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“Hopefully the folly of Star Wars — and the first strike military doctrine of which it forms a part — will become apparent to the American public before billions of dollars and thousands of lives are put at risk.”

— William Hartung and Frida Berrigan (see page 13)

War and Macroeconomic Response

Lawrence R. Klein

In the uncomfortable, uncertain environment in which the US economy finds itself, after a year of terrorism and war in Afghanistan, a number of questions are being raised about our economic performance. The economy is not functioning in a normal way at present (Autumn, 2002), and some of the questions that weigh heavily on our minds now are:

- What is the effect of our present military stance on the labor market – our job prospects?
- Will escalation of war in Iraq make matters better or worse at home?
- Is the US economy heading for a prolonged recession with falling (average) prices, as in Japan at this time?
- Will financial markets stabilize soon?
- Will a major program for missile defense prove to be an intolerable economic burden and will it offer the protection being sought?

Goodbye PEACE DIVIDEND

After the end of the Cold War, we entered a decade of extremely rapid and favorable expansion. Even though there was considerable reduction in defense spending and in the size of the military establishment the economy of the US enjoyed a remarkable period of prosperity. From the point of view of economic analysis, the period of the PEACE DIVIDEND showed

why simplistic multiplier calculations of changes in government spending and the simultaneous changes in GDP do not, by themselves, show the underlying causal pattern of what is happening in the macroeconomy.

The causal structure is much more complex, and one must take account of other things that are also happening in the economy such as

- The indirect effects from financial markets.
- The changes in technology that are taking place.
- Price movements in interrelated markets.
- International trade flows and foreign exchange fluctuations.
- Leads and lags among many economic magnitudes that govern the *dynamics* of the economy.

The total economy consists of a very large number of interrelated sectors and variables and not just bivariate relationships between aggregate public spending and aggregate economic activity – surely not a reliable relationship between defense outlays and GDP alone.

For starters, the economic analyst must consider both demand-side effects and supply-side effects associated with significant changes in defense spending. At the same time, a careful and insightful analyst must consider both short-run effects and long-run effects.

To understand how the PEACE DIVIDEND worked its way through the US economy after the

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Mutual Deterrence and Pre-emptive War

James K. Galbraith from his Inaugural Lecture as Lloyd M. Bentsen, Jr. Chair, LBJ School of Public Affairs The University of Texas at Austin

I want to discuss an aspect of Lyndon Johnson’s legacy that I have come to know well. For most people it is less well known, and less accurately recollected, than either the Great Society or the Vietnam War. But it is not less important. This concerns the strategic balance and our country’s approach to the preservation of the nuclear peace.

What many people – both at the time and forty years later – do not appreciate is that when John F. Kennedy and Lyndon B. Johnson took office in 1961, deterrence and containment were not the cornerstones of US nuclear policy so far as the territory of the United States itself was concerned.

Deterrence and Mutual Assured Destruction could not have

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Mutual Deterrence and Pre-emptive War (continued from page 1)

been the foundations of policy at that time, for the simple reason that the Soviet Union lacked the means to deliver its nuclear warheads onto the United States – neither by submarine, nor by rocket, nor reliably from the air. There was of course a Soviet threat to Europe, which was credibly deterred, and a specific threat to Berlin, which was eventually contained. But as far as the United States was concerned – no. *We* were not credibly deterred. We could have destroyed the USSR and not have been destroyed in return.

Instead the United States at that time had a policy of massive retaliation – the Single Integrated Operating Plan – whose terms required overwhelming response to an outbreak of conflict. This was dangerously rigid, as was known at the time. But there were plans in development for something far worse. As documents declassified from the LBJ Presidential Library prove, there were plans to launch on *pretext*, once a sufficient stock of first-strike weapons existed. In July of 1961 this was projected to be the case by the end of 1963.

It was the great genius of President Kennedy and then of President Johnson, in my judgment, to ensure that these plans were never put into effect. The story of the Cuban missile crisis and the specific resistance of JFK and LBJ to dangerous advice then is now well known. But a greater part of their genius lay in the doctrine of *mutual deterrence*, which they laid down well before the conditions under which the United States was technically deterred from attacking the Soviet Union existed in practice. In this way, by asserting as *mutual* what was in fact only *unilateral* at that time – the Soviets were deterred by us but we were not effectively deterred by them – Kennedy and Johnson preserved the peace until a genuine strategic balance finally arrived – which occurred around 1967 as I understand it. Given the political risks, this was statecraft of a high order.

It is an incidental fact that economists played an important role in developing these understandings – notably Thomas Schelling, Carl Kaysen, and Walt Rostow. It is to this period and this problem that we owe, in some part, the development and larger acceptance of the theory of games.

But the real relevance of this story is to our present situation. The President and Vice President, Mr. Bush and Mr. Cheney, have now promulgated a new strategic doctrine. It is a doctrine that explicitly

rejects deterrence, and also containment. It is a doctrine that purports to respond to the conditions of threat we obviously face. But in fact it returns us to the dangerous strategic underworld of Curtis LeMay and Thomas Power – not to mention George C. Scott and Dr. Strangelove.

Mr. Cheney's speech of August 26th summarized his case:

In the days of the Cold War, we were able to manage the threat with strategies of deterrence and containment. But it's a lot tougher to deter enemies who have no country to defend. And containment is not possible when dictators obtain weapons of mass destruction, and are prepared to share them with terrorists who intend to inflict catastrophic casualties on the United States.

Now, some of what Mr. Cheney says is plainly true. Al Qaeda cannot be deterred, nor can it be safely contained. But then, the rejection of these doctrines in favor of pre-emptive self-defense is unnecessary to justify action against Al Qaeda. Al Qaeda has already attacked us, numerous times. We are clearly justified in pursuing them to the end.

The more difficult question is whether the new doctrine is needed for Iraq. And again the answer is no. Saddam Hussein does have a country and a regime to defend. He was deterred effectively from the use of chemical weapons against Israel in 1991. He is contained – by all evidence – within (a fraction of) his own country today. And he is subject to the enforcement power of the Security Council, with respect to his disarmament commitments, as Mr. Bush correctly argued to the UN on September 12. However, proceeding on that ground requires that we also accept the judgment of the Security Council as to what specific enforcement actions are justified at this moment.

And so it would appear that the doctrine of pre-emptive self-defense has been resurrected now for one reason only – to defy the authority of the Security Council and the UN Charter, to justify a war on Saddam Hussein's regime in Iraq on terms, conditions and timetables dictated by us.

It may be that this war is justifiable on numerous grounds – including the brutality of the Iraqi government, its past genocides, and the desire of the Iraqi people to be liberated from a vicious tyrant.

But it also may be that large risks inhere in such a course of action. There are risks to the Iraqi civilian population, both from our bombs and from Saddam's chemical and biological agents. There are risks to US soldiers if, contrary to expectation, Iraqi forces stand and fight. There are risks to civilians throughout the West and in Israel if Saddam Hussein empties his chemical and biological armories into the hands of terrorist networks – as a parting gift on the way out. These risks exist. I cannot assess them. I only wish I had more confidence that our leaders were assessing them prudently and correctly.

But the matter of strategic doctrine is something anyone can judge. Let me therefore keep attention on that question, which is more enduring, if less immediately pressing.

A simple economic point may be made. In a world of sovereign nations, a strategic doctrine, if it is to be valid, if it is to promote peace and stability, must be reciprocal. It cannot be unilateral. It cannot apply to one side but not the other. *The rules of a fair game must be independent of the identity of the players.*

Deterrence and containment meet this test. It is possible to be mutually deterred, mutually contained. It is possible for both sides in a conflict to accept this condition, because it confers a decisive advantage on neither one.

The doctrine of pre-emptive self-defense, which is the right of one country to attack an adversary based on a subjective evaluation of capability and intent, fails this test. We, in the United States, cannot admit that it imparts an equal right to Iraq. Iraq clearly faces an imminent threat from a determined and capable adversary, the United States. We make no secret of this fact. Does President Bush concede to Saddam Hussein the right to detonate an atomic bomb – if he had one – in the Metro station at the Pentagon? And if Mr. Cheney were to observe this outcome tomorrow, from his secure and undisclosed location, on what grounds, given the views he has stated, could he legitimately object?

