Military expenditure in post-conflict societies

Paul Collier, Anke Hoeffler

Centre for the Study of African Economies, Department of Economics, University of Oxford, Manor Road, Oxford, OX1 3UQ, UK (e-mail: anke.hoeffler@economics.ox.ac.uk)

Received April 2004 / Accepted December 2004

Abstract. Post-conflict situations face a high risk of reversion to conflict. We investigate the effect of military expenditure by the government during the first decade post-conflict on the risk of reversion. We contrast two theories as to the likely effects. In one, military spending deters conflict by reducing the prospects of rebel success. In the other it acts as a signal to the rebels of government intentions. In the signalling model, low military spending signals that the government intends to adhere to the terms of the peace settlement and so reduces the risk of renewed rebellion. We investigate the effects of post-conflict military spending on the risk of conflict, using our existing models of military expenditure and of conflict risk. We find that, consistent with the signalling model, high military spending post-conflict significantly increases the risk of renewed conflict. This effect of military spending is distinctive to post-conflict period, and becomes progressively more pronounced over the decade.

Key words: Military expenditure, peace dividend, civil war

JEL Classification Numbers: H56, F35, O10

1. Introduction

During civil war government military spending rises sharply as a share of GDP. In previous work we have modelled military spending and find that on average a civil war raises it by about 1.8 percentage points (Collier and Hoeffler, 2004). This figure of course understates total military spending during conflict since it omits rebel expenditures. With the reversion to peace, if the society can safely reduce spending to normal levels there is thus the potential for a substantial ‘peace dividend’. In developed countries, sharp reductions in military spending encounter short
term costs as resources are redeployed from the defence industries (Gleditsch et al. 1996). By contrast, in most civil war contexts military equipment is imported, easing the resource redeployment problem. Further, the figures above do not take into account rebel spending which can potentially be reduced even more substantially than government spending. Thus, abstracting from issues of continuing extraordinary security risks, the scope for a peace dividend from reduced military spending is likely usually to be even more substantial once a civil war has ended than after an international war. Unfortunately, peace after a civil war is often fragile. Using our model of the risk of civil war, we estimate that during the first five years post-conflict there is a 39 percent risk of reversion to conflict (Collier and Hoeffler, 2004a). Any sensible government facing such high risks of civil war would tend to be cautious about rapid reductions in military spending. Further, post-conflict societies inherit at least one powerful military lobby, and quite possibly two if the rebel group is brought into government. Controlling for other characteristics, military dictatorships spend two percentage points of GDP on the military in excess of what fully democratic countries choose to spend, suggesting that where the military is powerful it lobbies for its own interest. Hence, the case for military spending based on prudent deterrence is likely to be reinforced by the atypical power of the military lobby.

Whether for reasons of prudence or due to the power of the military lobby, the typical post-conflict country maintains military spending at a high level – the average post-conflict level of military spending is 4.7 percent of GDP. This is only a little less than the 5.2 percent of GDP of military spending during civil war and far above the 3.3 percent spent in peaceful societies. **Thus, the government typically foregoes over three-quarters of the potential military expenditure peace dividend that would accrue were it to revert to the pre-conflict level of military expenditure.** The issue we explore is whether high military spending is indeed prudent in post-conflict societies.

The issue is an empirical one because it is possible to construct plausible theories that predict opposing effects. Evidently, the most obvious effect of high military spending is deterrence through reduced prospects of military success for rebel groups. This is reflected in standard military success functions which model the chances of rebel success as a decreasing function of the size of government forces relative to rebel forces (Skaperdas, 1996). However, offsetting this, counter-insurgency to suppress a rebel movement in its early stages is much more difficult militarily than conventional warfare and risks alienating the local population. Incipient rebel groups often attempt to provoke the government military into ‘atrocities’ that can be used to strengthen recruitment.

In our previous study of military spending we found that the net effect of these opposing influences on the efficacy of military expenditure was for high military spending to exacerbate the risk of civil war. When military spending was instrumented and entered into a conflict risk regression it was found significantly to increase the risk. In that work, however, we did not make allowance for the relatively rare and distinctive circumstances of post-conflict situations. Such situations are distinctive in at least two offsetting respects. On the one hand, as noted, they face radically higher risks of civil war and so may well be in the range in which military