



# ECAAR NewsNetwork

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*“Being power-based, hierarchical and excessively competitive the global system shows signs of becoming an authoritarian system that is prone to violent, mainly militaristic, intervention.”*

— Wolfram Elsner  
from page 9

## From Defense to Development

Ann Markusen

If there is a single turn-of-the-century trend that gives us hope from household to world scales, it is the phenomenon of conflict resolution and its companions — cooperation, education and investment — in place of war, destruction and privation.

The 1990s was a period of remarkable progress in peaceful transition in the world, from South Africa to the former Soviet Union to, somewhat more tentatively, Northern Ireland and the Middle East. Spending on the military plummeted almost 40% worldwide. Although tensions and a worrisome rise in militarism are still percolating in the world, our knowledge and practice of conflict resolution has expanded enormously. Almost all people, even our military leaders, would agree that investments such as clean water, agricultural productivity and above all, education, are far more powerful in achieving human welfare than spending on war and defense.

Countries around the world responded to the 1990s window of opportunity in very different ways and with quite divergent results. We spent several years studying how a group of defense industrial economies - India, South Korea, China, South Africa, Israel, Argentina, Poland, Russia, Spain, Germany, France and the United States — succeeded in or failed to re-orient their resources towards peaceable economic activities in the 1990s. In our just-published book, *From*

*Defense to Development*, we explain how and why. Focusing on defense industrial transformation, we found two types of causal forces to be crucial to success — internal structures/strategies and external pressures. The former encompass extant industry structure and product mix (degree of enterprise and firm defense dependency, degree of conglomeration, platform versus component production), and public versus private management arrangements. The latter include national security threats, US and NATO defense policies and the internationalization of the defense industry.

The extent to which firms and enterprises were dedicated to military production was a major factor in determining their managements’ ability to survive cuts in defense expenditures, their willingness to accept defense reduction goals and their success in shifting into civilian markets. In the US, large contractors’ defense dependence increased through a spate of “pure play” mergers and the exit of less defense-dedicated and smaller firms from the military market. The large survivors then lobbied the US government for increases in procurement and an easing of arms export restrictions — with considerable success. On the other hand, German defense firms, which were much less defense dependent than their American counterparts, were less resistant to defense cuts and more successful at

converting resources to commercial use. Similarly, South Korean companies were highly diversified, viewed their military industrial obligations as an opportunity cost, welcomed the reduction of military orders and compensated by increasing their civilian output. In other second tier countries where firms were highly defense dependent (Argentina, India, South Africa), the military industrial complex either strenuously resisted cuts in defense expenditures or faced severe disruption.

Most of the second tier arms-producing countries studied had built domestic defense industries that were wholly or partially owned by the state. In those countries where governments simply maintained the status quo (India) or in cases where governments opted for rapid privatization without regard to resource conservation (Argentina), the results were very disappointing. On the other hand, where governments took the time and care to develop strategic conversion plans involving gradual privatization (Spain, Israel), organizational restructuring (China, Poland, South Africa) and focused conversion policy (Israel, South Korea, Spain), defense conversion has achieved positive results.

We expected to find that countries embroiled in regional conflicts and concerned about the territorial ambitions of neighbors would be less

### Inside pages..

Economics of War and Empire by James K. Galbraith.....	3	Problems of Small Arms in South Asia by James Arputharaj..	11
Northrop Grumman by Frida Berrigan.....	4	The Political Economy of US Militarism by Bob Reuschlein...	11
Franco Modigliani (1918—2003) .....	5	Iraqi Fatalities in the 2003 Conflict by Carl Conetta .....	12
The End of the Bush Military Buildup? by David Gold.....	6	ISS Conflict and Development Conference	
Willing Peace by Kate Cell.....	7	by Sam Perlo-Freeman .....	13
Non-Intervention; Heterodox Economics by Wolfram Elsner	9	ECAAR-SA Continues Legal Action to Block Arms Imports	
India and Pakistan: Danger of Nuclear and Missile Arms Race		by Terry Crawford-Browne.....	14
by Angathevar Baskaran.....	10	Moscow Workshop Report by Kate Cell.....	15

apt to reduce military production capacity, while those enjoying a cessation of regional tensions would rethink their defensive requirements and reallocate scarce resources to civilian production and social welfare. But the relationship between security policy and commitment to defense conversion is not so straightforward. Those nations that have arguably achieved the greatest success in reducing military industrial capacity (Israel and South Korea) are located in regions marked by sustained high levels of tension and conflict.

China provides another exception. Chinese officials initiated an extensive conversion strategy in the 1970s — at the height of regional conflicts with India, the Soviet Union and Vietnam. While the Chinese government was concerned with protecting its borders, it was also concerned with internal economic instability. Defense conversion formed a key element in a larger strategy to improve economic efficiency and increase the Chinese standard of living. In contrast, some nations experiencing reduced regional tensions moved very slowly in dedicating redundant defense industrial resources to other economic sectors.

The decisions of second tier governments vis-à-vis their defense industrial capacity are not made in a national

vacuum. The activities of the US government, NATO, and American and European defense firms have played an important role in restructuring choices and outcomes, often making it hard for second tier producers to cash in their peace dividend. Their governments would be well-advised to consider the opportunity cost of maintaining defense industrial capacity in a stagnant world market when resources might be more productively devoted to development in other spheres. Among the countries studied, India, Poland, South Africa and South Korea, in particular, could benefit from shifts in this direction. Spain and Israel have demonstrated how a mixed approach works well with military offsets and returns to military market niches used skillfully to develop and expand civilian product lines.

Evaluations of a country's success in securing and re-investing peace dividends cannot be successfully conducted solely at the macro-economic level. Our studies demonstrate that the tracking of labor, capital and technology released from redundant defense industries must be understood on a firm-by-firm, sector-by-sector, region-by-region basis, taking account of the structures and constraints within which policymakers and managers work. The conversion of a potential peace dividend into real economic growth in

civilian sectors requires a concerted and smart investment of time and money on the part of national governments.

Without a coherent, strategic, and consistently supported defense restructuring policy, second tier nations are apt to either abruptly dismantle defense industries without regard to the re-use of national assets (Argentina) or cling to an outdated, inefficient and resource-consuming complex that acts as a drag on national development (India).

What can arms producing nations do to free up more defense-related resources for development? They should compare the long-term economic payoffs to specializing in arms-producing sectors with limited export prospects versus specializing in civilian markets with greater growth potential. Countries could follow the lead of Spain and Israel in planning for commercialization and privatization of defense industries with adequate transitional assistance and ample time for adjustment. From each other, countries can learn strategies for encouraging greater local and regional involvement in the conversion process.

What can international agencies and aid donors do to reinforce these pro-development actions? International aid agencies should develop policies that discourage the maintenance and proliferation of platform production around the world. They should, instead, provide resources and technical assistance to help second tier nations capture the technologically sophisticated and commercially viable components of production for use in subsystems and civilian markets.

Countries that dismantle military capacity should be rewarded with resources and technical assistance to help workers and communities adjust to defense downsizing. Countries that persist in investing in antiquated defense industries and/or selling into regions of conflict could be discouraged through aid and loan decisions. Since the reduction of military capacity benefits the world as a whole, rewarding nations for conversion efforts and success sends an important message and would encourage more countries to follow suit.

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## *Defence to Development: Table of Contents*

From Defense to Development?

— Ann Markusen and Sean DiGiovanna

Post Cold War Conversion: Gains, Losses and Hidden Changes in the US Economy

— Michael Oden, Laura Wolf-Powers, and Ann Markusen

Spanish Defense Industrial Restructuring in the Post-Cold War Decade

— Antonia Casellas

The Polish Defense Industry: Restructuring in the Midst of Economic Transition

— Marla Nelson

The Dismantling of the Argentine Defense Industry

— Graziella Cavicchia

Diversification and Niche Market Exporting: The Restructuring of Israel's Defense Industry

— David Lewis

Defense Conversion in South Africa: A Lost Opportunity

— Soraya Goga

Diversification of Defense Based Industries in India

— Sudha Maheshwari

Defense Conversion in China: An Economic Review

— Shaolin Chen

The South Korean Defense Industry in the Post Cold War Era

— Yong-Sook Lee and Ann Markusen

*Defence to Development* can be ordered from Routledge Books:  
[http://www.routledge-ny.com/books.cfm?](http://www.routledge-ny.com/books.cfm?isbn=041532291X&CFID=6910&CFTOKEN=35753894)  
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## Notes on the Economics of War and Empire: Tasks Remain

James K. Galbraith

The philosophical tradition of our discipline is broadly anti-war. This is not, as some suppose, because commerce is inherently a pursuit of the peace-loving. Quite to the contrary: Mercantilism was a doctrine of trade as war by other means. To the mercantilist, the accumulation of surplus served the same purposes as the privateer.

But opposition to mercantilism was the hallmark of the modern economists, and in this light *Wealth of Nations* is a pro-peace tract. Smith identified the fund of labor as the source of wealth, partly in order to undermine the rationale for the pursuit of trade surpluses. Further, by making the distinction between productive and unproductive employments with soldiery counted among the latter, Smith placed expenditure on the military firmly among those types of spending to be kept as small as possible. He would have been a comfortable member of ECAAR.