It seems clear enough that neither Mr. Bush nor Mr. Cheney, nor their advisers, are thinking this through. Are they conceding to India the same right to strike Pakistan that they claim for themselves? Are they conceding a parallel right to Paki-

Amartya Sen on Identity and Conflict

On 14 October 2002, ECAAR Trustee and economics Nobelist Prof. Amartya Sen of Trinity College, University of Cambridge, was awarded an honorary doctoral degree at the University Pierre Mendes-France (UPMF) in Grenoble, France. The festive ceremony — one of those now very rare occasions at which French university officials and professors wear their colorful red and yellow gowns — was attended by about 300 persons, mostly enthralled students, in a standing-room only hall.

Pierre Mendes-France (1907-1982), after whom the venerable university, founded in 1339, is now named, was an opponent of and imprisoned by the Vichy regime. Post-World War II, he became economics minister under Charles de Gaulle in 1945 and then, in 1954, premier after France's defeat at Dienbienphu. At the 1954 Geneva Conference, he arranged the armistice that ended the fighting in Indochina. He also helped bring about the formation of the Western European Union, one precursor to today's European Union.

Prof. Sen and officials acknowledged the long-standing tradition of UPFM in peace and development studies, in the tradition of Mendes-France. Sen's acceptance speech, "Identity and Conflict: Do Civilizations Clash?", is a direct challenge to Samuel Huntington's much discussed 1996 book "The Clash of Civilizations." Sen severely questions the premise of Huntington's thesis, that persons can usefully be classified into "civilizations," and argues that one's willingness to



Amartya Sen in France © 2002 Jurgen Brauer

engage Huntington on his terms "provides an automatic endorsement to a deeply misleading way of seeing the people of the world." Moreover, Sen argues that even "many opponents of the Huntington thesis (e.g., 'the West is not battling against the Islamic world') get, in effect, diverted into sharing the same narrow categorization. By accepting the unique importance of that one categorization, even as they question the thesis of a clash, these opponents of civilizational clash can actually contribute to it." Prof. Sen's speech will be published shortly in French and is scheduled to appear in English in the ECAAR Review 2004.

Prof. Sen was introduced by Prof. Jacques Fontanel, vice-president for international affairs at UPMF and chair of ECAAR-France. ECAAR board member Prof. Jurgen Brauer, who had served as liaison between UPMF and Prof. Sen, was also on hand and presented a paper, "On the Production of Peace."

stan? I doubt that they are. But the Indians and Pakistanis will no doubt see matters from quite another point of view.

Put another way, the doctrine of pre-emptive self-defense appears logically to imply another, subsidiary doctrine — that of a Chosen People. It is a view that presupposes a nation ordained by some higher power to make judgments for the world. This is a doctrine adhered to only by theocratic states, who have rights not granted by God to the infidel.

It is a doctrine, I submit, deeply at odds with the principles of economics; it does not lead to fair games, stable equilibria, or the avoidance of worst cases. As an economist, I have to object.

It is, more seriously, a doctrine at odds with the founding principles of the United States, which hold that all men are created equal and endowed with certain inalienable rights, and among these are life. . . . As an American, I have to object to it.

And as a person who merely wants to live in a world of reasonable equality, justice, security and

peace, I have to consider whether this doctrine promotes those goals. Since it does not, I have to object — on the ground of the simple humanity that we share.

A year ago, I stood in a hall in this building and urged my friends, many of them deeply rooted in the peace movement and no more suspicious of the present administration than I, to support our action of justified self-defense in Afghanistan. I believed then, and do now, that what we did there was not flawless, but it was right. Today, without illusions as to the character of the Iraqi regime, I cannot do the same. I cannot endorse the strategic doctrine now leading us toward a pre-emptive war. In my view, such an action contradicts those basic principles of our country — constitutional and republican — that have made her worth defending for two hundred years.

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Gulf War and how its reversal after the

onset of terrorism is working its way into economic performance, it is useful to review some policy changes that have taken place.

Persons on active duty in the military fell steadily after 1989, but the rate of decline was reduced during 1990 and 1991 because of the Gulf War activity.

Active Duty in Military and Real Defense Expenditures

	thousand	\$ billion
1989	2,130	443
1990	2,069	443
1991	2,003	438
1992	1,808	417
1993	1,705	395
1994	1,611	376
1995	1,518	362
1996	1,996	357

The number continued to fall, but by 2000 had nearly stabilized. Military spending, in constant dollars, was quite high in 1989 and did not fall during the Gulf War, but large decreases started in 1991 and 1992 and were repeated, year after year, until the decreases became quite small after 1996.

It was more than just a pair of declines in total defense spending and the size of the armed forces, it was a *mixture* of fiscal and monetary policy that seemed to be effective when implemented together in a balanced way. The managed reduction in operative short-term rates, such as the federal funds, was not powerful enough, by itself, to lead to job creation and a vigorous climb out of recession, but a *mixed program* between monetary policy, aiming at the overnight rate, and fiscal policy which engineered large reductions in defense spending, while holding non-defense spending tightly in line. This felicitous combination of monetary and fiscal policy finally brought down the important longer term interest rates. Financial markets, where longer term rates are determined wanted to see a strong effort at prudent budgeting before they would act to reduce the cost of private borrowing. As a consequence, capital formation took hold after longer term rates responded in recognition of the fiscal conservatism. From that point, the expansion that immediately followed the pump priming effects of joint fiscal and monetary policy took hold, and the

War and Macroeconomic Response (continued from p. 1)

expansion fed on its own power. In due course, federal deficits were reduced, eventually to turn into the very remarkable *debt* reduction. It was not only a move to bring down the deficit, but the unbelievable lowering of the national debt that took place.

Given enough time, given enough indirect effects, the PEACE DIVIDEND really paid off, demonstrating the longer run multiplier effects. Now, however, war is upon us; enlargement of the conflict is distinctly possible but we face the situation in significantly weaker fiscal condition. The environment is quite different and made much worse by lax regulation of private business, which has led to scandalous accounting and cronyism. This has generated the air of uncertainty that pervades our financial markets, as well as the lack of spirit of capital formation.

Economic Policy without the Help of a PEACE DIVIDEND

The US economy had slowed down markedly before the terrorist attacks of 9/11/01. The effect of terrorism, which shows up clearly in surveys of households (University of Michigan Consumer Sentiment; Conference Board Consumer Confidence; and UBS Index of Investor Optimism) has been to introduce some erratic behavior and broader volatility in consumer and investor behavior. It has also opened the way for fiscal policy choices of the public authorities. Before the terrorist attack, there was a move to reduce taxes, even to distribute a rebate to taxpayers, because the fiscal surpluses of federal, state, and local governments seemed to be so large. After the attack, the tax reductions already granted and more to come were interpreted as counter cyclical incentives to promote consumer spending and possibly business investment. Consumer spending aided and abetted by various generous terms for motor vehicles and other items sustained US economic performance in 2001 and 2002. It was a short-run stimulus package but sub-optimal, in that some of the tax reduction measures were not aimed at citizens who were truly in need of income supplements. The unemployment rate has risen, and many of the longer term unemployed have exhausted benefits; they are in need of help, and their support would have reached further, at this time,

in helping the economy recover.

The new military situation requires that the armed forces and support personnel be augmented. This leads to increased government spending and the enlargement of public deficits. The fiscal year 2002 accounts of the federal government are back to deficit imbalance, in contrast with a surplus in FY2001. State and local governments, across the nation, are also shifting to deficit status. For the immediate future, deficit spending supports the economy, but there is not much long-term capital formation taking place in order to ease future inflationary potential or to bring better living conditions from the supply side of the economy.

The higher level of military spending and tightening of security throughout the nation are supportive of jobs and income flows, but not through productivity gains. The US is still benefiting from carry-over gains in productivity, but these can last only so long. On the supply side, productivity is rising, but not at the pace that was established during the era of the PEACE DIVIDEND.

