

Chapter 3:
The Budgets



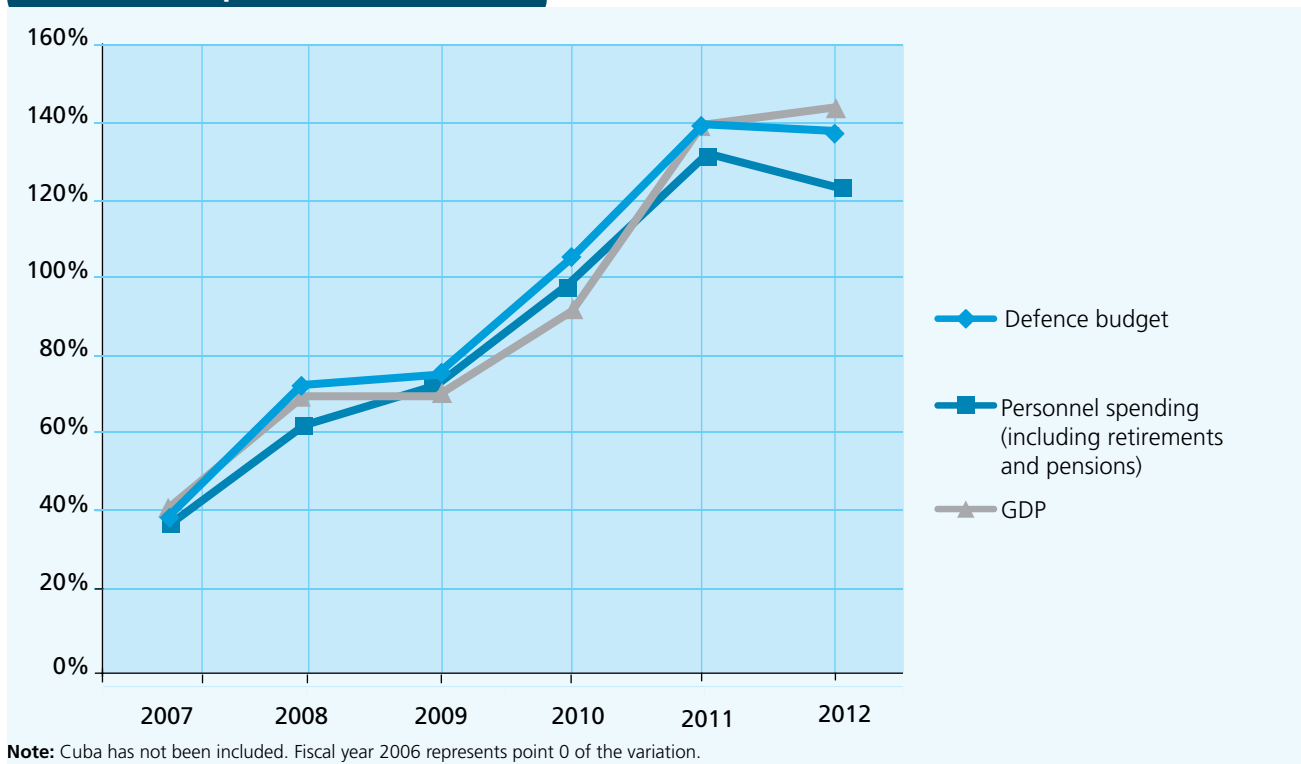


Defence Budget (in US\$)