In the early twentieth century Thorstein Veblen presented an anthropological view of war-like activity. By a quite different route, he reached a taxonomy similar to Smith's. War – alongside sports, religion and government – were to Veblen the competitive preoccupations of the non-industrial classes. War was a form of conspicuous leisure, its social purposes defined by the status-seeking which defines the "higher stages of the barbarian culture." Veblen, an early feminist, gave us a gender-analysis of conflict – as a game for men, from which the productive classes, women and also engineers, were excluded. Veblen's analysis however dealt with the social structures surrounding warfare than with war's economic consequences. And the character of war changed as the century "progressed."

John Maynard Keynes was operationally involved with war – perhaps the first major economist to earn that distinction, discounting David Ricardo's freelance service as the Crown's financier against Napoleon. In 1919, Keynes blamed the Great War for destroying the unstable psychological fabric of 19<sup>th</sup> century accumulation:

"The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation." (Keynes, 1920, p. 22).

Keynes was not anti-mercantilist; he saw the national advantages of such policies even in the modern world, and at one point in the *Treatise* he calculates that the net foreign assets of the British empire in 1914 could be traced to Drake and the work of compound interest since the return of the *Golden Hind*.

Keynes instead had growth-theoretic reasons for being against war. In simplest terms, the large economic goal was for accumulation to outstrip population, and war was the "consumer of all such hopes." As Robert Skidelsky writes in the third volume of his biography, Keynes was therefore "90 percent pacifist."

War posed for Keynes a management problem, that of macroeconomic balance. As an economic liberal, he believed in 1940 that if only forced savings could be made to absorb the surplus of income, markets would assure an optimal allocation of what could be produced, at stable prices. It was a noble vision, but requiring much greater ability to forecast total demand in war-time than existed then or now. Perhaps mercifully, Keynes was soon diverted into problems of postwar monetary management, to which his talents for the architecture of the long-term were better suited; rather more ruthless types actually ran the war economy.

The decisive figures in American economic policy during World War II were Simon Kuznets and Robert Nathan, in the sphere of planning and production, and of course ECAAR's own J.K. Galbraith (followed by his fellow economist-*père* Chester Bowles) in the operational control of prices.

The Kuznets-Nathan contribution lay in finding productive capacity sufficient to get the American war machine underway – partly by doubling and tripling shifts on existing equipment, partly by shutting down civilian production that used up critical resources. The OPA contribution lay in stabilizing prices but also in creating the conditions under which saving via government bonds became credible and macroeconomic balance could therefore be achieved.

Nor were they alone. As Michael Bernstein has argued, an entire generation of American economists was weaned on the American experience of central planning. Other important figures in this period included Tjalling Koopmans (linear programming), Wassily Leontief (input-output), as well as Richard Ruggles (econometric assessment of German war production) and the late Charles Kindleberger (OSS). The experience gave many a lingering difficulty in taking seri-

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*continued on page 8*

## Northrop Grumman, "Defining the Future" or Profiting from War

Frida Berrigan

The US-led attacks on Afghanistan and Iraq showcased weaponry from Northrop Grumman, the Los Angeles-based defense contractor. The company's \$2 billion per copy B-2 stealth bomber flew roundtrip nonstop missions from Missouri to Afghanistan and later Iraq. Their much-touted Global Hawk unmanned aerial vehicle collected thousands of images used by military planners to plan air strikes.

But NG does more than build planes and bombers. The company's Electronic Systems division makes high tech systems like the Airborne Warning and Control Systems (AWACS) which serves as a military "airborne nerve center" during campaigns.

Since 1994, the company has made a staggering 14 acquisitions, putting it in a great position to be the Bush administration's weapons manufacturer of choice. It is strong in the area of defense electronics and unmanned vehicles, thought to be the new face of warfare. NG makes a chunk of each of the major fighter planes on the drawing board; it is the prime contractor on the F/A/E-18 and subcontractor on the new F-22 and Joint Strike Fighters. And Northrop Grumman owns the two biggest ship builders in the country, Ingalls and Newport News.

The gamble has paid off. With the December 2002 buyout of TRW, Northrop Grumman became the third largest defense contractor in the United States, behind Lockheed Martin and Boeing. The company also increased its profile in missile defense technologies, a big priority for the Bush administration.

Now, on every front, the company is in a prime position to reap billions as a result of the Bush administration's military priorities, especially in the war on terrorism and war in Iraq.

From 2001 to 2002, Northrop Grumman's Pentagon contracts grew 67%, from \$5.2 billion to \$8.7 billion. Now, the company boasts annual sales of more than \$25 billion and approximately 120,000 employees operating in all 50 states and 25 countries.

The company figures prominently in the President's military spending requests—we see NG in the defense budget, the supplement to pay for war

and occupation in Iraq, and the Homeland Security bill.

### FY04 Military Budget

In late September, the House-Senate conference released its draft agreement for the FY '04 Defense Appropriation Bill. Bush's request for the Pentagon was large — \$379.9 billion, and Congress only cut it slightly, granting the Defense Department \$368.2 billion in budget authority for fiscal year 2004. While they cut off the top, they added money to the procurement line. The administration asked for \$72.7 billion, and Congress upped it to \$74.7 billion. Some of Congress' generosity is destined for NG's coffers, including spending on the following systems:

- \$44.5 million for fixes and modifications to the EA-6B Prowler
- \$46.8 million for modifications to the B-2 stealth bomber
- \$86.7 million for the Fire Scout vertical takeoff and landing unmanned aerial vehicle
- \$23.6 million for a new mini-sub, the Advanced SEAL Delivery System (ASDS).

The FY04 Procurement Budget also includes billions to buy fighter planes and sea systems built by Northrop Grumman, either as the prime contractor, or as a major subcontractor. While not all the money for each program will go to Northrop Grumman, it still adds up to a major boon for the company:

### NG as Prime Contractor:

#### "Virginia" Attack Submarine

\$2.6 billion for 1 submarine. NG Newport News is building the submarines as part of a team with Electric Boat.

#### DDG-51 "Arleigh Burke" Destroyer

\$3.2 billion for 3 ships. NG Ships Systems is the prime contractor.

#### LPD-17 Amphibious Transport Ship

\$1.3 billion for 1 ship. NG Ships Systems is the prime contractor.

### NG as Major Subcontractor:

#### F/A-22 "Raptor" Fighter

\$3.6 billion for 22 aircraft. NG is a major subcontractor developing the radar system under a joint venture led by Boeing and Lockheed Martin.

#### Joint Strike Fighter

\$4.3 billion. NG's Integrated Systems is a full partner with Lockheed Martin Aeronautical and BAE Systems for the JSF airframe, and is

involved in several other aspects of the plane's development.

**F/A-18E/F "Super Hornet" Navy Fighter**  
\$2.9 billion for 42 aircraft. NG is the prime subcontractor to Boeing.

### Supplemental

President Bush asked Congress to approve an \$87 billion Emergency Supplemental to fund occupation and rebuilding efforts in Iraq. While the House and Senate are still working out the details, they are almost certain to designate \$1.9 billion to repair and purchase new military equipment. A chunk of that goes to Northrop Grumman, including:

- \$55 million to replace the outer wing panels of the EA-6B Prowler aircraft
- \$1.5 million to repair stress and fatigue cracks in the E-2C Hawkeye

### Homeland Security

President Bush signed the Homeland Security spending bill for FY04 on September 30, 2003. It allocated \$29.4 billion for the newly created federal department. Included in the budget is money for Northrop Grumman headed projects:

- \$668.2 million for the Deepwater recapitalization program and \$60 million for a program to develop and test anti-missile technology for commercial aircraft. Deepwater is a joint venture between Lockheed Martin and Northrop Grumman.
- \$4 million contract to provide the FBI with a public key infrastructure to boost the level of security for its information network. Analysts predict that the contract could double in value.

### All the Way to the Top

Northrop Grumman enjoys close relations with top decisionmakers, and there are at least seven of its former officials, consultants, or shareholders holding posts in the Bush administration.

Northrop Grumman's most important link to the administration is Secretary of the Air Force James Roche, who previously served as the head of Northrop Grumman's Electronic Sensors and Systems Sector in Maryland. Joining Roche in the Air Force hierarchy is fellow Northrop Grumman alumnus

(continued on page 5)

Nelson F. Gibbs, who served as corporate comptroller at the company from 1991-1999 and is now Assistant Secretary of the Air Force for Installations, Environment, and Logistics. Barry Watts, who once ran Northrop Grumman's influential in-house think tank, now directs the Pentagon's Office of Program Analysis and Evaluation.

Other key company connections include Deputy Secretary of Defense Paul Wolfowitz, Pentagon Comptroller Dov Zakheim, Vice-Presidential Chief of Staff I. Lewis Libby, and NASA director Sean O'Keefe, all of whom had consulting contracts or served as paid advisory board members for Northrop Grumman prior to joining the administration.