Obviously, security has first call on our resources, but the kinds of spending that are now taking place are not building for the future. There is small likelihood that increased efforts at providing security, higher costs of a military establishment on a war footing, and the mood of uncertainty will throw the US economy into prolonged deflation, of the sort that Japan has experienced for several years. One cannot rule out future recession, but it does not look now as though we are approaching prolonged deflation.

At the international level, the economy of the US has lost its dominant attractiveness. World investors will not regard the US as the same kind of safe haven that they sought in the summer of 1998. The US dollar has depreciated against some major currencies such as the euro, Swiss franc, the pound, Canadian dollar, Australian dollar, and others. This may eventually lead to a reduced trade deficit, but that has yet to take place. It will not contribute to holding back future tendencies of inflationary effects of the military and security burdens from showing up in higher prices (cost-push inflation).

With respect to the uncertainties that have accompanied the trend decline, with

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Moral Leadership in Today's World

ECAAR's Fall Benefit at the home of Patti and Jeffry Kenner focused on two lives for peace: those of Dr. Oscar Arias and Dr. Robert J. Schwartz.

Dr. Arias said the world is "far from achieving our goal: a society where everyone's basic needs are ensured and where all children and adults have ample opportunities to live in dignity and develop to their full human potential." But, he continued, "there is no lack of resources in the world for fighting poverty. What we are experiencing is rather a lack of moral leadership."

Dr. Arias said that UNDP estimates show that 5 percent of the \$800 billion spent on arms and troops in the year 2000 for each of ten years would, if diverted, "be enough to provide basic education, health care and nutrition, potable water and sanitation to all the world's people." (See www.ecaar.org for the full text.)

Dr. Schwartz spoke about his lifetime commitment to world peace with justice for all. He made several references to his just-published book, "Can You Make A Difference?", which can be obtained from Lantern Books, www.lanternbooks.com.

In his speech, Dr. Schwartz said that the source of terrorism had always been clear to him: "We have not just the will to control, but as the single superpower, we have the means to dominate world affairs. While we preach democracy, we often fail to exert it fully at home and rarely in our international policy."

"We talk with such justifiable horror," he continued, "about what happened at the World Trade Center and the Pentagon and how can anyone do this to civilians, yet most of this country ignores our bombing for a decade of Iraq where the civilians are the ones who suffer the most."

An Overview of Some Recent ECAAR Activities

- Immediately following the September 11th attacks and several times thereafter, ECAAR's Board has called for responsible Congressional debate on the "war" on terrorism and US military intervention in Iraq.
- To share our multi-country academic work, ECAAR-US gave travel support to leading scholars from ECAAR-Russia to take part in the sixth annual conference of ECAAR-UK.
- Board members Robert Schwartz and Lloyd J. Dumas joined leaders from countries worldwide when ECAAR co-sponsored the Puerto Rico conference on "Peace in Peacetime" in August 2002. (See Ayesha Siddiqi-Agha's piece on page 7.)
- Program Director Lucy Webster organized a press conference and panel session at the Johannesburg World Summit on Sustainable Development. (See page 15.)
- As a registered UN NGO, ECAAR seeks to strengthen the UN's role in building a just and lasting peace, and is actively represented there by Board member Dorrie Weiss. On September 9, 2002, Program Director Lucy Webster chaired a UN panel on "The Role of Civil Society in Making Peace Last" as part of the 55th Annual DPI/NGO Conference.
- Scholars from Sweden, Belgium, Argentina, the UK, and the US joined South African academics, journalists, activists and defense contractors at a three-day conference in Cape Town on "Defense Offsets and Economic Development." The conference provided a forum for debate and made clear policy recommendations on the crucial issue of how the First World sells arms to the Third. (See Geoff Harris' piece on page 15.)
- ECAAR is participating in a joint project on "Trade-offs in Homeland Security" with a consortium of NGOs, including the Center for Defense Information, the Project on Defense Alternatives, the Center for Strategic and Budgetary Assessments, the National Priorities Project, the World Policy Institute, and the Center for War, Peace and the News Media. The report will be launched in January with significant outreach to Congress and the news media.
- The Ford Foundation announced a major two-year grant to ECAAR in July of 2002. The grant will strengthen our international network of scholars and activists working on conflict reduction and economic and democratic development.
- The 2001 grant from the Center for Arms Control and Non-proliferation to study the full costs, and cost-effectiveness, of the Bush administration's missile defense system is almost complete. The project was directed by Richard Kaufman as part of ECAAR's ongoing program of research and outreach on US military expenditures and policies. With participation from Board members Kenneth Arrow and Lawrence Klein, ECAAR members William Cox and David Gold, and Stanislav Menshikov, Co-Chair of ECAAR-Russia, the project relied on our strongest assets: our Board, our membership, and our international affiliates. The report is now in press and we expect to release it during the American Economic Association's annual meetings in January 2003.

intermittent volatility, in stock markets it is difficult to discern when a dependable bottom has been reached. An extension of the war to Iraq will not improve the judgment of that source of uncertainty. Effectively, we have been witnessing two distinct developments, parallel in time but not in magnitude.

The real economy, based on producing, consuming, and working is not in the worst of conditions. It appears to be

growing at a modest pace, well under five percent, and shows no sign yet of deviating very much from that path, but financial markets are very subjective and are not behaving according to a very predictable pattern.

The project for a missile defense shield lurks in the background, and remains just a talking point in the absence of a fresh terrorist attack. As in the Cold War preview (Star Wars) it appears to be a

wrong headed, but very expensive, use of resources and cannot be expected to be economy friendly, except for some very short-run gains in activity and employment. This subject, of course, is under much more careful investigation as an ECAAR project.

Lawrence R. Klein, who received the Nobel Prize in Economic Sciences in 1980, is a Trustee of ECAAR and its founding Co-Chair together with Kenneth J. Arrow.

Questions for Peace Economics: A Research Agenda

Dietrich Fischer and Jurgen Brauer

About a decade ago, the Ford Foundation funded an ECAAR project with the objective of assembling a Global Register of Experts on the Economics of Military Affairs (GREEMA). Not wishing to merely produce an exalted telephone directory, part of the project involved small-scale workshops held in East-Central Europe, Asia, Africa, and Latin America to identify regional research agendas as determined by scholars who actually lived and worked in the regions. Recently, we updated this agenda.

The basic idea goes back to mathematician David Hilbert who at the Second International Mathematics Congress in Paris in 1900 presented a famous list of 10 unsolved mathematical problems. This list helped stimulate subsequent research by inviting mathematicians to try out their skills on difficult problems. The purpose of our research agenda is to pose, like Hilbert, a set of questions that we hope will stimulate research. The full set of questions, and assorted literature, is forthcoming in *Defence and Peace Economics*. Here we present a much abbreviated summary of some of our questions.

1. What, actually, is security and how do we measure it?

Oddly, there is surprisingly little research on this, the "mother of all questions." To measure security by military expenditure, as researchers currently do, is like measuring health by medical expenditure. And just as medical expenditure measures illness, rather than health, so military expenditure measures insecurity rather than security. So, what is security? And how do we usefully measure it? Is, for example, a high scoring on the Human Development Index (HDI) a good proxy measure of security?

2. Are there feasible alternative security arrangements?

Security must be provided from a stock of capabilities. This might include the men and machines of war but might also include non-military alternatives - such as diplomatic skill. But even among the military options, one could either favor offensive or retaliative arrangements or favor primarily defensive provisions. Clearly, at least in theory, there are alternatives to the predominant offensive-capabilities mode of much current military thinking. If a country adopts a defensive military posture its own security is increased without threatening that of others. What are the economic characteristics of a defensive military posture? What are the relative costs compared with offensive military postures, or deterrent postures that seek to prevent aggression through the threat of retaliation? Can economists design superior, feasible, and viable security systems?

