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Military expenditure of Poland and the Baltic countries in the 21st century

Introduction

Poland and the Baltic states used to be parts of the communist system and now are members of NATO. Their geographical location, especially the fact that they all have a large neighbour, which has been constantly rebuilding its power and tends to become again a global empire – Russia, poses similar challenges in front of them. That is why it is worth analysing their military expenditure policies in terms of their national security. To have a broader image of military expenditure trends it is also worth presenting military spending of these countries in the European and US context.

Definition of military expenditure

Stockholm International Peace Research Institute¹ (SIPRI) defines as military expenditure all current and capital expenditure on:

- the armed forces, including peace keeping forces
- defence ministries and other government agencies engaged in defence projects
- paramilitary forces when judged to be trained, equipped and available for military operations
- military space activities

Such expenditures should include:

¹ SIPRI Definition of military expenditure, www.sipri.org.

- personel
- operations and maintenance
- procurement
- military research and development
- military construction
- military aid (in the military expenditures of the donor country)

However, SIPRI definition excludes some military-related spending, such as:

- civil defence
- current expenditure for previous military activities, such as veterans benefits, demobilization, conversion of arms production facilities and destruction of weapons

The SIPRI definition of military expenditure is directly derived from the NATO definition. Due to its complexity it cannot be applied for all countries, since that would require much more detailed information than is available about what is included in military budgets and off-budget military expenditure items (for example, military budgets might or might not cover civil defense, reserves and auxiliary forces, police and paramilitary forces, dual-purpose forces such as military and civilian police, military grants in kind, pensions for military personnel, and social security contributions paid by one part of government to another²). Nevertheless, this definition very accurately indicates how to separate military from non-military spending and seems to be very useful while comparing different military budgets, provided that appropriate data is available.

Trends in military expenditure

The collapse of communism in the last decade of the 20th century initiated reductions of military expenditures all over the world. Between 1985 and 1990 world military expenditures are estimated to have fallen by over 20% or slightly less than 1% of GDP³ (graph 1).

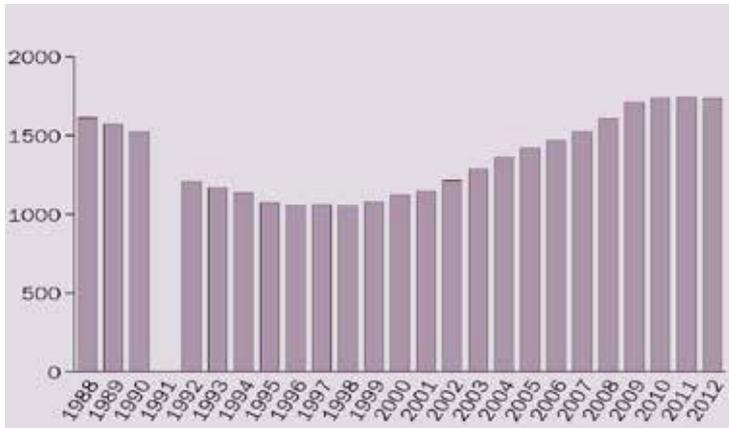
For example US military spending declined by approximately 20% (inflation-adjusted) between 1989 and 1996⁴ (graph 2). The example of this country is especially interesting due to the fact that its military expenditures constitute more than 40% of global military spending.

² Sources and methods, SIPRI, www.sipri.org.

³ S. Symansky, T. Bayoumin, D. Hewitt, *The Impact of Worldwide Military Spending Cuts on Developing Countries*, International Monetary Fund, 1993, p. 4.

⁴ Budget of the United States Government, Fiscal Year 2013, Historical Tables. Table 6.1 – Composition of Outlays: 2040–2017, www.whitehouse.gov.

Graph 1. World military expenditure 1988–2012 (billions of US dollars)



Source: www.sipri.org/databases/milex

Graph 2. U.S. military outlays adjusted for inflation (billions of 2005 dollars)



Source: Budget of the United States Government, Fiscal Year 2013, Historical Tables. Table 6.1 – Composition of Outlays: 2040–2017, www.whitehouse.gov

Military conflicts do not usually break out accidentally, but are planned in advance by at least one side. In order to prepare well for war it is necessary to make a financial effort to strengthen armed forces. That is why mil-

itary expenditures can be a very good indicator of rising political tension, not only regionally, but also globally.