#### **Pen Mightier than the Sword?**

High tech sword makers in the United States use the pen to wield power too, writing checks with lots of zeros to support lawmakers who can represent their interests. In 2002, the last year for which full data is available, the top six US military companies donated more than \$8.5 million to candidates and political parties. As an industry, defense has contributed \$81 million to Congressional coffers since 1990.

Northrop Grumman is a major and consistent contributor, writing over \$3.8 million in checks since 1998.

In addition to these hefty campaign donations, defense contractors spent an

astonishing \$60 million on lobbying in 2000, the most recent year for which full statistics are available. Northrop accounts for \$6.8 million of that, maintaining armies of lobbyists and PR people in Washington, producing slick materials to present to Congress, and running ads touting company products in Capitol Hill publications.

#### **NG: Executive Mercenary**

When Northrop Grumman bought TRW, it also assumed ownership of its subsidiary the Vinnell Corporation, one of the three largest private military corporations in the world. For more than 20 years the Alexandria, Virginia- based company has provided training to the Saudi Arabian National Guard, currently working under a five-year, \$831 million contract.

In 1975, a Vinnell employee explained the company's role to reporter Peter Arnett, then with the Associated Press, saying, "We are not pulling the triggers. We train people to pull the triggers. Perhaps that makes us executive mercenaries."

It also makes them targets. In May of this year the Vinnell compound in Saudi Arabia was bombed in a terrorist attack. Nine employees were killed and scores more injured. This is the second time that Vinnell has drawn fire; a 1995 car bomb destroyed U.S. Army training program headquarters in Riyadh, killing five American Vinnell employees.

The company also has contracts with an array of federal offices, including the Army, Air Force, and Department of Labor, providing everything from building repair, civil engineering, supply services, maintenance of equipment, and personnel support.

#### **Resources**

Center for Responsive Politics. Campaign contributions and lobbying data. <http://www.opensecrets.org>

CorpWatch, Holding Corporations Accountable <http://www.corpwatch.org>

Northrop Grumman: Defining the Future <http://www.northrupgrumman.com>

Arms Trade Resource Center

Promoting preventative diplomacy, arms control and new US policies.

<http://www.worldpolicy.org/projects/arms/index.html>

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The Arms Trade Resource Center was established in 1993 to engage in public education and policy advocacy aimed at promoting restraint in the international arms trade.

[www.worldpolicy.org/projects/arms](http://www.worldpolicy.org/projects/arms)

## **Franco Modigliani (1918—2003)**

Franco Modigliani, who was one of the original six Nobel laureate founders of ECAAR, died on September 25th, having attended a dinner for John Kenneth Galbraith, another ECAAR founding Trustee, on the previous evening. Robert J. Schwartz, who took the main initiative to found ECAAR, wrote that Professor Modigliani was a gentle person with a sharp mind, outspoken sense of justice, and a good sense of humor who was also an innovative economist with a keen analytic approach.

Professor Modigliani received the Nobel Memorial Prize in Economic Science in 1985 for his theories about people's savings habits and the functioning of financial markets. He was an alumnus of the Graduate Faculty of the New School of Political and Social Science where he also taught from 1944-1949. Duncan Foley, Chair of the GF Economics Department, said that Modigliani's ideas on the valuation of firms were the starting point for modern corporate finance and that his theories of saving provided fundamental insights into the effects of social security systems on economic growth.

The New York Times obituary by Louis Uchitelle said that Modigliani's life-cycle hypothesis was his best-known work.

This included the idea that everyone, not just the rich, accumulates wealth through the early decades of their lives and then spends this accumulated wealth in old age. He viewed Social Security as an important element in this and opposed privatization. His death prevented him from keeping a scheduled meeting date with two Members of Congress to discuss Social Security and the rising US deficit.

Born in Rome, he studied there and at the Sorbonne in Paris. Having left Italy after Mussolini introduced racial laws in 1938, he and his new wife, Serena Calabi, went to New York on the eve of the Second World War. Strongly anti-fascist, his letter to the New York Times (published two days before he died) opposed the action of the Anti-Defamation League in honoring Prime Minister Berlusconi who had praised Mussolini.

Professor Modigliani was also strongly opposed to the Iraq war, but did not sign the ECAAR statement of February 2003 opposing the war that was signed by 203 economists including seven Nobel laureates. The reason was that he and his wife thought he had been endorsing too many protests at the time, especially in opposition to the Bush tax cuts.

## The End of the Bush Military Buildup?

David Gold

For the fourth time since the end of World War II, the United States is in the midst of a major military buildup. Three of these buildups have been associated with a major national security event: the Korean War (1950); the Vietnam War (from the Gulf of Tonkin Resolution in 1964); and, most recently, the War in Afghanistan (2001), the second Gulf War (2003) and the war against terrorism.

The third buildup, in the 1980s, involved a shift in US military strategy, with the Reagan Administration's decision to directly confront a presumed Soviet military buildup. Shifts in doctrine coincided with military action in 1950, but also with the containment doctrine. The present buildup coincides with the new doctrine of preemptive war now being carried out by the Bush Administration.

Each of the first three buildups was followed by a significant draw down. Real defense spending over the past half century has exhibited a pronounced cyclical pattern but no secular tendency to grow. Meanwhile, because of the substantial growth in the economy and in the federal government budget, the defense burden, measured either by military outlays as a share of GDP or military outlays as a share of government outlays, has shown a marked tendency to decline. Indeed, defense spending as a share of the aggregate economy was less than one-third as great at the turn of the millennium as it was in the latter half of the 1950s, after the draw down following the Korean War.

The ebbs and flows of defense spending in the United States since World War II can be explained by the intersection of two sets of forces, those that act to push the defense budget up and those that act to push the defense budget down. National security crises are a major factor pushing defense budgets up, but in each of the three earlier national security crises, not only was the defense budget rising *prior* to the crisis, but the budget rose by *more* than was needed for the specific crisis.

It seems clear that a second motive for pushing defense spending up is the long-term demands of the military services and the pressures for further output from the defense industries. This is clear in the present buildup, as a number of major weapons systems that have nothing to do with fighting terrorism have gotten the go-ahead from the Bush Administration. In addition, defense spending is a factor in forming electoral and governing coalitions, as was the case in the Kennedy, Reagan and Bush II Administrations, to cite the most prominent examples.

***“Even though defense spending is at a low point relative to GDP, increases in defense budgets still come at the expense of other budget items.”***

***“The declining defense burden may be a reflection of public preferences for civilian programs, a collective long-term preference for ‘butter’ over ‘guns’.”***

Yet defense budgets don't just rise. One reason they stop growing and start falling is that a key justification, the national security crisis, either gets resolved or gets bogged down.

Indeed, the buildup for Korea and that for Vietnam were very short and public support began to severely weaken when the wars became stalemated.

Wars have out of pocket costs and opportunity costs and as these costs become clearer, questions about their necessity take on more relevance. Because each buildup serves multiple masters (the security crisis, the long-term demands of the military services and the industry, and the demands of the members of the political coalitions), they often overreach and program more purchases than can obviously be afforded.

Buildups can also have negative macroeconomic consequences. The Korean buildup touched off a rapid inflation, and while the buildup ended up being fully financed by taxes —

Korea was the only war in US history to be fully tax financed — and the inflation was contained, it contributed to growing opposition. The Vietnam War widened the budget deficit, pushed up inflation, contributed to a higher trade deficit and was an element in the demise of the Bretton Woods international financial system.

The Reagan buildup was also a major deficit enhancer, and led to Congressional actions altering the budgetary process. All three increases in military spending revealed instances of contractor abuse, such as the \$600 toilet seats of the 1980s, and awareness of this breathed life into military reform movements.

And all three buildups, especially that for Vietnam and the Reagan buildup, helped stimulate a large and vocal anti-war movement. All of these factors helped generate a strong enough political coalition to end the buildup, begin a draw down, and keep defense increases under wraps for a substantial period of time.

In addition, over time, the US military has become more effective at what it can do, both absolutely and relative to its likely foes. The US has an immense lead in R&D, and since the advent of the voluntary army, has made major advances in the quality of its human capital. By creating more “bang for the buck,” the military has effectively made it harder to justify gaining a larger share of the aggregate economy. At the same time, the declining defense burden may also be a reflection of public preferences for civilian programs, in effect, a collective long-term preference for “butter” over “guns.”

Will history repeat itself and will the present buildup lead to a significant draw down? History will not repeat in any mechanical way, but there are indications that some of the factors that ended previous periods of military buildup are at play in the present: requests are trying to serve multiple masters, as in the

*continued on page 7*

## Willing Peace

A Letter from Kate Cell

Recently my life has undergone some upheavals that led me on a rainy autumn afternoon to my lawyer's office, drafting my will. It's an odd process to confront mortality in so direct a way and to think about what kind of care, concern, and influence I wish to project after my own life span. I had expected to find it dismal, especially on a day of such Dickensian gloom that I almost expected to hear a quill-pen scratching rather than a word processor clicking in the clerk's room next door.