3. What is the contribution of security to labor, capital, and economic development?

The question is not what is the contribution, if any, of military expenditure to labor, capital, and economic growth but what is the contribution of military expenditure to security which, in turn, would then permit investment in human, physical, and social capital. Indisputably, security is necessary for human betterment. A related but entirely different question, especially for developing nations, is whether we should not switch the focus from economic growth to human development indicators. On this, too, far too little work has been done.

4. What is the full opportunity cost of the military sector?

Opportunity costs are foregone benefits, namely the benefits that could have been derived had resources used for one purpose

been employed elsewhere. There is a substantial, if generally dated, literature on this but a relatively unstudied area is that of the opportunity cost of conscription, of special relevance for developing nations. If a government drafts its young, they are compelled to forego whatever else they would have done voluntarily. Their nation thereby foregoes the benefits of whatever education its young might have acquired, or whatever level of work experience they might have gained, and therefore of whatever subsequent economic contribution they would have made. Foregone earnings are not accounted for in military budgets, and it would be worthwhile to conduct a few country studies to obtain a "handle" on the order of magnitude of just how large the opportunity cost of conscription is. There are, of course, many other areas where opportunity costs occur: military spending competes with civilian spending for infrastructure, education, health care, environmental protection and much more.

5. What are causes and consequences of military expenditure inertia?

It should concern economists that the level of next year's military budgets can be predicted better by simple time-series analysis and extrapolation than by the variety of structural, explanatory models we have built. This is especially worrisome when military expenditure does not actually appear to buy any defensive or protective capabilities, as many have convincingly argued (e.g., Argentina, South Africa, even the EU as demonstrated in the Balkan Wars fiasco). Can we really not get a better handle on the determinants of military expenditure?

6. What are the economic consequences of war?

Surprisingly, one of the least studied aspects concerns the economic consequences of violent conflict. Some forty years of civil war in Angola, Colombia and Sudan, and twenty years in Sri Lanka surely have negatively affected their economic fortunes and prospects. Hacking limbs off children creates a generation of disabled people whose economic contribution to the future of their societies will be minimal. Interminable fighting that closes schools, damages health clinics, and destroys live-stock keeps generations of people in perpetual poverty. Economists can make a contribution with an economic accounting of the cost of war. Few attempts have been made. For instance, what is the reduction in average life expectancy in sub-Saharan Africa in war-ravaged countries relative to those not affected by war? "Natural experiments" of this sort should provide us with at least proximate answers.

7. How can markets be used to resolve conflicts?

One important aspect of a market system is that it makes the orderly arbitration of conflicting interests possible. Given some widely accepted and enforced rules of the games, markets contain and channel conflict. Without resort to violence, auctions allocate scarce resources to the highest bidder, who is likely to put them to productive use. The market mediates between sellers who prefer high prices and buyers who prefer low prices to find an equilibrium. How can such principles be applied to conflict resolution? Why is there no ready market for peace?

8. How can economic incentives become an effective method to deter aggression and violations of international law?

Small countries have on occasion been able to deter aggression not by assembling military forces

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Talking of Peace in Peacetime

Ayesha Siddiqa-Agha

Gathering in San Juan, Puerto Rico in August 2002 to discuss prospects of peace, one wondered if the hundreds of people participating in the international conference had come in peacetime to discuss peace – or was it to discuss peace in wartime? Organized by the Puerto Rican authorities and the Arias foundation, the conference included artists, economists, political scientists, peace activists, writers, poets, actors and singers from different parts of the world in their common search for peace at a time when the world was perhaps inching towards a long cycle of conflict.

The conference was both an experience and an experiment. Unlike conferences where people are brought together from the same discipline to discuss and debate issues, this was an introduction to perceptions and sensitivities of people from various fields regarding their understanding of both conflict and peace. The undercurrent of the discussion during the two and a half days was that there was a common thread or a linkage amongst the agonies of people from different parts of the world, that excessive militarization and governmental concern with military security had tended to force the greater

issue of human security to a tiny corner from where it needs to be retrieved and put on the center screen. One idea was to produce a “Declaration of Puerto Rico” demanding restraint by governments, that they not destabilize world security.

Nonetheless, one left the conference feeling that there was some unfinished business: the task of agreeing on small but concrete measures in different parts of the world that could bring the people closer to their ultimate objective of greater peace. Being from a region fraught with conflict and the threat of war, perhaps what I had sought was to use the event to build connections that could help solve specific problems.

Could people from opposing sides of the divide in different regions have built an understanding they could have taken home and used to build new bridges? Incidentally, the only sub-region that could claim an almost full representation was the Indian Subcontinent. Unfortunately, the meeting was but a lost opportunity for these people to build a better understanding. Similarly, while the militarism in the world, especially the Bush administration’s obsession with a stronger military posture, came under a lot

of criticism, the participants seemed lost to think of ways to surge ahead in finding means to convey their desire to the establishments of their respective countries regarding the common human goal for finding peace in a peaceful way.

The real question the conference posed to participants was how to bridge the communication gap between governments and the people’s perception of peace, how one starts to change the way that security has traditionally been defined. Clearly, there is an urgent need to rethink and redefine the traditional security paradigm and make the national security structures and policies more responsive to the basic search for human security. As long as security continues to be interpreted as a service normally delivered by strong armed forces, there is little progress to expect in bringing peace and stability to the world. Perhaps the greatest achievement of the conference was that it left the participants with the most formidable question of how to team up and devise ways to change the course of the discourse on security.

Dr. Siddiqa-Agha is an economist and military analyst in Islamabad, Pakistan.

that were superior to those of a potential adversary, but by providing a useful service that would naturally be lost in case of war. Can that strategy be developed and made more effective? What lessons can be learned from countries that have long been able to avoid war? Economists are experts on the role and function of incentives. Can we come up with clever and feasible incentive schemes that prevent violent conflict and promote non-violent alternative dispute resolution?

9. How do austerity measures, shock therapy, and bad policy increase social tensions?

When at the World Bank, Joseph Stiglitz famously made the case that harsh adjustment measures may precipitate conflict (e.g., in Indonesia and East Timor). Indeed, critics of the IMF and World Bank have long argued that their respective policies may contribute to conflict and warfare but surprisingly little research exists to ferret out the pathways by which this may have happened, or could be circumvented. On a related matter, it turns out that the world has no contingency plans for peace. For example, the US had detailed plans how to obliterate the Soviet Union in case of a nuclear war, but had no plan whatsoever how it could assist it if it chose to make a transition to democracy and a market economy. Much the same has happened in Africa. During the cold war era it was a contested continent. Now it has become a forgotten continent, left to its own (insecure) devices.