Central and Eastern Europe have always been the arena of different conflicts. Fortunately, post-war period has so far been a peaceful time for this region and the collapse of communism additionally made political relations less tense. This directly affected armies in Europe, which are less numerous than in the 80's and their budget is limited. Nowadays, European countries usually spend between 1 to 2,5% of their Gross Domestic Product (GDP) on military purposes (Table 1).

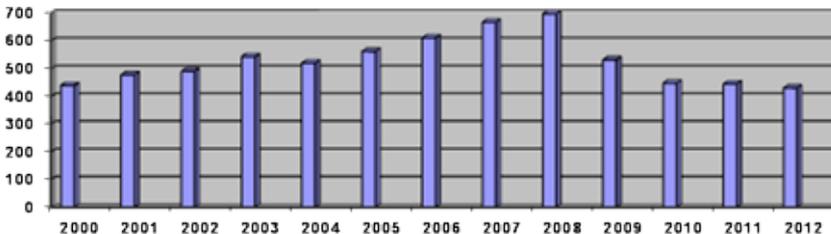
Table 1. Military expenses of selected countries as a share of their GDP in 2012

| COUNTRY | GDP SHARE OF MILITARY EXPENSES |
|-------------|--------------------------------|
| France | 2,3 |
| Germany | 1,4 |
| Italy | 1,7 |
| Netherlands | 1,3 |
| Poland | 1,9 |
| Russia | 4,4 |
| Sweden | 1,2 |
| Russia | 4,4 |
| USA | 4,4 |

Source: SIPRI Military Expenditure Database, www.sipri.org

What is more, military expenditures of European countries have been greatly influenced by the economical crisis which broke out in 2008 and have been decreasing since then (graph 3).

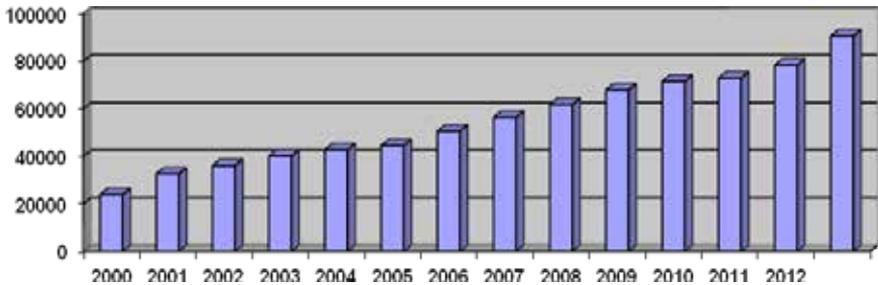
Graph 3. Military expenditure in Europe in constant (2011) bln USD, 2000–2012



Source: SIPRI Military Expenditure Database, www.sipri.org

However, gradual decrease in military spending in Europe does not mean that all countries spend less on their armed forces. The best example is Russia. Not only do its military expenditures constitute more than 4% of its GDP, but they are also constantly rising (graph 4).

Graph 4. Military expenditure of Russia in constant (2011) mln USD, 2000–2012



Source: SIPRI Military Expenditure Database, www.sipri.org

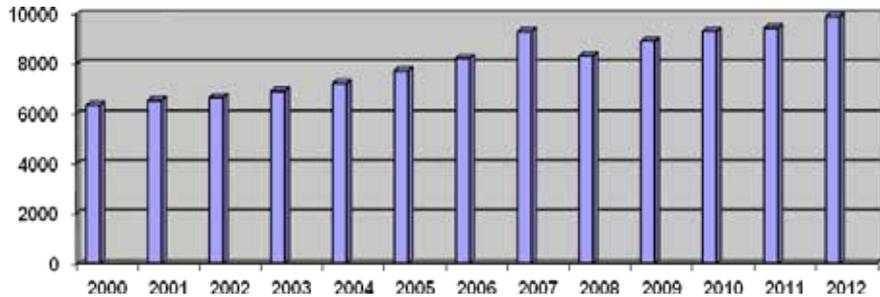
This constant rise seems to be insensitive to economical conditions as though Russia has also suffered from the world crisis mainly due to the decrease of crude oil price. It means that the growth of military expenses in this country has got strong political background and is consistently realized as an element of its strategic policy. Of course it may be partially explained by the fact that Russia has been involved in a few minor, both external and internal conflicts, such as Georgian War.