To my surprise I found it tremendously hopeful to think about the people and institutions I care about. I thought of my nieces and nephews who might take a trip or pay down college loans with my legacy, about supporting the peaceful fellowship of my church, my alma mater of Macalester College, several good causes I've valued through the years, and yes, ECAAR.

Nothing would please me more than to think that ECAAR might not need my money when I die, that within my lifetime humans might find humane, loving, and

peaceful ways to resolve our many conflicts. But the history of war and suffering is a long one and there will likely be much more to do. Our species may still live under the apocalyptic weight of nuclear weapons; we may still face stubborn inequality and poverty which can so easily lead to violence; we may still not be free of our own greed and grievances. And if when I die we are still struggling to make a just and peaceful world, I want ECAAR's vision and guidance to help build it.

In 1999 Robert Eisner, a founding member of ECAAR's board, left a considerable legacy to us that our Board placed in a Project Development Fund. The money must be spent to try something new, to take a risk. Over the four years since his death, these funds have seeded our important study on *The Full Costs of Ballistic Missile Defense*, sponsored the work of our affiliates in England, Russia, and South Africa, and jump-started our new flagship annual publication, *The ECAAR Review*. These are the recent successes of Mr. Eisner's

legacy. There have been some disappointments too – some ideas we have tried that haven't yet worked out. But by leaving us this money, trusting the wisdom of our Board to manage it wisely, he has done more than perhaps anyone else to support ECAAR's growth and development as an institution serving the cause of peace. It's an honor to think that like his, my own small legacy might serve the organization in the years to come.

I hope in sharing this story that I will spur you to think about creative ways you might help further ECAAR's work. If you would like to talk with a staff member about estate planning or other donation options, please call the office at (845) 620-1542, send an email to [kate-cell@ecaar.org](mailto:kate-cell@ecaar.org) or [theaharvey@ecaar.org](mailto:theaharvey@ecaar.org), or write to the office address on the back of your newsletter. If you have already included ECAAR in your estate, could you please let us know; we would like to thank you now for helping us plan for the future.

Kate Cell is ECAAR's General Director

### David Gold *continued from page 6*

past, and future budgetary needs are immense. The Congressional Budget Office and the private Center for Strategic and Budgetary Assessments have estimated that the costs of current defense plans far exceed spending projections. Such a mismatch, popularly called a budgetary "train wreck," is likely to lead to intensified conflicts over budget priorities.

Even though defense spending is at a low point relative to GDP, increases in defense budgets still come at the expense of other budget items and require political maneuvering and compromise. While no major procurement scandal has broken, objections over the handling of the costs of the occupation and reconstruction of Iraq are becoming more visible, and are contributing to criticism of administration policies.

Both the war against terror and the aftermath of the wars in Afghanistan and Iraq are beginning to take on the look of a quagmire, and anti-war sentiment is

growing. At the same time, the Bush coalition is beginning to fray. Libertarian-oriented conservatives are questioning the civil liberties implications of Justice Department policies while others, including some Congressional leaders, are questioning foreign and military policy costs and directions.

Still others, such as the Concord Coalition and the Committee for Economic Development, are publicly questioning the rising federal budget deficit, which is largely the result of the rising costs of the military and declining revenue growth following the 2001 and 2003 federal tax cuts. Major gaps in homeland security efforts are also a source of possible criticisms of the costs of military operations.

On the macroeconomic front, the slow pace of the recovery from the 2001 recession, especially on the employment front, is leading many to question the direction of administration economic policy. The defense buildup is probably

having a smaller effect on employment than alternative forms of spending, due in part to extensive foreign leakages from the spending stream. The return to large federal budget deficits may or may not have significant effects on interest rates, investment and growth, but it will certainly heighten debates on budgetary priorities, especially with respect to future financing of social insurance programs.

The foregoing suggests that future defense budget increases are certainly not a sure thing, but it doesn't indicate how and when the buildup will end. That depends on how the public and the political representatives deal with the budget situation as conditions evolve.

David Gold is Professor of Economics in the Graduate Program in International Affairs, New School University. He contributed to the ECAAR Report *The Full Costs of Ballistic Missile Defense* and wrote the article "The Attempt to Regulate Conflict Diamonds," for *The ECAAR Review 2003: Conflict or Development*, of which he was also co-editor.

## James K. Galbraith

*continued from page 3*

ously the free-market ideologies that came to predominate in economics in later years.

Galbraith made a second contribution to the economics of warfare, in the closing months of World War II and immediately after. As the head of the United States Strategic Bombing Survey, a group which included Nicholas Kaldor, E.F. Schumacher, E.F. Denison, Paul Baran, Piero Sraffa and others, he developed a critique of the air campaign against Germany and also an enduring economics of strategic bombing. This involves two basic principles. The first is of substitution. Even in conditions of total war, military use of civilian infrastructure under aerial attack is a small fraction of what is available, while military demands take a categorical priority over civilian. Hence, no matter how much of the rail yards may be bombed, the military trains get through, the bombs fall on the civilian economy at the margin. The second principle relates to induced innovation. There is often, if not always, another way to organize industrial production if the priority is high enough. The validity of these principles was demonstrated again in Vietnam, in Kosovo, and twice in recent years in Iraq.

World War II inaugurated the atomic age, and there immediately followed an engagement of economists with the nuclear danger. Game theory — notably the one-time prisoners' dilemma — illustrated the dangers of bilateral stand-off with nuclear weapons, and emphasized the importance of trust and confidence-building. Arguably this played a role in the opening of the Hot Line after the Cuban Missile Crisis, though it is equally possible that common sense would alone have reached similar recommendations.

But the economists most deeply involved with strategic war planning faced a different problem in reality. The United States held an overwhelming advantage in deliverable strategic weapons and an inflexible, once-for-all attack plan — the SIOP. The actual problem was to prevent their use until the Soviets could *deter us*, something that did not occur until the Soviets developed and

deployed a land-based rocket force in 1967. In the interim, Carl Kaysen, Thomas Schelling, Walt Rostow and Francis Bator helped Kennedy, Johnson and McNamara hold off those who would go “all the way with Curtis LeMay.” Schelling's (1960) contribution to the open literature on conflict helped mainly by creating, in the mind of the educated public, the highly premature impression that mutual assured destruction already existed, and that while unsavory and unpleasant it was not necessarily to be feared. Certainly in comparison to the real situation that was true.

At this point, the attention of the economics profession largely drifted away from strategic issues. The perception of Cold War threat justified Keynesian macroeconomic targets in the United States, and the ability of the system to finance the resulting current account deficits made possible US consumption at a high standard, notwithstanding a steady erosion of the domestic capital and technology base except in areas (such as aerospace and electronics, and also sectors of medicine related to trauma) strongly tied to the military sector. However while partial analyses have been offered from time to time, there is so far as I am aware no overarching account of the political economy of the Cold War.

And meanwhile in the post Cold War era, wars continue to occur, attended to by a small number of economists mainly motivated by the direct effect of war on civilians and the development process. In recent times they have taken on a new aspect: wars of intervention in supposedly sovereign states, justified on grounds of our own security, the interests of regional stability or even human rights. Thus Bosnia, Kosovo, Afghanistan and Iraq. Many others (throughout Africa, in Colombia and Indonesia and elsewhere) occur with only indirect involvement by the major powers, though few are entirely free of such influence.

While the general economic impact of the now-prevalent form of warfare on economic development is not much in doubt, a full political economy of the emerging system remains to be written. In each case the effect is to destroy (or undermine) a weakly statist regime, and to replace it with what are loosely called free markets. US engagement in the Third

World is coming increasingly to resemble that of colonial Britain, though with less commitment to civil administration and direct investment, but just as much to the rhetoric of virtuous governance in economic matters. The hard analysis of the actual effect of such policies falls to us.

In sum, the economics of war and empire seems on examination a rich field, and no doubt one with renewed scholarly potential. It touches on many of the grand themes of the discipline: the conditions under which there are gains from trade, growth theory, macroeconomic balance, costs and benefits, benefits and risks, and (not at all incidentally, in the case of nuclear dangers) the structure of once-for-all games, especially where the pay-offs are of an asymmetric kind. It is sanctioned by the thought and work of the greatest figures in our profession's history. And it can lead to an equally challenging analysis of another set of problems, having to do with the difficult system-building necessary for stable development, income convergence, and sustainable peace. In this area in particular much remains to be done.

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James K. Galbraith is Chair of Economists Allied for Arms Reduction.

## Non-Intervention and Heterodox Economics

Wolfram Elsner (based on his paper to the International Confederation for the Advancement of Pluralism in Economics)

This paper presents a few exploratory themes for a strictly non-interventionist approach to international affairs. While recognizing the value of positive strategies and programs that envision constructive international development programs, the focus is on the simple injunction to do no harm and ideas concerning:

- the region as the appropriate and adequate space for institutional action, cultural growth and change, and to develop collective capacities;
- the exclusive and power-based character of the current global system;
- and the corresponding imperial character of any power-based, violent or military intervention.

Also the article refers to the heterodox economic concepts of inter-regional cultural diversity and historical time.