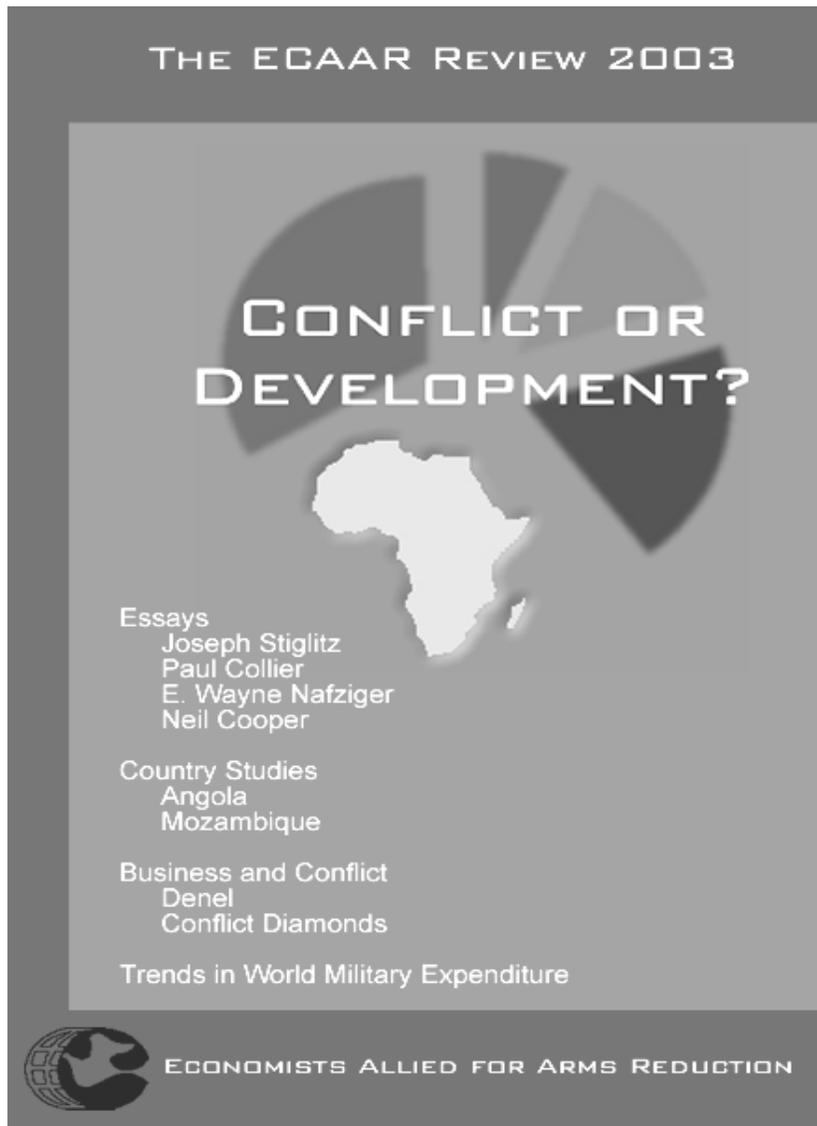
10. What can economists do?

Plenty. Health economists surely have learned something about measuring health (rather than medical expenditure). What they have learned may usefully inform us about how to go about measuring security (rather than military expenditure). Labor economists should be of help measuring the opportunity cost of conscription. International trade economists can make contributions to the study of arms trade. Development economists now increasingly realize that personal and societal security is a necessary (if not sufficient) condition for economic and human development. Budget experts can help redo government accounts to figure out how much we actually spend on military and security functions (rather than how we officially account for it). Energy and environmental economists can help to figure out, at least in terms of orders of magnitude, not only the nuclear-weapons legacy costs in the US but the approximate actual cost to countries such as Pakistan and India.

Our questions may have no easy answers, but if we avoid tackling them nobody may be left to address easier and more pleasant questions. We hope that students, especially, will take any one of these "Hilbert-like" questions as a challenge and devote themselves to the production of answers.

Dietrich Fischer and Jurgen Brauer are ECAAR Board members.

Announcing the publication of *The ECAAR Review*, available January 2003.



From the *Preface*:

This is the first of a planned series of annual Reviews, each addressing a different theme relating to the economics of conflict. This year's theme is Conflict and Development.

The functioning of modern economies and the continuous betterment of the human material condition is not possible without peaceful co-existence and stability, without security of one's person and of one's belongings. The disruption war causes is obvious. What is new is that the economic mechanisms by which this disruption proceeds have now been uncovered. Even the threat of war induces one to engage in protective measures, which require the devotion of resources thereby withdrawn from more productive applications. If four percent of world GDP is devoted to the world's armed sectors, ninety-six percent is not. But the four percent causes a disproportionately large depression in business prospects. In Africa – the focus of this year's Review – a relatively small amount of military-related spending has for decades thrown the entire continent of some 750 million people into severe convulsions and untold misery. If you can image Africa at peace, you are bound to imagine it prosperous. Business has a far greater stake in the works of peace than in the works of war. We hope that our annual Review revives and continues the grand tradition of economists making relevant contributions to the analysis, diagnosis, and treatment of conflict.

The Editors, November 2002

The ECAAR Review is a new anthology, to be published annually, on the economics of war, conflict, and peace. In its pages some of the leading economists of the day will analyze and reflect on the relationships among military spending, domestic and foreign policy, security, and human welfare. Each year will feature a different topic and will include sections on business and conflict and "Trends in World Military Expenditure."

Written in clear English, with informative maps, tables, and graphs, the series is designed to inform the

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The 2003 edition, "Conflict or Development?" has a further regional focus on Africa.

Joseph Stiglitz discusses the role of information in conflict and draws a fascinating analogy between civil strife and a labor strike. Paul Collier and Neil Cooper take different positions on the prospects for reforming war economies, and E. Wayne Nafziger gives details of the evolution of humanitarian emergencies.

In the two country studies, Tilman Brück examines the destruction and reconstruction of Mozambique, and Manuel Ferreira discusses the civil war in Angola.

Paul Dunne tells the story of South Africa's defense contractor Denel from its origins under apartheid until today, and David Gold describes the context and history of the current actions against "Conflict Diamonds." In the chapter on "Trends in World Military Expenditure," Jürgen Brauer reflects on the weight imposed by the world's military burden.

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The History and Future of UN Inspections in Iraq

Stephen Zunes

Despite speculation about possible ongoing Iraqi efforts to produce or procure weapons of mass destruction, no one has been able to put forward clear evidence that the Iraqis are actually doing this, although they have certainly done so in the past.

The dilemma the international community has faced since inspectors withdrew from Iraq in late 1998 is that no one knows what, if anything, the Iraqis are currently doing. The US government has made it clear that it is less interested in finding out than it is interested in comprehensive disarmament of weapons of mass destruction (WMD), or regime change. The United States rejected Iraq's offer in September to allow the United Nations to resume inspections under the UN's Monitoring, Verification and Inspections Commission (UNMOVIC).

Despite some press reports to the contrary, even the eight presidential palaces were to be open to unfettered inspections, although Iraq would have the right to send diplomatic representatives to accompany them. Such arrangements had longstanding United Nations approval.

After years of demanding that the Iraqi government allow inspectors to return immediately, once the Iraqis agreed to do, the United States claimed that the inspections do not work and that the only way to ensure that Iraq rids itself of WMDs was to demand a complete overhaul of the previously agreed-upon inspections regime and its replacement by new protocols.

Was the first inspections regime—the United Nations Special Commission on Iraq (UNSCOM)—really such a failure? The record seems to indicate otherwise.

As a result of the inspections regime imposed by the United Nations at the end of the Gulf War, virtually all of Iraq's stockpile of WMDs, delivery systems and capability of producing such weapons were destroyed. During nearly eight years of operation, UNSCOM oversaw the destruction of 38,000 chemical weapons, 480,000 liters of live chemical-weapons agents, forty-eight missiles, six missile launchers, thirty missile warheads modified to carry chemical or biological agents, and hundreds of pieces of related equipment with the capability to produce chemical weapons.

In late 1997 UNSCOM director Richard Butler reported that UNSCOM had made "significant progress" in tracking Iraq's chemical weapons program and that 817 of the 819 Soviet-supplied long-range missiles had been accounted for. A couple of dozen Iraqi-made ballistic missiles remained unaccounted for, but these were of questionable caliber. In its last three years of operation, UNSCOM was unable to detect any evidence that Iraq had been concealing prohibited weapons.

Meanwhile, in its most recent report, the International Atomic Energy Agency—which, unlike UNSCOM, was able to engage in inspections without harassment and delays by Iraqi authorities—categorically declared in 1998 that Iraq no longer had a nuclear program.

The periodic interference and harassment of UNSCOM inspectors by the Iraqis was largely limited to sensitive sites too small for advanced nuclear or chemical weapons development or deployment. A major reason for this lack of cooperation was Iraqi concern—later proved valid—that the United States was using the inspections for espionage purposes, such as monitoring coded radio communications by Iraq's security forces, with the use of equipment secretly installed by American inspectors. Subsequent efforts to inspect the Baath Party headquarters in Baghdad as the site at which to demand unfettered access led to Iraqi refusal and subsequent withdrawal of UNSCOM inspectors.

By seeking to dismiss the credibility of United Nations inspectors, the United States is effectively undermining any multilateral law-based system of non-proliferation in favor of a unilateral military-based system of counter-proliferation, where the United States alone can determine which countries under what circumstances can develop certain kinds of weapons and where the United States would have the right to invade any country that would seek to do otherwise.