Military expenditures of Poland, Lithuania, Latvia and Estonia

It is worth analysing military expenditures of these four countries neighboring Russia to find out if they respond anyhow to their neighbour's constant rise in military power. The largest of four, Poland, since mid-90s has been spending between 1,7 and 2,0% of its GDP on military purposes. Military budget depends on current economical situation and was slightly affected by the outcomes of the global crisis (graph 5).

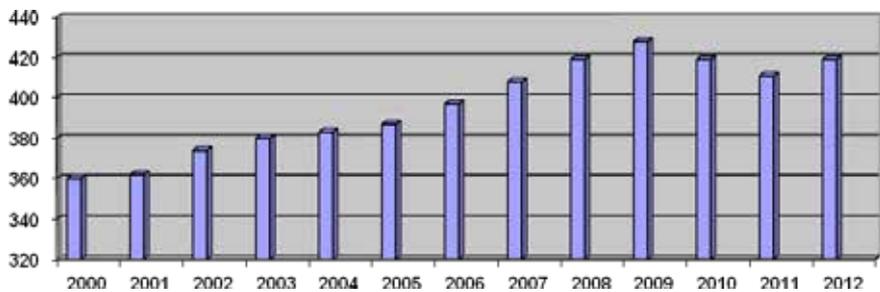
Latvia's military expenditures in the 21st century vary from 0,9 to 1,7% of its GDP. This state has always been characterized by low volume of military expenses. It is worth mentioning that since the regaining of independence till 2000 it was always below 1% of its GDP. The noticeable rise in military spending between 2006 and 2009 was restrained by the outcomes of the crisis (graph 6).

Graph 5. Military expenditure of Poland in constant (2011) mln USD, 2000–2012



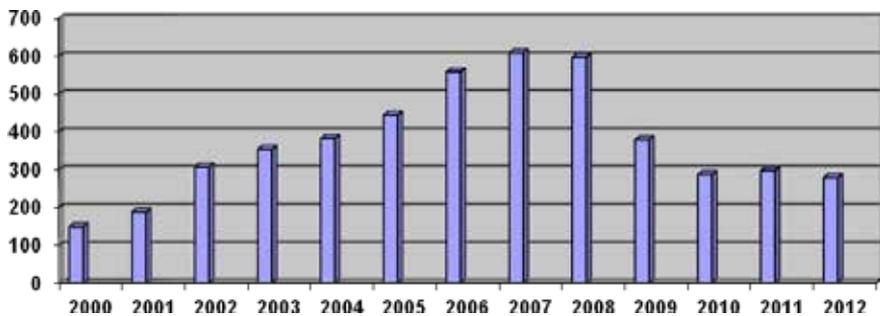
Source: SIPRI Military Expenditure Database, www.sipri.org

Graph 6. Military expenditure of Latvia in constant (2011) mln USD, 2000–2012



Source: SIPRI Military Expenditure Database, www.sipri.org

Graph 7. Military expenditure of Lithuania in constant (2011) mln USD, 2000–2012



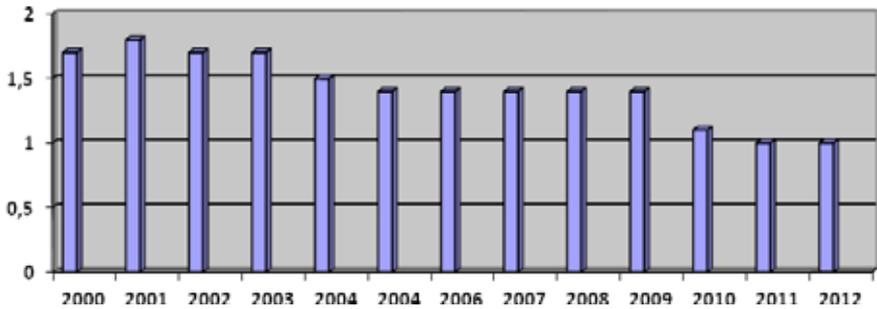
Source: SIPRI Military Expenditure Database, www.sipri.org

Lithuania has the highest defense budget from all the three Baltic countries, reaching 600 mln US dollars in 2007 (graph 7). Between 2000 and 2007 Lithuanian government’s military spending was constantly increasing.