### *The adequate space of agency*

The region, however specified, is the adequate and most appropriate space for action and the most effective source of institutional and cultural change. It has an action capacity that can be gained only through collectively learned institutions of coordination and cooperation. Collective learning is intense with largely tacit knowledge that endows socio-economic processes with specific efficacy. In regional interactions, dense, face-to-face contacts constitute a large portion of all interactions. The basis of collective capability, readiness and inclination to learning, change and innovation, in the widest sense, is located within a region. Localization and relocation thus means bringing agency to, or back to, or leaving it where the problems are and where people are aware of them and can learn from them.

### *The current global system*

The current global system is an unregulated, exclusive, unimbedded and power-based mechanism. Its logic is a “deliberate destruction of collective action” (Pierre Bourdieu), “undermining the public interest” (Lori Walach). As such, it is predominantly re-distributive rather than welfare-enhancing for the whole socio-economy. It encourages a hierarchical unification, with the homogenization and subordination of cultures, rather than a diversification among regional, national and local cultures. This

weakens any inherent problem-solving capacity leading to a reduced ability to absorb shocks, and a loss of resilience in the whole global system.

Being power-based, hierarchical and excessively competitive the global system shows signs of becoming an authoritarian system that is prone to violent, mainly militaristic, intervention as far as international relations are concerned. One might say, “normal” imperialism is back, operating at a higher level.

### *The problem-aggravating character of any power-based intervention*

Against this background, any power-based, violent or military intervention is incapable of solving any problem (even if it appears capable of doing so). Any imported or exported solution is, and cannot help but be, more disastrous in the long run than any endogenously learned solution, however incomplete. Violent interventionism may force adaptation in the short run, but will impede adaptability in the long run (Gernot Grabher/David Stark), since it destroys the basis of real experience, local or national cultural learning, learned trust, openness to change, willingness and inclinations to innovate.

### *The role of virtual reality to justify military interventionism*

Given these facts about the existing power system, there is no basis for anything like a “just war” or violent “humanitarian intervention” and there can be no moral/ethical justification for such an intervention. Under existing circumstances, any violent intervention must turn into a vehicle of imperialism at some stage, if not from the outset.

The historical experience of Europe in WWI and WWII suggests that “the first victim of a war is the truth” applies now more than ever. During WWI, Lloyd George clearly stated, while the war was still going on, that if people knew the truth, the war would end immediately. In the Nuremberg trials after WWII, Nazi-leader Hermann Göring said frankly that any government of any political orientation with a well-working mass media apparatus could make any people support any military intervention within weeks: Just tell them “we are under attack” or “they killed some of us.”

In the war against Iraq, justifications were largely based on a massive structure of false information. Now the half-life of such misinformation has greatly decreased. Instead of thirty years for the release of documents, now false claims can be frankly admitted as soon as they have fulfilled their immediate purpose.

### *Regional cultural diversity and global problem-solving capacity*

Real and sustaining problem-solving capacity can only be built on regional cultural diversity, rather than some variant of universalism or cultural/ethical essentialism where there is just one standard or a set of commensurable standards of truth. Most of the current problems in regional, national or local cultures stem from decades, even centuries, of hierarchical unification, foreign interventions and forced foreign influences on local economic and social conditions.

Diversity and equality-based intercultural interactions, in contrast, require protection of diversity for regional development and largely endogenously learned problem-solving drawing on the direct experiences of those involved.

### *Problem-solving and historical time*

Finally, real problem-solving requires recurrent interaction, trust-building, collective learning, institutional development and change within regional spaces. Such processes are inherently sequential, path-dependent and time-consuming, which rules out any short-run interventionist solution. Heterodox, institutional and evolutionary economists can contribute to understanding problems of conflict resolution and development by using their well-elaborated theoretical concepts relating to structural power and violence, cultural diversity, path dependence and real, historical time.

I have not argued that nothing can be done from the outside to address regional conflicts. Imported weapons can be kept from areas of conflict or non-violent interventions can be offered. I see the approach outlined here as realistic, pragmatic, implementable, and as an expression of real courage, spirit and individual and collective strength.

Wolfram Elsner, Chair of ECAAR-Germany, presented a related paper at the University of Missouri ICAPE conference in June 2003.

## India and Pakistan: Danger of Nuclear and Missile Arms Race?

Angathevar Baskaran

Since conducting nuclear tests in 1998, India and Pakistan have embarked on a policy of 'minimum nuclear-deterrence.' Both developed and launched a number of missiles and integrated some into their military. A series of events at the international border and a December 2001 attack on the Indian Parliament heightened tensions and led to international concerns over potential dangers of a nuclear and missile arms race in South Asia.

India's nuclear program, started in the 1950s, established a large civil and military infrastructure and developed a nuclear device by the early 1970s, when Pakistan started its program. By the late 1970s, technology allowed others such as Pakistan to construct nuclear weapons without needing extensive basic research themselves. Thus Pakistan is not far behind India in nuclear capability. It has sufficient capability in feed-stock production, uranium enrichment processes, nuclear weapons design and development, arming, fusing firing, and testing. While India appears to have superiority in heavy water production, tritium production and plutonium extraction, Pakistan has a clear superiority in uranium enrichment processes and India's plutonium and tritium production capacity gives it an advantage in developing high yield weapons.

India's current advantages with a larger stockpile of weapon-grade material and a greater capability to produce more weapon-grade materials than Pakistan are likely to disappear in the medium to long-term. In the long-run, India is unlikely to produce more than a certain number of weapons, to maintain its 'minimum nuclear-deterrent posture.' Therefore, we should not expect a nuclear race in South Asia. While India is likely to direct its nuclear weapons against both Pakistan and China, Pakistan only needs to match India's capability. That means a determined and foreign-assisted Pakistan will sooner or later be able to match India's capability in those areas where it is behind. Pakistan has been receiving technology assistance from China over the years including a 25-kiloton warhead design, significant quantities of HEU,

5,000 custom-made ring magnets for high speed centrifuges, help with a 40-Mwt heavy water research reactor at Khushab and the design for a small tritium (neutron) initiator. It is believed that Pakistan, rather than closing down its uranium enrichment facilities completely as claimed in 1990-1991, continued to operate them at 'a much lower (than weapons-grade) level of enrichment.' If true, it could have produced over 400 kgs of 90 per cent uranium by 2001, using its full capacity since its 1998 nuclear tests.

The gap between the two countries appears larger in missile than in nuclear technology. India's missile program involves two main families of missiles – Prithvi and Agni. Its program is highly indigenous with relatively little dependence on imports. If the civil space program is taken into account, India has already established strong capabilities in solid and liquid propulsion technologies, guidance systems including micro-processors, and re-entry technology. Its capability in guidance system grew significantly in the 1990s as reflected in the joint Indian-Russian development of BrahMos supersonic cruise missiles using Russian liquid fuel Ramjet propulsion systems and Indian guidance systems.

Pakistan's missile program started with rocket technology from France, followed by M-11 SRBMs from China in the early 1990s. It has developed two main families of missiles: (i) Shaheen (SRBM and IRBM) based on Chinese M-9/M-11 solid propulsion technology; and (ii) Ghauri (SRBM and IRBM) based on North Korean No-dong 1 and Taepo-dong 1 liquid propulsion systems. The missile technology relationship with North Korea strengthened in the 1990s. It is not a coincidence that when North Korea developed the Taepo-dong 1— a two-stage ballistic missile based on liquid propulsion—Pakistan announced that it started developing an IRBM. It is quite likely that Pakistan could acquire Taepo-dong I or II from North Korea and launch it as an indigenously developed missile (Ghauri III). India's missile program provides Pakistan legitimacy for conducting such a test, and its close US ties would help counter any negative reaction.

Pakistan may also have intermediate and long range ballistic missiles capabilities within five years. Once it masters the Korean missile systems, it may find it relatively easy to improve critical subsystems using imported components such as Global Positioning Systems (GPSs) available for civil use.

However, Pakistan has faced serious difficulties building industrial capacity to produce high-tech items. Its missile development projects largely depend on foreign assistance, and past experience suggests that it is highly unlikely that export control regimes will prevent either China or North Korea from assisting Pakistan. Using the facility at Fatehgarh, built with Chinese assistance, Pakistan will be able to produce short and medium range versions of Shaheen in batches. However, India's experience absorbing the Viking liquid engine technology from France indicates that Pakistan will take many years to master such technology and will need most of the critical subsystems from China and North Korea to test launch Ghauri III and Shaheen II (IRBMs) — particularly the case with Ghauri III, a two-stage liquid system that needs new or improved subsystems and components.

In missile technology, India will maintain a degree of superiority over Pakistan for some time. Whether Pakistan will be able to close this gap in the near future will largely depend on foreign assistance. But Pakistan may ignore 'catching up' and instead, it may decide first to acquire missile systems in different range categories and then standardize and optimize them through incremental improvements.

Although recent nuclear and missile developments suggest that India and Pakistan are pursuing a strategic arms race, it is unlikely to be intensified any time soon. While it is clear that the nuclear build-up between India and Pakistan cannot be stopped or eliminated, it is likely to be contained and managed due to inherent economic and technological complexities.