*Stephen Zunes is Associate Professor of Politics, and Chair of the Peace & Justice Studies Program at the University of San Francisco, and author of *Tinderbox: U.S. Middle East Policy and the Roots of Terrorism*.*

Initial Plans for ECAAR-Germany

In spring 2001, the Bremen State Ministry for Economic Affairs, with support from several German Länder, Communities and major research institutes in Germany and the EU, convened an International Conference on Conversion. The program was designed to evaluate and review efforts to transfer resources from military to civilian production and to plan proactively for the future.

The conference linked the experience of researchers, trade unions, companies, regional and national actors and European networks to examine prospects for peace-keeping, civilian conflict resolution and continued disarmament in the light of emerging international military and political concerns and industrial policy.

The main coordinator of this event was the Bremen State official for Industrial Arms Conversion, Professor Wolfram Elsner of the Department of Economics and the Institute for Institutional and Social Economics at the University of Bremen. An international conference volume has just been edited (*International Restructuring and Conversion of the Arms Industries and the Military Sector: Industrial, Regional and Sociocultural Aspects*. Ed. W. Elsner. New Brunswick (NJ): Transaction Publ. 2002).

Following the conference Prof. Elsner began an initiative to establish a German affiliate of ECAAR, which is strongly encouraged by the ECAAR-US Board. The founding meeting of the affiliate is planned to take place in Bonn on 6 March 2003.

The New Arms Reduction Treaty & Russia's Retention of MIRV SMFs

Zackary Moss

The Strategic Offensive Reduction Treaty (SORT), signed by presidents Bush and Putin on 24 May 2002, appears to signify a new era of mutual trust and cooperation between the USA and Russia. Indeed, the new arms reduction treaty was reported by many in the media as signifying the end of the Cold War. But what is contained in SORT, and what impact will it have on arms control? SORT limits deployed strategic warheads to 1,700-2,200 each over ten years, although there is no timetable for carrying out the reductions other than the implementation deadline of 1 January 2013. SORT does not call for the elimination of warheads or delivery vehicles; it only requires that warheads be de-alerted, allowing the warheads to be stored. While Russia wanted an irreversible "legally binding" treaty rather than a "handshake" agreement, it settled for the US counting system, which allows downloaded weapons to count as reductions. Stored weapons can therefore act as a hedge force that could be redeployed in the future.

The Strategic Arms Reduction Treaty II (START II), signed 3 January 1993, would have limited deployed strategic warheads to 3,000-3,500 over seven years. Under START II, the number of delivery vehicles was not limited, but all heavy Intercontinental Ballistic Missiles (ICBMs) and their launchers were taken off alert. Had START II entered into force, it would have banned the practice of arming land-based missiles with Multiple Independently Targeted Re-entry Vehicles (MIRVs). The reductions were set to take place in two phases over a seven year period, but Russia withdrew from its START II commitment following the US withdrawal from the Anti-Ballistic Missile (ABM) Treaty on 13 June 2002.

In mid-August the commander in chief of Russia's Strategic Missile Forces (SMFs), Colonel-General Nikolai Solovtsov, announced that Russia will extend the life of its heavy land-based ICBMs to 2016. Russia has decided to extend the service lives of 154 silo-based R-36M (SS-18 Satan); two out of the four SS-18 divisions will remain in service, with the possibility of retaining a third division. In addition, 36 combat rail-mobile RT-23 (SS-24 M1 Scalpel) ICBMs will be retained, with the Kostroma division remaining in service. Each of the SS-18 and SS-24 ICBMs can be equipped to carry 50 warheads—10 MIRV warheads and 40 decoys that behave just like the warheads.

The SS-18 was created to act as Russia's first-strike weapon against US land-based strategic nuclear forces. The SS-18 was designed in 1966-1972 and integrated into the Soviet weapons arsenal in December 1975, when it created a "window of vulnerability" for attacking US Minuteman ICBM silos. By 1980, some analysts even argued that few Minuteman ICBMs could be expected to survive a Soviet strategic first strike. SS-18s were designed to overcome US missile defence systems and confuse US nuclear attack planning systems, and had the predicted capability to destroy 65-80% of US ICBM silos using two warheads against each silo. Six variants of the SS-18 were deployed to act as Russia's "hard-kill" SMFs.

The issue of US vulnerability to SS-18s dominated US strategic debate in the late 1970s and early 1980s, and the Reagan and Bush administrations made the missile the main focus of their arms control initiatives. In fact, Bush Senior, commenting on the signing of the START II Treaty in his diary entry for 3 January 1993, writes: "I think one of the crowning achievements of my presidency will be the elimination of all these SS-18 missiles—getting rid of them entirely". Under START II, Russia was permitted to retain 90 of the SS-18 silos, with the 166 remaining MIRV SS-18s to be phased out by 1 January 2003 and destroyed by 31 December 2007. As Russia withdrew from START II following the demise of the ABM Treaty, the obligation to destroy MIRV SS-18s was lifted. Besides, START II called for Russia to replace its MIRV SS-18s with single warhead missiles like the solid-fuelled Topol-M (SS-27).

Interestingly, the Russian Defense Minister Sergei Ivanov said that US officials had been informed that MIRV ICBMs would remain on alert even before the US withdrew from the ABM Treaty. And after coming to office, President Vladimir Putin stated that Russia would not implement the START II Treaty if the US went ahead with plans to deploy Missile Defense. It seems, then, that Russia is now reacting to US plans to deploy Missile Defense. The Bush Administration has on numerous occasions reiterated that Russia is no longer a strategic threat to the US, which was the reason behind the US abrogation of the ABM Treaty. But apart from China's limited nuclear forces, Russia is the only country that deploys ICBMs that can target continental USA. SORT might give each side greater freedom to determine their SMFs, but it does not limit deployed heavy ICBMs in the way that START II would have done.

Given Russia's concerns about US Missile Defense, retaining MIRV SS-18s is for the time being the most economical way for Russia to maintain its SMFs. While the SS-27 was due to be commissioned in the Russian SMF grouping regardless of whether heavy ICBMs were to be stood down from combat duty or not, its program is behind schedule due to lack of funding and facilities. And at the current rate of progress, 50-60 SS-27s will be operational by the end of 2005 compared to the 160-220 missiles previously planned. While the SS-27 can be equipped with 3 to 4 MIRV warheads per missile, it is less potent than a MIRV SS-18. By overhauling simultaneously-launched MIRV SS-18 missiles, Russia's SMFs have more chance of evading and surviving Missile Defense systems planned by the US. Russia's decision to retain MIRV SS-18s contradicts the prediction of some arms control analysts who had stated that regardless of US plans, the SS-18s could not be extended because they were in a poor condition. Nonetheless, Russia will continue to deploy heavy ICBMs such as the MIRV SS-18 that have significantly exceeded their planned service lives, which in turn raises questions about the safety and reliability of Russia's SMFs.

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is a member of ECAAR-UK.

(continued at the bottom of page 13)

The Empty Promise of Global Missile Defense

William D. Hartung and Frida Berrigan

The Bush administration has been rightly criticized for its go-it-alone foreign policy. But in one area at least, the administration is enthusiastically embracing multilateralism: the marketing of its global missile defense project. The White House, the Pentagon, and major U.S. weapons makers are trying to get other countries to buy into this internationally unpopular program by offering foreign corporations a piece of the Star Wars action.

As a first step, Boeing struck an unprecedented deal this summer with Britain's BAE Systems to cooperate on research and development for the Bush administration's multi-billion dollar ballistic missile defense program. While analysts tout the potential technical gains of collaboration between firms, missile defense boosters are enthused about the potential political payoff. As Baker Spring of the Heritage Foundation notes, "if you can get foreign firms involved, they will bring their countries along."

European governments have been particularly skeptical of Washington's Star Wars plans. But if partnerships with giant US defense firms promising money and jobs help to change their minds, the Boeing-BAE agreement is likely to be the first of many such deals. Other U.S. corporations with missile defense contracts are exploring cooperative agreements with counterparts like the Netherlands-based European Aeronautics Defense and Space Co., Europe's largest aerospace company.