However, this trend reversed as a result of the crisis and since 2008 military expenditure has been in decline. The reduction of expenses was rapid and deep, reaching 30% in 2009 in comparison with 2008. Such savings must have had negative impact on Lithuanian military potential.

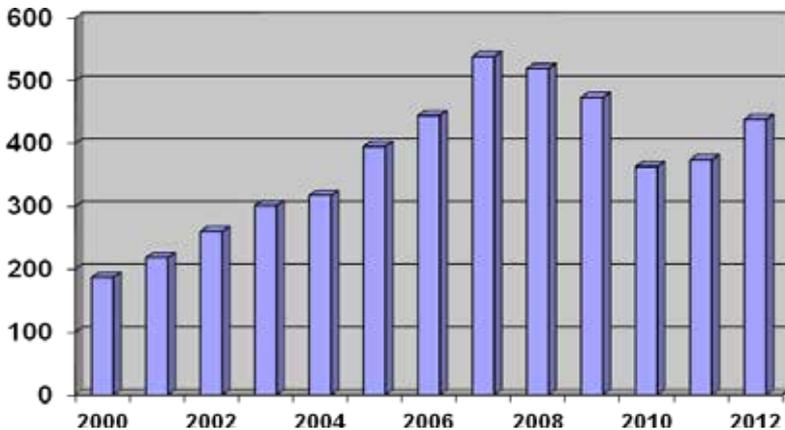
Military expenditure of Lithuania currently constitutes about 1% of the state’s GDP and this rate is constantly decreasing (graph 8).

Graph 8. Lithuanian military expenditure as a share of GDP (%)



Source: SIPRI Military Expenditure Database, www.sipri.org

Graph 9. Military expenditure of Estonia in constant (2011) mln USD, 2000–2012



Source: SIPRI Military Expenditure Database, www.sipri.org

Since 2000 Estonia has been spending approximately 2% of its GDP on military purposes, which means much greater financial effort for the budget in comparison with Lithuania and Latvia. This rate reached even 2,3% in 2009. In terms of military expenditures in US dollars, there was a rapid rise from 2000 till 2009. Next three years brought military budget reduction, but since 2001 it has been increasing again (graph 9).

All the three Baltic countries experienced rapid growth of military expenses from 2004 till the beginning of the crisis. This situation can be partially explained by the fact that in 2004 Estonia, Latvia and Lithuania became members of NATO and probably had to bear the costs of fulfilling some NATO standards. However it seems to be more likely that the rapid growth and next the decline have economical background as though before the breakout of the crisis Estonia, Latvia and Lithuania were these countries which managed to reach the highest rates of GDP growth and in the first phase of the crisis suffered the most. Estonia is here the best example with the GDP growth rate in 2006 of 10,1% and the decline by 14,1% three years later⁵.

The situation in Poland differs from the one in the Baltic countries. Only in 2008 Polish military budget was smaller in comparison with the previous year. Since then it has been constantly rising. The explanation of this trend can also be based on economical factors. The crisis did not strike this country heavily and in consequence Polish politicians were not forced to limit military expenses as much as in many other countries. On the other hand it is necessary to mention that Polish armed forces for many years have been involved in military operations abroad, from which Iraq and Afghanistan missions are the most significant. Such involvement requires additional financial effort which must affect the general amount of military spending.

If we compare Polish, Lithuanian, Latvian and Estonian military spending with overall European military expenditure it is clear that these four countries mentioned above do not reduce expenses as much as other European states. There the rate of military expenditure decline reached almost 40% in 2012 in comparison with 2008 and is still decreasing.

Neither Poland, nor Baltic countries reach military expenditure on the level of 2% GDP, which is recommended in NATO's defense spending target. Only Estonia from 2007 to 2009 achieved this objective. This situation may seem unfavorable for these countries because it means that they do not fulfill basic NATO's requirements. On the other hand in 2012 only

⁵ Real GDP growth rate – volume, Eurostat.

6 European NATO members reached the level of 2% GDP⁶. In some rich countries, such as Spain, military expenditure constitutes less than 1% of its GDP. That is why military spending of Poland, Lithuania, Latvia and Estonia as shares of their GDP in general do not differ much from their NATO partners and often even exceed them.

Another useful indicator of military expenditure is its volume per capita. In 2012 Estonia spent the most from all the four analysed countries, reaching 327 US dollars per citizen. Lithuania and Latvia spent much less, 144 and 138 US dollars (table 2).