Dr. Angathevar Baskaran is in the Business School faculty at Middlesex University, London.

## The Problem of Small Arms in South Asia

James Arputharaj

Small arms and light weapons that reach repressive governments and criminals as a result of the international arms trade cause major problems to the people of less developed countries.

In South Asia the main problem arises from the weapons held by gangs and criminals in regions where there may not be any conflict, or at least not a conflict with any political objective. In such cases people are taking advantage of the availability of weapons for private gain or to compensate for the lack of civilian work after conflict or other disruption. The availability of guns tempts people to take up criminal activities.

It is important to note that most of the illegal arms in circulation originated as legal transfers through sales to military units or to legitimate police forces. They then enter the illegal arms trade after they are pilfered or corruptly sold from government stockpiles. Also, some arms held by the police or governments are illicit when used to target civilians or for extra-judicial killing or torture.

It is estimated that more than two-thirds of the small arms in the world are in the hands of civilians with some 75 million illegal arms in circulation in South Asia. Loose licensing practices add many licensed guns to the illicit guns.

With some 600,000 licensed gun holders in Uttar Pradesh and 27,000 in the city of Lucknow, eight gun factories and 2600 arms shops in Pakistan employing some 40,000 people and 200,000 illegal arms in Bangladesh with about 80 criminal syndicates, South Asian security and development are at considerable risk.

Small arms freely enter universities in Bangladesh, election polling booths in India, and night clubs and casinos in Sri Lanka. There is a clear nexus between private gun ownership and the crime rate.

Dr. James Arputharaj is Executive Director of the South Asia Partnership International. See [www.sapint.org](http://www.sapint.org)

## War and Empire: The Political Economy of US Militarism

An annotated report on the 2003 URPE Conference by Bob Reuschlein

Meeting from August 23-26 2003, members of the Union of Radical Political Economists, URPE, considered war and empire. The David Gordon Lecture was given by Michael Perelman of Cal State Chico on War, Empire, and Economic Decline. He said empire emerges with weakening of the economy. (I would take this a step further to say that "empire" with high levels of military spending causes a chronically weakened economy.) He went on to say the US was outsourcing production to concentrate on distribution, and that deindustrialization was acceptable to the public. (I find this an inevitable result of wasting key resources on the military, thus hollowing out the technological base of the economy to leave only the service and distribution sectors at world class competitive levels as "empire decay" sets in.)

He alluded to strategic overreach, saying "ever new acquisitions bring ever new frontiers of risk." He said the military would not save the economy, that postwar busts follow wartime booms, and he mused that WWII might have marked a height for demand helped by war. (But I say the 1946 economy was the same size as that of 1941, setting America back five years, and that the manufacturing productivity growth rate for the forties was 40 percent below average, suggesting four lost years, most likely the war

years. Of course others suffered even more: Russia was set back 8 years, Germany 13 years, and Japan 17 years by the war.) He said the military squanders talented resources making civilian industry less competitive.

Other speakers were Bob Pollin, Alan Campbell, David Laibman, and Paddy Quick. Pollin, who will soon host the URPE office at the University of Massachusetts in Amherst, anchored a Sunday morning panel on The Effects of War and Empire at Home. The speakers were good; it's just that they all seemed to agree that military spending stimulates the economy, a point for which I find precious little evidence. (Even in World War II, when war bonding failed to keep up with war spending in the third and fourth years, the economy slowed and then halted. So I believe that deficit and adrenaline war booms happen in spite of a military drag on the economy, not because of military spending.)

Pollin's lecture discussed the Clinton years as a 36 percent cut in the military and a 10 percent to 20 percent drop in social programs producing the surplus: that's the peace dividend. He argued that the stock market boom helped boost private consumption from 62 to 68 percent of the economy, creating the growth wave as local government grew and federal government shrank from 22

to 18 percent. He thinks the best way to stimulate the economy would be for the federal government to bail out the states. Nothing in his lecture suggested the negative effects of military spending as outlined by Michael Perelman. Pollin believes in military Keynesianism, ignoring the possibility that large cuts in military spending after the end of the Cold War propelled the nineties boom. He sees military spending as a political negative but an economic positive.

Alan Campbell was the coordinator of workshops and plenaries. The group is certainly egalitarian, and tries to give everyone a workshop. He also presented a slide show demonstrating a rich understanding of the Cuban economy.

David Laibman used his thorough grasp of the ins and outs of macroeconomic analysis for an imaginative workshop showing aggregate supply and demand models with their sundry price level variables and feedback loops.

My workshop on the "Social Decay of Empire" focused on the ways societies with high military spending become stagnant and frustrated internally.

Robert Reuschlein, a member of ECAAR, is an MBA engineer and CPA and a war-gaming mathematician who has published and spoken widely on issues of war and economics. See [www.realeconomy.com](http://www.realeconomy.com).

## The Wages of War: Iraqi Fatalities in the 2003 Conflict

Carl Conetta (based on his Research Monograph #8 of October 20, 2003)

An elementary part of the costs of war includes accounting for war fatalities. Among other things, this is relevant to gauging the repercussions of a war, both locally and worldwide. With regard to the 2003 Iraq conflict:

- Between March 19 and May 1, Operation Iraqi Freedom cost the lives of approximately 201 coalition troops; 148 of these were Americans.
- On the Iraqi side: a review and analysis of the available evidence shows that approximately 11,000 to 15,000 Iraqis, combatants and noncombatants, were killed in the course of major combat actions through April 20. Of the total number of Iraqi fatalities during the relevant period, approximately 30 percent (or between 3,200 and 4,300) were noncombatant civilians who did not take up arms.

These conclusions are based on an extensive review and analysis of operational and demographic data, several hospital and burial society surveys, media interviews with Iraqi military personnel, battlefield fatality estimates made by US field commanders and embedded reporters, and media and non-governmental accounts of hundreds of civilian casualty incidents. Expressed in terms of their mid-points, our estimates of Iraqi deaths follow.

### 1991 v. 2003

Complicating any comparison of Operations Iraqi Freedom and Desert Storm are the disagreements surrounding the estimation of Iraqi casualties in the 1991 Gulf War. We estimate that Iraqi fatalities in the 1991 war include more than 3,500 civilians and between 20,000 and 26,000 military personnel.

- Both the absolute number and the proportion of noncombatants among the Iraqi war dead were higher in Operation Iraqi Freedom (OIF) than in Operation Desert Storm (ODS), twelve years earlier. This, despite the intervening technological enhancements to US warfighting capabilities (which cost US taxpayers some \$1 trillion) and despite the use of fewer aerial munitions in 2003 of which a

higher proportion was guided.

- In absolute terms, US, British, and Iraqi combatant fatalities were substantially fewer in the 2003 war than in the first Gulf War. Iraqi fatalities in 2003 were perhaps only 37 percent as numerous; US and British fatalities, 48 percent as numerous. Yet, measured against the numbers of troops engaged on both sides during the two wars, casualty rates were actually higher in 2003 for all concerned.
- Looking at both the 1991 and 2003 wars, the only feature that marks the two wars as clearly “revolutionary” is the low ratio of US and British fatalities to Iraqi ones. These ratios are in the range of one to 70 - 90. (By comparison, Israel was able to achieve exchange rates of no better than 1-to-4 in its wars with Arab states.) Apart from the relatively low number of Anglo-American fatalities, both of the wars had death tolls that registered within range of many strategically significant wars of the past 40 years. They do not stand out clearly as “low casualty” wars.

The casualties incurred during the 2003 war certainly do not compare with those experienced in some of the protracted conflicts of the past 25 years, such as the 10-year anti-Soviet war in Afghanistan or the eight-year Iran-Iraq war. However, Iraqi losses in 2003 were comparable to those experienced in some of the Arab-Israeli and India-Pakistan conflicts. Indeed, noncombatant fatalities during the month-long 2003 war actually outnumber those suffered during the three years of intensified conflict between Israelis and Palestinians — the Al-Aqsa Intifada — that began in September 2000. And total Iraqi fatalities in 2003 surpass those incurred during the past 15 years of the Arab-Israeli conflict.

### Significance of Iraqi Deaths

The strategic significance of the Iraqi death toll — its relevance to US policy — does not derive solely from its magnitude, nor can it be fully appreciated through simple linear comparisons. Instead, it should be assessed in light of what the

United States hopes to achieve and what it hopes to avoid in Iraq, in the region, and worldwide. Relevant to this we might ask how the death toll affects postwar efforts to stabilize Iraq, to isolate and blunt the global terrorist threat, and to build regional and global cooperation in pursuing these and other important security goals, such as nonproliferation.

It is apparent that the blood cost of the war now weighs heavily on the relationship between the United States and other nations — especially those in the Muslim and Arab world. The extent of noncombatant casualties in particular has helped send international opinion regarding America's global role and policy to a 25-year nadir. This may impact negatively on the war against terrorism and on the effort to stem the growth of terrorist organizations and the spread of extremist ideologies. The war's death toll also has greatly exacerbated the postwar challenge inside Iraq. There, the repercussions of war fatalities are amplified and sustained by strong kinship, tribal, village, and ethnic ties, adding substantially to anti-American sentiments and constituencies.