At first glance, it seems there's plenty of missile defense "pork" to go around. The United States has spent more than \$90 billion on missile defense projects since 1983, and Donald Rumsfeld and his fellow Star Warriors at the Pentagon are pursuing a multi-tiered system that could cost \$200 billion or more over the next decade and one-half.

But behind the appearance of Star Wars largesse for US allies, serious questions lurk. How much "sharing" will actually occur, and what economic impact will it have? The "Big Four" missile defense contractors — Boeing, Lockheed Martin, Raytheon, and TRW — have already split two-thirds of all missile defense funding awarded by the Pentagon over the past four years, racking up long-term contracts worth in excess of \$20 billion in the process. Missile defense work has also been highly concentrated geographically, with roughly 90% of the contracts since 1998 going to firms in just four states: California, Alabama, Colorado, and Virginia.

This concentration of Star Wars spending is great news for the Bush administration's friends in the arms industry. In all, President Bush has appointed 32 former executives, paid consultants, or major shareholders from the arms industry to major policymaking positions in the Pentagon, and other major agencies, including eight from Lockheed Martin and eight from Northrop Grumman, which recently purchased TRW.

These corporate beneficiaries may be the *only* big winners in the multi-billion Star Wars program. Given the "boutique" nature of missile defense production — the \$11 billion Airborne Laser Project (ABL), for example, is currently slated to produce only 7 aircraft in all — the billions spent on missile defense are likely to have very little "bang for the buck" in terms of generating jobs. Spreading this work out internationally will further dilute any job-creating potential, undermining industry claims that missile defense funding will spur jobs and economic growth either here or abroad. The Star Wars pork barrel will be less than half full for American and international defense workers alike.

Hopefully the folly of Star Wars — and the first strike military doctrine of which it forms a part — will become apparent to the American public before billions of dollars and thousands of lives are put at risk. The Pentagon is ready to spend \$200 billion or more on an unworkable system designed to protect against the least likely method a hostile nation or terrorist group would use to deliver a nuclear weapon to U.S. territory. And the Bush administration is poised to spend \$100 billion or more on a "preemptive war" against Iraq, despite the fact that Saddam Hussein's regime does not currently possess nuclear weapons or long-range ballistic missiles.

Rather than throwing good money after bad pursuing a dangerous first strike military doctrine, the Bush administration should increase spending on preventive measures designed to curb the spread of weapons of mass destruction.

The administration should finance the accelerated destruction of U.S. and Russian nuclear weapons and bomb-grade materials, bulk up enforcement of international agreements to stem the spread of nuclear, chemical, and biological weapons, and fund the now-suspended U.S.-North Korean framework agreement to cap Pyongyang's nuclear and ballistic missile programs. These efforts would create at least as many jobs per billion dollars spent as missile defense, while freeing up billions more for necessary domestic investments in education, infrastructure, and primary health care. Increased nonproliferation spending would also have another major benefit. Instead of sparking a new arms race, as the administration's missile defense scheme will surely do, they might actually make the world a safer place.

William Hartung is the President's Fellow and Frida Berrigan is Research Associate at the Arms Trade Resource Center at the World Policy Institute, at www.worldpolicy.org/projects/arms. An earlier version of this article was published as a commentary by Foreign Policy in Focus.

(Notes from the article on page 12)

Zackary Moss would like to thank Dan Plesch of the Royal United Services Institute, Joshua Handler of Princeton University, Shannon N. Kile of the Stockholm International Peace Research Institute and Otfried Nassauer of the Berlin Information-center for Transatlantic Security.

¹ For background information, see the Arms Control Association website: <http://www.armscontrol.org/subject/spec/bushputin.asp>.

² *All the Best, George Bush: My Life in Letters and Other Writings*, Scribner, NY, 1999, p.582.

³ All information cited on Russia's ICBMs is from the Federation of American Scientists (<http://www.fas.org/nuke/russia>); and 'Russia's Nuclear Forces, 2002', NRDC Nuclear Notebook, Bulletin of the Atomic Scientists, July-August 2002: see (<http://www.bullatomicsci.org>).

Sustainable Development, Inequality and Structural Violence

Lucy Webster

The World Summit on Sustainable Development (WSSD) held at Johannesburg in August and September 2002 can be viewed as a struggle between groups that seek comprehensive, adequate solutions to global problems for all the people, and those with more short-term, narrow objectives.

A very large proportion of the 8,046 registered participants at WSSD from non-governmental groups — which were mainly public-interest research and advocacy groups, but included private corporations, trade unions, women’s groups, youth and faith-based groups — demanded commitments to goals that would serve the needs of the poor and the need for sustainable development.

In contrast, the most influential of the 196 governmental delegations at WSSD sought damage limitation, to avoid making commitments that would curtail their free use of the world’s environmental resources or oblige them to pay to address a range of global problems.

Nonetheless it was clear to almost everyone at WSSD that without much greater equality than now, sustainability would not be possible. It was clear that both the wasteful behavior of the rich and the desperate practices of the very poor place uncorrected strains upon the ecosystem. Consider for example the emissions from large SUVs, or the impact on crops and soil erosion when land is stripped of growth for firewood.

The problem was recognized in the Summit’s negotiated Plan of Implementation, especially in section II, “Poverty eradication” and in section III, “Changing unsustainable patterns of consumption and production.” The text of section II calls for action to “Establish a world solidarity fund to eradicate poverty and to promote social and human development in the developing countries. . .”

At the same time, the proposed fund is to be conditional on:

- Methods to be set by the UN GA
- Receiving voluntary funds
- Not duplicating other UN funds
- Encouraging private sector support

One aspect of the confrontation between those who wanted global commitments and those who did not concerned whether governments and inter-

governmental organizations would do something or almost nothing. Many critics of the outcomes of WSSD say that the official commitments amount to almost nothing, and that new efforts to engage the private sector were mainly part of an effort to avoid effective action.

The trend toward the privatization or commodification of clean water was a sore point for many. It seemed clear that asking private firms to arrange access to water was not an effective way to get it to poor people. The water-supply problems in the township of Alexandra, a few miles from the Conference location, were seen as confirming the idea that private water would increase inequality.

The weak measures to limit fossil fuel emissions were also seen as exacerbating inequality, the poor being in the most polluted parts of cities and on marginal land to be most affected by expected future climate change in likely future upland deserts, flood plains and submerged deltas. The oil exporters and the US proponents of fossil fuel use won the debate on wording, for while the text calls for increased reliance on renewable energy, it sets no specific targets. Consequently, some 30 countries announced plans to join a “coalition of the willing” that will meet in Bonn, Germany to set higher standards to limit emissions and to promote renewable energy.

The representative of St. Lucia who spoke for the small island states said his country had set a high standard to replace fossil fuel with renewable energy, but that “the World Bank is pressing us to privatize our water, electricity, telephone services. On one hand we have to privatize, but when we attempt to put our policy of renewable energy in action, the multinationals frustrate every effort we make as they are only interested in the rate of return.”

In spite of the duty of corporations to put shareholders first and the proclivity to focus on short-term profitability, many of the estimated 1,000 business representatives at WSSD had broader interests; they came to create partnerships to find mutually beneficial solutions. Nonetheless the corporate sector of the civil society non-governmental contingent at WSSD was met with mixed reactions.

Some saw the private sector presence as a sign that there would be new resources to implement plans. Others saw it as a part of the form of globalization that they did not want. Not only was privatizing water supplies seen as harmful to the poor and to the global environment; that was also the view of most delegates regarding trade policies. Countries with agricultural exports said the lack of access to markets for their goods and the flow of cheap produce into their home markets both undermined long-nourished efforts to develop sustainable agriculture.

In so far as the results of WSSD led to missed opportunities to provide access to clean water or renewable energy, poor people will be harmed and their desperate responses will add to the even greater burden from the rich in harming global ecology. Both rich and poor can and will contribute to the damage, but the poor will suffer most, exacerbating inequality.