Table 2. Military expenditure per capita for selected countries in 2012 (US dollars)

| COUNTRY | MILITARY EXPEN- DITURE PER CAPITA (2012 US DOLLARS) |
|-----------|---|
| USA | 2130 |
| Russia | 632 |
| Germany | 594 |
| Poland | 257 |
| Estonia | 327 |
| Lithuania | 144 |
| Latvia | 138 |

Source: SIPRI Military Expenditure Database, www.sipri.org

The data from the table 2 clearly indicates that Polish, Lithuanian, Latvian and Estonian military expenses per capita are far lower than not only world economic giants such as USA or Germany, but also Russian. Taking into account stable growth of Russian military expenses, this fact leads to a conclusion that the disproportion between analysed countries and Russia will increase.

Conclusion

After having analysed Polish, Lithuanian, Latvian and Estonian military expenditures it is clearly visible that they reflect economic situation in

⁶ Secretary General's Annual Report 2012, NATO, www.nato.int

these countries. Their rise in the first few years of 21 century was quickly stopped by the economic crisis. The more it affected a country, the more military expenditures were limited.

From the international perspective Poland, Lithuania, Latvia and Estonia are similar to the majority of European countries in terms of their GDP share. The fact that being members of NATO they do not fulfill its 2% defense spending target is nothing unusual, as though the majority of NATO states do not reach this level. A real disproportion in the level of military expenditures appears when it is analysed per capita. Then it becomes clear that countries of Western Europe, such as Germany, spend two–three times more than Poland or Baltic states. However, this fact is not surprising and can be explained by existing differences in economic development between these countries. It is likely that in the far future this disproportion will be significantly reduced as though Poland, Latvia, Lithuania and Latvia have in general a higher economic development rate than their partners from the West.

Analysing directions of potential conflicts from the Central-European country's perspective it is difficult not to have a look at the East. If the level of military expenditure reflects political tension it is necessary to highlight that Russia's military spending has been increasing rapidly for more than ten years and this growth was not affected by negative international economic circumstances. In terms of GDP share, Russia, with more than 4% spent on military purposes in 2012, equals the USA. In terms of military expenses per capita Russia spends approximately two and a half times more than Poland and four times more than Lithuania or Latvia. In addition to this, this disproportion tends to be increasing.

Russia's increase in military expenditure reflects its aspiration to regain the position of a key global power. It can also be partially explained by the fact that this country is involved in several minor conflicts and that it has to face challenges not only in its European part, but also in Asia. Nevertheless, in the long-term perspective such a disproportion in military spending between Russia and their neighbours in Europe will lead to the rise of political tension in this region. The only reasonable response to it can be strengthening relations within the NATO and reaching NATO's defense spending target which will directly lead to the increase in the volume of military budgets, assuming that this part of Europe will be constantly developing its economies.

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Streszczenie

Wydatki wojskowe Polski oraz krajów bałtyckich w XXI wieku

Celem artykułu jest analiza wydatków Polski oraz krajów bałtyckich jako instrumentu kształtującego ich poziom bezpieczeństwa międzynarodowego. Rozważania na temat wydatków wojskowych opierają się na ich definicji opracowanej przez Sztokholmski Międzynarodowy Instytut Badań nad Pokojem. Prezentacja światowych tendencji w wydatkach wojskowych stanowi wprowadzenie do meritum omawianych zagadnień. Analiza przeprowadzona zostaje w oparciu na szeregu kryteriów, takich jak poziom wydatków wojskowych, ich wysokość jako procent produktu krajowego brutto oraz wysokość na mieszkańca. Dotyczy ona lat 2000–2012 i w tym okresie przedstawione są fluktuacje omawianych wielkości. W szczególności uwypuklony zostaje wpływ kryzysu gospodarczego na zmiany poziomu wydatków wojskowych. Analiza porównawcza prowadzona jest przede wszystkim w odniesieniu do krajów Europy, w szczególności zaś Rosji. Artykuł kończy konkluzja, że jeśli różnice w poziomie wydatków pomiędzy omawianymi krajami a Europą Zachodnią da się wytłumaczyć różnicą w poziomie rozwoju gospodarczego, to rosnąca przewaga Rosji w tej kwestii nad omawianymi krajami wynika z przyczyn politycznych i w dalszej perspektywie może stanowić źródło napięcia międzynarodowego.