This pertains not only to noncombatant fatalities, but also to the death toll among combatants, who are not generally viewed by Iraqis as having been stooges of the Hussein regime. Many Iraqi combatants were conscripts who fought out of fear or for purely patriotic reasons (however misguided they may seem from a US perspective). This constituency of aggrieved individuals supplements other groups who may oppose US policy based on nationalist sentiments, allegiance to the old regime, tribal affiliations, or fundamentalist orientation. In this context, it is especially unfortunate that a key anti-Hussein community — Iraqi Shiites — may have borne the brunt of US power. Shiites comprised a majority of Iraqi conscripts — at least, in the regular army. And the war's most intense and protracted fighting occurred in Shiite majority areas.

Carl Conetta is Co-Director of the Project on Defense Alternatives. [www.comw.org/pda/](http://www.comw.org/pda/), which with ECAAR is a member of the Security Policy Working Group.

## Institute of Social Studies Conflict and Development Conference

Sam Perlo-Freeman

On September 4 2003, the Institute of Social Studies in The Hague held a conference on Conflict and Development, organised by Professor S. Mansoob Murshed, the first holder of the ISS's new rotating Prince Claus Chair in Development and Equity.

In the first session on rational choice models and quantitative approaches, Professor Murshed gave a paper on "Globalisation and the Rise of Conflict in Developing Countries." After noting the recent literature on the economic causes of conflict, he argued that such factors can be addressed when there are viable dispute-settlement and resource-sharing mechanisms. Social contracts are needed to give potential rebels more utility from peace than war. But most post-colonial states have weak social contracts. As regards conflict termination, he said warring parties tend to renege on peace treaties—on average 'peace processes' had to go through seven iterations before conflict ends. He also discussed his recent model of transnational terrorism, based on a three-player game involving a state, a rebel group, and the state's external sponsor.

Dr. Anke Hoeffler presented the results of a recent World Bank report, "Breaking the Conflict Trap: Civil War and Development Policy" (downloadable at <http://econ.worldbank.org/pr/CivilWarP>), by Paul Collier, herself, et al. Describing civil war as "development in reverse", she outlined the human and economic costs of conflict both in the affected country, neighbouring countries and worldwide. Civil wars lead to massive displacement of peoples, leading to greater poverty and heightened susceptibility to diseases such as malaria. Host countries for refugees suffer lower growth, with an average of 1,400 extra malaria cases for every 1,000 refugees. Also, 95% of global production of hard drugs is in countries with civil wars. She reiterated conclusions from Collier & Hoeffler (2002) that the three key economic factors making a country susceptible to civil war are low income, low economic growth, and high natural resource dependence. The first two produce a pool of potential rebel recruits amongst disaffected young men, while

the third is a potential source of finance for conflict. The fourth key determinant of conflict is the legacy of prior conflict—the "conflict trap," whereby conflict weakens economies and leaves a legacy of atrocities. The report argues for:

- targeting development aid at the poorest and most conflict-risky nations;
- measures to squeeze potential sources of rebel finance;
- and carefully managed economic and peacekeeping intervention continuing through the post-conflict decade.

Regionally agreed military spending reductions are also recommended. The report supports measures such as the Kimberley process targeting "conflict diamonds," measures to cushion resource-dependant countries from shocks caused by falls in commodity prices, and greater openness and scrutiny of government use of natural resource revenues since misuse can create fertile motives for rebellion.

Professor Scott Gates of PRIO presented his paper, *Modelling the Duration of Civil Wars: Selection Bias, Measurement and Estimation Issues*, and discussed a number of methodological problems that arise in this field.

I presented a literature survey of the effects of military spending on economic growth and development and outlined some of the arguments for and against the claim that there are beneficial economic effects of military spending. These include: potential technological spin-offs, infrastructure development, education and training of young men in the armed forces, and can be posed against the diversion of human and fiscal resources from civilian uses, the potential crowding-out of investment, and the potential for military industrialisation to distort economic development.

I also discussed some of the empirical results, such as Benoit's finding of a positive effect of military expenditure on growth, and the negative overall effects resulting from simultaneous equation models through crowding-out of investment. I suggested that overall the balance of evidence is for a negative effect, though this is highly dependant on choice of model. Economic benefits from

reducing military expenditure are not automatic, but depend on managed programs to redirect economic resources from military to civil use. For post-conflict countries, re-integrating demobilised soldiers is critical. I further suggested that a powerful military establishment could have a strongly negative effect on sustainable economic development through its protection of environmentally destructive projects, and through rent-seeking activities by the military. Here I cited the military repression of opposition to Shell in Nigeria, BP in Colombia and Freeport McMoran in West Papua, Indonesia. The military in Indonesia gets 75% of its income from its own tax-exempt businesses, with payments from private actors leading to corruption, economic distortions, and unsustainable looting of natural resources.

Other presentations included Dr. Kevin Clements of International Alert who argued for a joint approach between governments, NGOs and Inter-Governmental Organisations, coordinating the different communities working on debt, conflict resolution, human rights and governance and military issues.

Professor Bas de Gaay Fortman of the Netherlands Institute of Human Rights (SIM), and the University of Utrecht, presented a paper on "Early, Early Warnings: Collective Violence in a Multi-Dimensional Setting" and suggested that a series of inter-disciplinary case-studies would be needed to construct an "early, early warning" system.

In the final session, Professor Mohammad Salih of the ISS presented a paper on "Development as Conflict," where he argued that the model of "development" promoted by the West was itself the cause of conflict in the developing world. And finally, professor Georg Frerks of the Clingendael Institute, Utrecht and Wageningen Universities presented a paper on "Development as Conflict Resolution" noting that the conflict-development nexus is complex because changes that remove causes of conflict may also create new causes.

Dr. Sam Perlo-Freeman teaches at the University of the West of England and is a member of ECAAR-UK.

## ECAAR-South Africa Continues Legal Action to Block Arms Imports

Terry Crawford-Browne

The Deputy Judge President of the Cape High Court has ordered that dates be scheduled on November 17 and February 17 for ECAAR-SA's litigation to cancel the US\$4.8 billion arms deal.

In March this year the court ordered the government to provide ECAAR-SA with the documents that in 1999 alerted the cabinet to the financial and economic risks of the arms deal. These documents were eventually handed over in November.

The court in March rejected government arguments that the documents were irrelevant to the arms deal or that they were so highly confidential that disclosure to ECAAR-SA would contravene the national interest.

Thus the hearing of November 17 succeeded in obtaining documents, which comprise more than 643 pages warning the cabinet that spending on the arms deal could crowd out social and economic priorities such as education, health and welfare.

ECAAR-SA last year obtained copies of the BAe Systems-Barclays Bank-British government-South African government loan agreements that give effect to the purchase of BAe Hawk and BAe/Saab Gripen fighter aircraft. The government's counsel conceded in March that these documents are authentic.

In signing the loan agreements, the Minister of Finance has for 20 years ceded control of South Africa's economic and financial policies to European banks and to the International Monetary Fund. ECAAR-SA argues that his behavior was reckless, and unconstitutional.

Judgment that the loan agreements are unconstitutional will, we believe, collapse the arms deals – it being unlikely that deliveries of warships and warplanes would continue without payment. In addition, such a judgment would mean that European rather than South African taxpayers would bear the costs of cancellation. European NGOs are already questioning the roles of export credit agencies and governments in the prolifera-

tion of armaments in Africa and Asia.

The government's strategy of stalling in an effort to exhaust ECAAR-SA mentally and financially has backfired. The arms deal has become South Africa's "watergate" just six months before next year's presidential and parliamentary elections. A 2002 opinion survey found that 62% of ANC voters wanted the arms deal cancelled, 19% wanted it cut, and only 12% supported it.

The plethora of corruption allegations around the Deputy President and his "financial adviser" has taken its toll on the government's integrity, and a judicial commission of inquiry is now sifting

### Late Breaking News

#### STATE YIELDS AFFORDABILITY STUDY PAPERS

November 17: The Government of South Africa has this morning furnished ECAAR-SA with most of the documents awarded by the court on March 26, 2003.

These papers together with the British-South African government loan agreements and other documents already held, will enable ECAAR-SA to proceed with hearings on February 17, 2004 so that the loan agreements that give effect to the arms deal can be set aside as unconstitutional.

Such a ruling would, in the view of ECAAR-SA, cancel the arms deal.

through counter-allegations that senior ministers and officials were spies for the apartheid government.

In addition, the Institute for Democracy in South Africa (Idasa) is launching litigation to force the five largest political parties to disclose their sources of funding. This follows suggestions in England that BAe Systems may have paid up to £150 million as commissions to the African National Congress (ANC).

Meanwhile, just as the first corvette is scheduled to arrive from Germany, the tendering irregularities and malpractices of the arms deal are again coming under media scrutiny. President Mbeki's intervention in 1995 in support of the Germans and the BAe Systems contracts are once more being questioned.

