Drivers of National Defence Spending Efforts

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Abstract

This dissertation provides a coherent set of contributions on the question of the determinants of the defence spending choices of states. Defence Economists have traditionally explained chosen levels of defence spending as a function of a country’s available economic resources, its threat perceptions with respect to rival states, and the security benefits of being in an alliance, if applicable. These are the core variables of the de facto consensus model of the demand for military expenditures, which Defence Economists have applied to a wide range of country cases in recent decades. However, recent international security developments, including Russia’s initial military aggression against Ukraine in 2014, its full-scale war of aggression in 2022, as well as the rise of China as an assertive world power, have challenged the adequacy of traditional empirical modelling approaches. The consensus model emerged in the late Cold War, at a time of relative strategic stability which implied gradualism in how NATO member states, in particular, adjusted their defence spending levels over time. As a result, Defence Economists came to view the defence expenditures of rival states as the preferred measure for threat perceptions, the defence expenditures of allied states as the preferred measure of the effect of alliances, and economic growth as the preferred measure of available resources, which economists typically measure ex post. These common modelling choices are critiqued and re-evaluated throughout the dissertation. It is shown for both European and Indo-Pacific samples that threat perceptions are better captured by modelling for discrete shocks rather than by the sole use of the rival state’s defence expenditures; that the effects of alliances are not well captured by using the expenditures of allied states; and that contemporaneous economic forecasts have more explanatory power than ex post economic data. Fiscal space is also explored as an alternative to GDP, within a demand modelling framework for European states, and as an approach for scenario analysis for the case of Russia. Demand modelling itself is then placed within a broader framework of testable hypotheses derived from the International Relations literature, with an exploration of what demand modelling can and cannot achieve as compared to analyses based on other indicators of defence policy, such as military exercises and intelligence sharing agreements. The theme of speed of change in cases of acute threats to national security is then explored, with a focus on both long historical time series and very short-term changes at the sub-annual level. Taken together, these research findings provide practical options to refine existing empirical modelling efforts, as well as a set of key considerations for prospective advances in theory development.