology did not come from reducing troops or replacing people with machinery; it came from improved efficiency. His argument indicates that military effectiveness is not a simple correlation between weaponry and the number of troops. The scale and structure of military power are directly related to the scale and structure of defense expenditure. Only when there is a large enough expenditure can the structure be optimized to the fullest extent. Therefore, the present urgency for military preparedness requires a large enough defense budget, without which readjusting the structure alone is going to be insufficient.

Under the present, urgent circumstance, China not only needs quality; it also needs quantity. Quality can never replace quantity. With China's 2.5 million troops, it may not be wise to continue large-scaled disarmament moves. While more investment needs to go toward education and training in an effort to improve human quality, the only way to improve military effectiveness is to sharply increase the defense budget. Some argue that it would be better, in the long run, to increase military expenditure on a small scale in exchange for a more rapidly growing economy. But how do you define "small scale?" If a steady defense budget shortfall has already affected the defense construction negatively, then a "small-scale increase" might not be a good enough remedy. The technological "generation gap"—a consequence of an insufficient defense budget in existence for years—can hardly be filled by monetary means. We can conclude that China's defense budget needs are in a period of rapid and large-scale growth.

2. **The gradual growth model for the defense budget does not fit the cyclical fluctuations of defense budget needs**

The fluctuations of defense budget needs during the military preparation period reflect a changed target in military construction. The fact that the size of China's defense budget falls far short of military needs has largely restrained the smoothness of the military preparation process.

Ever since China's reforms and opening to the outside world, China's armed forces have tried more or less successfully to grow under the restraints of a tight budget. Although the military expenditure experienced steady growth at a rate higher than other government

departments during the "Ninth Five Year Plan," this growth has only been a "gradual" process, not enough to raise China's low defense budget level. There is still a great gap between demand and supply. In terms of both absolute and relative figures, the size of China's defense budget is far below that of most major countries in the world. The funding used for China's military construction in 1998 was only 1.09% of GDP, while during the same period, military expenditure of the United States, Britain and Japan averaged 3.14% of GDP. China's defense budget was only 1/20 of that of the United States, and 1/3 of that of Britain, France and Japan. This shows that China's defense budget is too low and the huge gap between demand and supply limits the scale of readjustment in the defense budget structure.

The defense budget can be divided into two categories: one develops new technology , and the other maintains the status quo. With such fast advancements in science and technology, the composition of the defense budget has also gone through significant changes. Equipment investment -the development part of the budget - has gone up while livelihood expenditures - money spent on maintaining the troops' daily lives - have come down. Cyclical fluctuations, conditioned by the fluctuating emergence of new technology and equipment, characterize the needs of "development" budget growth. Therefore, there is a peak period when military equipment is being replaced by a new generation, while there is an ebb period between the two generations. The second wave is usually stronger than the first wave because of the inflation element. [2]

The quality of an army is based on the steady improvement of its equipment and a rapid technological turnaround. This requires greater military investments. To shorten the distance between the technology of China's military and that of other developed nations, China needs to have high tech weaponry, a large army, and good quality people. Apart from improving its technological capabilities, China should concentrate on a few elite rapid-reaction troops equipped with world-class technology, and use them as the "killer forces" for modern high tech warfare. At present, China's defense budget needs are at a peak and huge increases are required to meet the growing demand. Although the defense budget grew faster during the "Ninth-Five-Year Development Period", most of the addition has been used to develop weapon systems. Since China's defense budget has long been in the "maintaining mode," far out of alignment with its cyclically growing "development" needs, there is an urgent choice to be made on a reasonable model for defense budget growth.

3. **The choice of a "leaping model" for the defense expenditure growth**

To ensure the timely and full satisfaction of military needs, the growth model has to be changed from a "gradual" to a "leaping pattern." However, the defense budget is part of government expenditure, so we need to consider the "gradually stepping up theory" of two British economists, Alan Peacock and Jack Wiseman. They believe that external elements greatly impact the growth of government expenditure. In quiet times, they argue, the government fiscal budget grows steadily and gradually, but in times of crisis, e.g. war, famine, or economic recession, government expenditure will expand rapidly, creating a "step" in the otherwise smooth growth process. Peacock and Wiseman call this

the "displacement effect." [3] When this period of "sudden change" is over, defense expenditure will go down slightly, but will not return to the original level. In other words, the chart of government fiscal expenditure shows a "gradual stepping up" pattern, which means that during times of "sudden changes," the fiscal expenditure will exhibit a "non-gradual" mode. Peacock and Wiseman's analysis provides a good theoretical basis for changing China's defense budget growth model.

Based on the analysis of defense budget needs and government expenditure, we can say that the "leaping" pattern for defense budget growth also occurs in cycles, which are created by various external factors. When there is security tension, the budget should leap; when the situation stabilizes, the growth will slow down. It would be illogical for China to stubbornly insist on a "steady" growth pattern and not change the defense budget growth model in accordance with the natural cycles. .

The "leaping" growth model is not all about the speed or scale of growth; more importantly, it should focus on optimizing the structure of the defense budget. There are two sides to the readjustment procedure: to readjust demand or readjust supply. They are both necessary and important. The core to readjusting demand is to control both the overall needs and departmental needs so that demand will match the level of supplies. One approach is to carry out self-adjustments through administrative mechanisms: to monitor and evenly distribute the overall budget and new investment, and make sure the direction, speed, and volume of the budget distribution are smooth and logical in all stages and all levels of operation. The other approach is the market approach: to eliminate redundancy through social welfare schemes, reduce ineffective demand, soften the conflict between demand and supply, and concentrate the much-needed funds on key projects.