The Joint Investigation Team report in 2001 revealed that a legal opinion had

recommended that the German bid should be disqualified. It also confirmed that cabinet ministers had overruled Air Force chiefs and the Secretary for Defence who considered the BAe aircraft to be unsuited to South African requirements.

*NOSEWEEK* magazine has disclosed that Israeli Kfir fighters — supplied in contravention of the UN arms embargo, many still in mint condition — are being sold off at half price to make way for BAe replacements. Brazil is said to want to buy them instead of American F-16s, to apply the savings to poverty alleviation.

As South Africa moves to the tenth anniversary of its transition to democracy, there is growing anger that the ANC government has failed to deliver any improvement to the lives of most of its constituents. The wealth gulf between rich and poor is even wider than it was during the apartheid era. Unemployment is 42%, and the number of people living in shacks continues to increase.

High crime rates affect all communities, and HIV/AIDs will have devastating social and economic impacts with some six million South African deaths expected by 2010.

Opposition parties are fragmented economically and racially so there is no prospect that the ANC will lose the 2004 election. Proportional representation has turned parliamentarians into lapdogs dependant on party patronage with ANC-aligned trade unions and Communist Party opposition to the arms deal having no impact while they remain within the government fold.

To the electorate however, the arms deal has become symbolic of an appalling waste of energy and resources that could go to social improvement. The credibility of our constitutional democracy is at risk.

Terry Crawford-Browne is the Chair of ECAAR - South Africa, which is challenging the South African Government's commitment to purchase 4 corvettes, 3 submarines, 28 Gripen fighter jets, 24 Hawk trainer aircraft and 30 light utility helicopters at the price of many billion rand, which are sorely needed for health and economic development.

## Moscow Workshop Report

Kate Cell

ECAAR-Russia and ECAAR-US held a Moscow workshop on Sept. 30<sup>th</sup> and Oct. 1<sup>st</sup>, entitled "Inequality and Democratic Development." Funded by a major grant from the Ford Foundation's Media, Arts and Culture division, the workshop examined the related issues of income inequality, economic policy, freedom of expression and access to the media, and political development in Russia. Ruslan Grinberg, Director of the Institute for International Economic and Political Studies at the Russian Academy of Sciences, organized the meetings, which were also attended by Stanislav Menshikov, Oleg Bogomolov, and Alexander Nekipelov of ECAAR-Russia, James Galbraith, Michael Intriligator, Richard Kaufman, Marshall Pomer, and Kate Cell of ECAAR-US, and other Russian academics and journalists. Over four sessions in two days, the group held lively, sometimes heated debate on some of the most pressing issues facing Russia.

Alexey Sheviakov and James Galbraith presented papers on inequality in Russia, showing the degree to which wealth in the country has become polarized by geographic region, with Moscow, St. Petersburg, and certain oil-producing regions growing rapidly, while rural areas have slipped into deeper poverty. Drs. Intriligator and Menshikov pointed to the still-pressing needs for structural reform in the Russian economy, including the introduction of appropriate property tax legislation, a progressive rather than flat income tax, excess profits taxes on fuel, steel, and non-ferrous metals exports, and other measures to restore a middle class decimated over the last dozen years of privatization and economic stagnation.

Indeed, workshop participants drew a clear parallel between the loss of the middle class and the relative lack of

protest against government policies. While measures and definitions differ, they agreed that only 15% of the Russian population can now be called middle class; most of the country's wealth including that from natural resources remains concentrated in the hands of a powerful few with very little benefit accruing to the vast majority of citizens.

A parallel concentration of power and resources is seen in the media, which after an initial flowering under Gorbachev's *glasnost* programs have increasingly come back under state control. Dr. Alexander Deikin, in a paper co-authored with Ruslan Grinberg, used several sources including Freedom House data to investigate the independence of the mass media in Russia and relations to its political and economic conditions. Drs. Deikin and Grinberg conclude that, while there is substantial freedom of expression in Russia today, full independence of the press does not exist and the situation is in fact becoming worse.

Dr. Tatyana Chubarova, also working with Dr. Grinberg, looked at the direct and indirect links between political democracy and inequality of income in the Commonwealth of Independent States. She pointed to methodological difficulties inherent in addressing these questions, concluding that the relationships between democracy and inequality are by no means simple and that ideological factors could explain the rise in inequality in the former socialist countries.

In addition to the papers, many of which were specially commissioned by ECAAR, the workshop served the very useful purpose of reuniting some of the original members of the Economic Transition Group, founded by Marshall Pomer and Alexander Nekipelov in 1994. After a dozen and more years of post-

communist transition, many of the group's original recommendations are still valid today. Drs. Oleg Bogomolov and Michael Intriligator have agreed to draft a new Joint Statement of US and Russian Economists, based on the structural and institutional reforms suggested by the workshop's participants. Both ECAAR-Russia and ECAAR-US will distribute the statement widely in their respective countries.

Reminding the participants of ECAAR's core concerns of stability, security and peace, Richard Kaufman presented a new paper on "Proliferation, Preemption and Nuclear War Fighting." Mr. Kaufman provided an overview of the current state of US and Russian nuclear policy and global proliferation and nuclear threats, and his paper made extensive use of work done by Stanislav Menshikov on the Russian reaction to the US ballistic missile defense program.

The workshop remembered that ECAAR itself was founded after Dr. Robert Schwartz attended a Russian meeting of the International Physicians for the Prevention of Nuclear War and thought, "If the doctors have something to say about these issues, so do the economists." If, as Mr. Kaufman suggests, we are facing a new kind of nuclear arms race, ECAAR has already crossed national boundaries to discuss the economic and security implications and to plan its strategy accordingly.

Stanislav Menshikov, James Galbraith, and Michael Intriligator taped interviews for Moscow television. Journalists from a variety of Russian publications, including *The Problems of Forecasting*, *Moscow News/Time*, *The World of Transformations*, *The All-Russia Economic Journal*, *The Social Partnership*, and *Russia and the Modern World* also attended the meetings.

## Report from the Sunday Times

The Campaign Against Arms Trade was a major focus of reports prepared by spies linked to BAe Systems, then named British Aerospace. The Sunday Times of September 28 reported that a grandmother from Kent was paid £120,000 per year for four years to provide names, addresses and documents of anti-war and environmental groups that she sent spies to infiltrate.

This major British newspaper found evidence that reports were sent daily to BAe's security group in Farnborough, Hampshire on the work of the Campaign Against Arms Trade (CAAT) and that CAAT was infiltrated by at least six agents posing as activists during the 1990s. CAAT works closely with ECAAR-UK and participates in its annual conferences.

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**ECAAR Events at the ASSA/AEA Conference, January 3-5 2004**  
**Four events to be held at San Diego's Grand Hyatt Hotel**  
**at One Market Place on Harbor Drive between the Marriott Hotel and Seaport Village**

**International Peacemaking and Peacekeeping**

Sunday  
 January 4  
 10:15 AM  
 Hyatt  
 Maggie  
 Room

**Presiding:** Jurgen Brauer, *Augusta State University and Vice Chair of ECAAR*  
*Papers by:*  
**Jurgen Brauer,**  
 "The Production of Peace"  
**Lloyd J. Dumas, Professor of Economics, University of Texas, Dallas**  
 "The Ultimate Substitution Effect: Can Economic Incentives  
 Displace Military Force in Keeping the Peace?"  
**E. Wayne Nafziger, Kansas State University**  
 "Peacemaking as Preventing War Before It Starts: Economic  
 Development, Inequality, and Humanitarian Emergencies"

**ECAAR Membership Meeting *Everyone Welcome!***

Sunday  
 January 4  
 5:30 PM  
 Hyatt  
 Maggie  
 Room

Everyone is welcome to attend; members in good standing may vote.  
**Agenda:**  
 1. Report on ECAAR's 2003 Activities  
 2. Carl Lundgren & James Lynch "Can Economics Predict the Next Global War?"  
 3. Ron Friesen "Applications of Economic Analysis to Issues of War and Peace"

Sunday  
 January 4  
 7:00 PM  
 Hyatt  
 Regency  
 D&E

**ECAAR Annual Dinner**  
**Honoring Kenneth J. Arrow**  
 With sponsorship from  
**Elsevier**  
**Publishers of the Handbooks in Economics Series**

Dinner tickets are \$50 for ECAAR members who register by December 19  
 \$75 for non-members, and \$500 for table sponsorship.

Monday  
 January 5  
 10:15 AM  
 Hyatt  
 Betsy C

**Real Homeland Security**

**Presiding:** Michael D. Intriligator, *UCLA and Vice Chair of ECAAR*  
*Papers by:*  
**Cindy Williams, MIT Security Studies Program**  
 "Paying for the War on Terrorism: US Security Choices"  
**Clark Abt, Abt Associates**  
 "Economic Impacts of Bio & Nuclear Terrorist Attacks"  
**Masahiro Kawai, Tokyo University, and Chair, ECAAR-Japan**  
 "Economic Integration, Peace and Security in East Asia"  
**Todd Sandler, University of Southern California**  
 "Terrorism and Game Theory" co-authored with Daniel G. Arce

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