Geoff Harris, an economist at the University of Natal who wrote the facing-page article, has compiled estimates of democide, murder of civilians by their own government, and structural violence to the vulnerable through social, political and economic systems:

<u>Numbers of Deaths Worldwide in Excess of Natural Life Expectancy (1945 to 1990)</u>	
<u>Cause of Death</u>	<u>Millions</u>
Military	
Deaths in war -----	8
Civilian	
Deaths in war -----	14
Killed by own governments - - - - -	48
Deaths from structural violence - -	795

Each failure to adequately address the challenges of environmental degradation will exacerbate global inequalities, which will in turn constrict options for sustainable development. Resulting structural violence will tend to increase conflict, terrorism and war.

*Lucy Webster represented ECAAR-US
at WSSD.*

Offsets and Economic Development: Having your Cake and Eating it?

Geoff Harris

One of the most controversial government policies in South Africa has been the R30 billion arms purchase agreements signed with a number of European arms producers in late 1999, which relied heavily on offsets which are common in international arms contracts.

These offsets, which provide some return benefits to SA, took three forms. The most obvious is direct offsets, where local firms are contracted to produce components for the vessels and aircraft. Indirect offsets occur where European producers agree to purchase other (non-military) goods from SA producers. The third type is new foreign direct investment in SA by the European arms producers or associated companies.

Together, these offsets were estimated by the Department of Trade and Industry to result in R104 billion in net economic benefits to SA and 65 000 additional jobs, and these figures were crucial in cabinet's decision to approve the arms purchases.

An international conference held in Cape Town in September examined links between offsets and SAs development. Sponsored by the US-based Economists Allied for Arms Reduction (ECAAR), the National Research Foundation (SA), the Centre for Conflict Resolution and the School of Economics, University of Cape Town, the University of Port Elizabeth, Middlesex University and the University of the West of England, it brought together a number of internationally renowned researchers in the field.

Professor Jurgen Brauer, from the US, pointed out that there are many actors and interest groups involved in an arms deal. He argued that the role of the economist is to represent the interests of society as a whole, rather than any one group. In economic terms, this means estimating the value of the various estimated benefits

from offset arrangements and then deducting the costs of the arms purchases in order to estimate the net effect on society — the net social benefit.

In terms of costs, the purchase price of the arms is normally well known, although it has increased to around R60 billion as a result of inflation and exchange rate movements. However, long experience with offsets indicates that arms producers raise their prices by 20-30 per cent to compensate for the additional costs they incur as a result of offsets.

So an important question is why didn't the SA government simply buy 'off the shelf' and pay a lower price? The answer is that it believed that the estimated benefits of the offsets outweighed the higher costs. New foreign investment and jobs have been mentioned, to which may be added technological transfer. That is, by being involved in the production of components, and through new foreign investment, SA would keep abreast of technological advances elsewhere. In addition, some people would argue that it is important to maintain a SA defence industry for strategic reasons.

According to the free trade principles espoused by the World Trade Organisation, offsets are a bad idea. They result, Professor Ann Markusen argued, in both microeconomic and macroeconomic distortions. Professor Paul Dunne believes that most offset deals have involved big overestimates of the benefits in fact received by the arms purchasing country. While they remain common in arms purchase agreements, it is worth noting that a number of countries have decided not to be involved with them. That is, they prefer to buy 'off the shelf' and forgo the potential benefits of offsets. The reason they give is that the potential benefits have not been forthcoming.

Is SA reaping the hoped-for benefits from its arms purchase agreement? The jury is still out on this but there are some worrying signs that some European arms manufacturers are, in effect, renegeing on their commitments and claiming offset credits for benefits that would have happened in any case. Paul Dunne argues, for example, that the joining of British Aerospace and Thomson-CSF with SAs Denel would almost certainly have occurred without the arms deal, given the clear benefits these firms received from such a linkage.

Research led by Professor Richard Haines of the University of Port Elizabeth has found that the flagship non-arms project — the Coega Industrial Development Zone — will require as much as R5 billion of additional government infrastructure development to make it viable. The initial plan of a US\$1 billion stainless steel plant as an offset for the purchase of the three German submarines has been cancelled, given excess capacity in the world steel industry. Every time this sort of thing happens, the net social benefit of the arms deal is reduced.

The conference reached three conclusions of relevance for countries such as SA. First, a domestic arms industry will inevitably require heavy government subsidies and this has to be weighed up against its strategic value. Second, arms purchases must be justifiable in defence terms and never in economic terms. Third, if offset arrangements are entered into, it is most important that they closely complement national industrial strategy. Finally, it will be a long time before the final verdict on these offsets will be made known. Foreign arms producers have up to eleven years to fulfil their offset obligations.

Geoff Harris is Professor of Economics at Natal University.

ECAAR at the Johannesburg Summit on Sustainable Development (WSSD)

From August 26 to September 4, Terry Crawford-Browne of ECAAR South Africa, and Lucy Webster of ECAAR-US were active as two of the 8046 civil society representatives at WSSD. They chaired and spoke at meetings organized by a range of NGOs and by the WSSD Peace Caucus, and met with representatives of governments and major groups.

They also organized an ECAAR Press Conference on "Human Security, Military Globalization and Sustainable Development." This was addressed by Sir Richard Jolly who was active in the water resources work of WSSD, by Richard Haines from the University of Port Elizabeth, and by Peter Batchelor, project director of the *Small Arms Survey*.

The presentation by Terry Crawford-Browne about the South African arms offsets deal attracted the greatest interest from the journalists and others present. Participants also asked about positive approaches to international security, and discussed WSSD in relation to issues concerning armaments, conflict and sustainable development.

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 & Stanislav Menshikov
South Africa: Terry Crawford-Browne
United Kingdom: J. Paul Dunne

ECAAR Events at the ASSA/AEA Conference, 3-5 January 2003

Three events to be held at the DC Convention Center, Room 12
 located at 900 9th Street NW, just across H Street from the Grand Hyatt Hotel

**Friday
 January 3
 2:30 PM**

The New War Economy

Roundtable with:
James K. Galbraith, University of Texas at Austin
Lawrence J. Korb, Council on Foreign Relations
Ann Markusen, University of Minnesota
Richard F. Kaufman, Bethesda Research Council

**Saturday
 January 4
 8:00 AM**

Conflict and Development

Roundtable with:
Lloyd J. Dumas, University of Texas at Dallas
Nancy Birdsall, Center for Global Development
Susan Willett, UNIDIR
William J. Easterly, Institute for International Economics
Jurgen Brauer, Augusta State University

**Saturday
 January 4
 5:00 PM**

ECAAR Membership Meeting

Everyone is welcome to attend;
 members in good standing may vote.

ECAAR Annual Dinner, Saturday, January 4, 2003

7:30 PM at the Grand Hyatt Washington, Constitution Room C & D

Honoring Robert S. McNamara

with special guest Ambassador Thomas Graham, Jr.

Reserve a table or several tickets on line at:

<https://registrations.globalexec.com/checkin.asp?EventId=6544>

Each ticket is \$85; tables of 8 cost \$650.

Or write or telephone the
 address or the numbers below.

Benefit: An Evening with Joseph Stiglitz, February 12, 2003, 6:30- 8:30PM

Numbers will be limited. Please call or email early to attend.

The ECAAR Business Council invites you to three forthcoming events:

- **Tuesday, December 10, 2002: "Offshore Banking, Money Laundering and the USA Patriot Act: Implications for Corporate Governance"** with Peter Clapman, Court Golumbic, Michael Dougherty, Seamus Finn and Randall Dodd. (Date, evening hour and location to be confirmed.)
- **February/March: "Examining the US Budget: The Long-term Outlook"** with Bill Dudley
- **May/June: "Energy, Sustainability, The Global Climate and National Security"** with Hewson Baltzell and panel TBA. Contact Jess Flagg (212-751-8484 or jessicafagg@ecaar.org) for updates.

\$50 payable in advance per person per event, or \$25 for ECAAR members.

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