While it is necessary to control demand at all levels, the focus on demand control can only be short-term and limited in scale. It can only scratch the surface of the problem. Under the present circumstances, China's armed forces need huge defense budget increases in a complex pattern. It is not enough to control demand; the focus should be on supplies, i.e. to readjust the size and structure of supplies through macro-economic means and other mechanisms. One approach, based on the rapid growth of the defense budget, is to readjust the budget distribution percentage among various forces and troops, and place an emphasis on upgrading equipment, battlefield, and building contingent forces. In the maintenance section of the budget, emphasis should be placed on improving the technology available to the quality troops, and increasing education and training projects. Another method is to readjust the budget distribution percentage of various departments, focusing on high tech divisions such as the navy, air force, and artillery troops.

There is also a need to strengthen the long- and medium-term plans and to draw up an overall blueprint for the defense budget increase. The "leaping" growth model for the defense budget increase should be mapped out carefully according to the military needs. For a long time, China's defense budget has been under the control of the General Logistic Department, and the overall construction planning programs are under the General Staff Department, thus lacking a permanent office with high commanding

authorities to supervise and coordinate the defense budget and military construction. The result is, on the one hand, that there are many projects under way in the military construction programs that are always short of funds; but on the other hand, there is little coherent coordination of an overall planning program so the budget is often ill targeted. In the long term, there is a need to set up a military committee's budget office, reporting directly to the Military Committee of the Central Party Committee. In the short term though, this idea does not seem realistic. Under the circumstances, it is advisable to carry out a comprehensive study on the construction projects and the budget needed. This should be a joint effort, led by the Military Committee General Office and coordinated by the General Staff Department, the General Logistic Department, the General Weaponry & Equipment Department, the navy, the air force, the Second Artillery Troop, and various commanding divisions. Once completed, this study should serve as a general guide for the reasonable scale of the defense budget growth and a more logical structure. The General Staff Department should map out a medium- and long-term military construction program while the General Logistic Department works on such a planned budget. Therefore, the two sides of China's defense program can be more closely linked.

4. **Plausibility of the analysis of the "leaping" growth model of the defense budget**

The material foundation for violence is economic. Protection of national security comes at the price of fiscal expenditure. Many tasks need to be carried out in the military preparatory period that can only be accomplished with solid economic backing. Without this economic support, the "leaping" growth model cannot become reality. Therefore, a plausibility study is necessary.

1) The readjusting ability of government finance.

The "leaping" growth model of the defense budget requires a rapid wealth transfer from social wealth to military wealth. First of all, social wealth needs to be transferred to the state before going to the military. The main method to transfer social wealth to the state is to raise revenue through credit and taxation. Since the government is already in deficit, the most plausible method is to raise taxation, e.g. raise the tax rate, add tax types, and lower tax brackets.

The basic mechanism for transferring state wealth to the military is through state revenue, which is the direct source of the defense budget. However, China's current financial situation makes it impossible to ensure a rapid and steady annual growth of the defense expenditure. The most direct restraint on defense budget growth is the unsound state revenue structure, as well as the over-scattering of limited funds. According to statistics collected since the 1990s, government revenue as a percentage of GDP was highest in 1990, at 15.8%, and lowest in 1995, at 10.7%. But from 1994 to 1998, China's regional government revenues have been climbing steadily. This structure of revenue distribution is not normal. Even in developed market economies such as Germany, the average government revenue as a percentage of GDP is above 20%, of which 40% belongs to the central government. China's market economy is far from being properly established, and the revenues are so loosely scattered that it is difficult to concentrate on improving the

economy, let alone on increasing the defense budget. Therefore, the most urgent task is to increase the state revenue ratio of GDP, especially the central government's share.

3) The tolerance level of the country's economy.

The transfer of social wealth to the military budget needs to be done at an appropriate pace, based on the tolerance level of the country's economy. Whether China can become a mid-level developed country by the middle of the 21st Century, will depend on the next 15 years. Undoubtedly, a modest defense budget will be conducive to sustained economic growth, but that is always true. The multiplier-effect of the defense budget expansion can boost economic growth to a certain extent. The Keynesian school believes that defense expenditure growth can raise general social demand, and therefore stimulate economic growth. In 1986, the U.S. Defense Secretary stated in his report that "the defense program can compliment the program for the economic recovery." [4] According to other military theories, increasing the defense expenditure can quickly create short-term employment. But on the other hand, there is no clear lineal correlation between the increase/decrease of the defense budget and economic growth. For instance, we did not witness an economic boost in 1990, even though that expected by many after a sharp reduction of the defense budget.

China's economy is at a stage of surplus with sufficient capital and products and too much idle labor. Supply has exceeded demand. The lack of demand has restrained the rapid and steady growth of the economy. Therefore, at the present time, increasing the defense budget as a public expenditure can stimulate the economy and absorb the surplus labor. The multiplier-effect will also spur the growth of various defense product industries, giving the general economy another boost. Both in terms of the need for military preparation and the positive effect on China's economy, it is plausible, necessary, and economically sustainable to transfer social wealth to the state and to the military, and to implement the "leaping" growth model of the defense budget increase.

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[1] Qian Dalin & Ku Guisheng, *60 Years of Defense Economics*, University of National Defense Press, 1988, p. 74.

[2] Zhang Ruiquan, *Characteristics & Regular Patters of the Defense Budget Needs*, *Selected Reports on Characteristics & Regular Patterns of Logistic Work under the New Circumstances, compiled by the Academic Research Department of the Institute of Logistic Command.*

[3] Lei Lianghai, *Fiscal Expenditure Growth & Control*, Shanghai University of Finance and Economics Press, 1997, p. 22.

[4] *Review & Projection of the Military Studies*, Military Science Press, edited by the Office of Philosophy and Social Sciences of the Armed Forces.