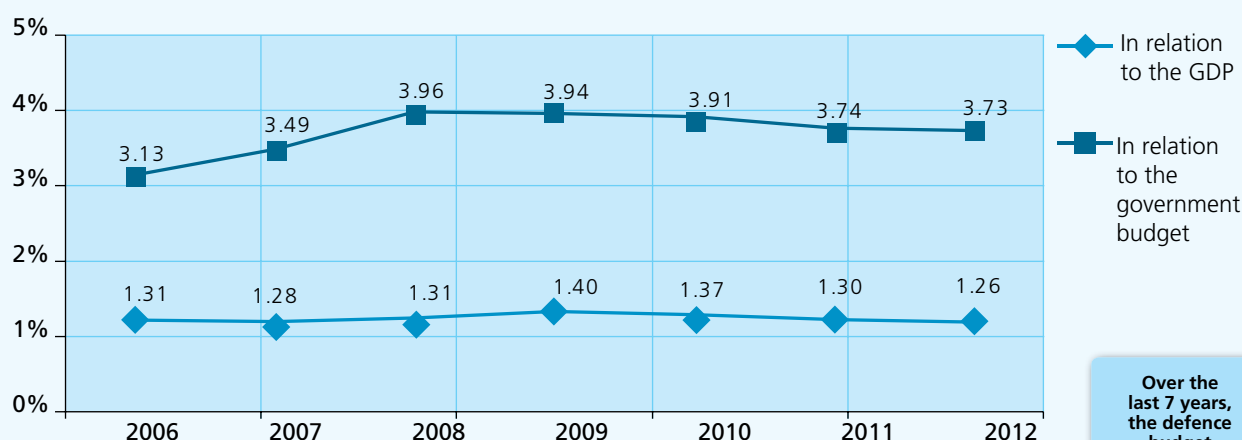
Country	2006	2007	2008	2009	2010	2011	2012
Argentina	1,952,165,821	2,120,829,805	2,628,157,098	2,849,654,256	3,138,200,705	3,772,748,302	4,351,981,686
Bolivia	197,291,177	193,405,756	254,520,509	307,478,493	336,894,359	368,164,404	400,819,204
Brazil	13,692,057,669	20,973,055,774	26,202,709,813	25,911,333,511	33,055,029,481	39,829,080,222	35,512,467,812
Chile	3,177,404,842	4,276,790,277	4,459,645,809	4,353,450,717	4,778,329,754	5,531,192,182	5,878,940,198
Colombia	2,872,392,573	4,105,180,855	6,004,957,107	5,534,277,720	6,178,261,917	6,935,015,513	7,907,923,506
Cuba*	71,162,500	78,850,000	84,233,333	87,454,167	89,170,833	95,562,500	99,441,667
Dominican Rep.	213,117,635	265,058,384	269,120,373	311,355,315	332,298,929	333,481,771	353,297,867
Ecuador	952,621,138	1,168,229,152	1,388,349,715	1,679,073,897	2,156,832,116	2,288,966,006	2,396,048,031
El Salvador	106,363,230	111,400,520	115,409,495	132,861,405	132,874,110	145,784,585	144,067,030
Guatemala	134,476,326	152,106,898	156,210,263	153,090,192	159,860,766	197,818,891	210,816,824
Honduras	63,175,260	86,837,651	121,183,088	127,963,147	172,194,128	175,902,076	188,926,130
Mexico	3,288,106,264	4,184,285,440	4,706,150,462	4,681,259,477	4,875,854,577	6,247,798,082	6,287,762,898
Nicaragua	36,293,492	39,336,274	42,191,833	37,293,776	39,644,293	53,774,224	65,756,103
Paraguay	95,572,924	126,711,873	149,580,691	176,769,687	227,582,002	325,182,128	430,850,307
Peru	1,086,270,304	1,252,580,042	1,515,727,130	1,595,942,737	2,061,617,832	2,097,553,421	2,190,684,087
Uruguay	215,709,213	290,335,815	316,844,107	322,261,459	622,039,810	720,498,530	705,969,493
Venezuela	1,867,024,633	2,612,441,958	3,351,756,259	4,185,502,812	2,501,244,477	2,390,330,558	3,900,098,861
TOTAL	30,021,205,000	42,037,436,475	51,766,747,085	52,447,022,769	60,857,930,090	71,508,853,393	71,025,851,705
Variation %	-	40.03%	23.14%	1.31%	16.04%	17.50%	-0.68%

* Cuba: "Defence and Internal Order" budget.

Growth Comparison (2006-2012)



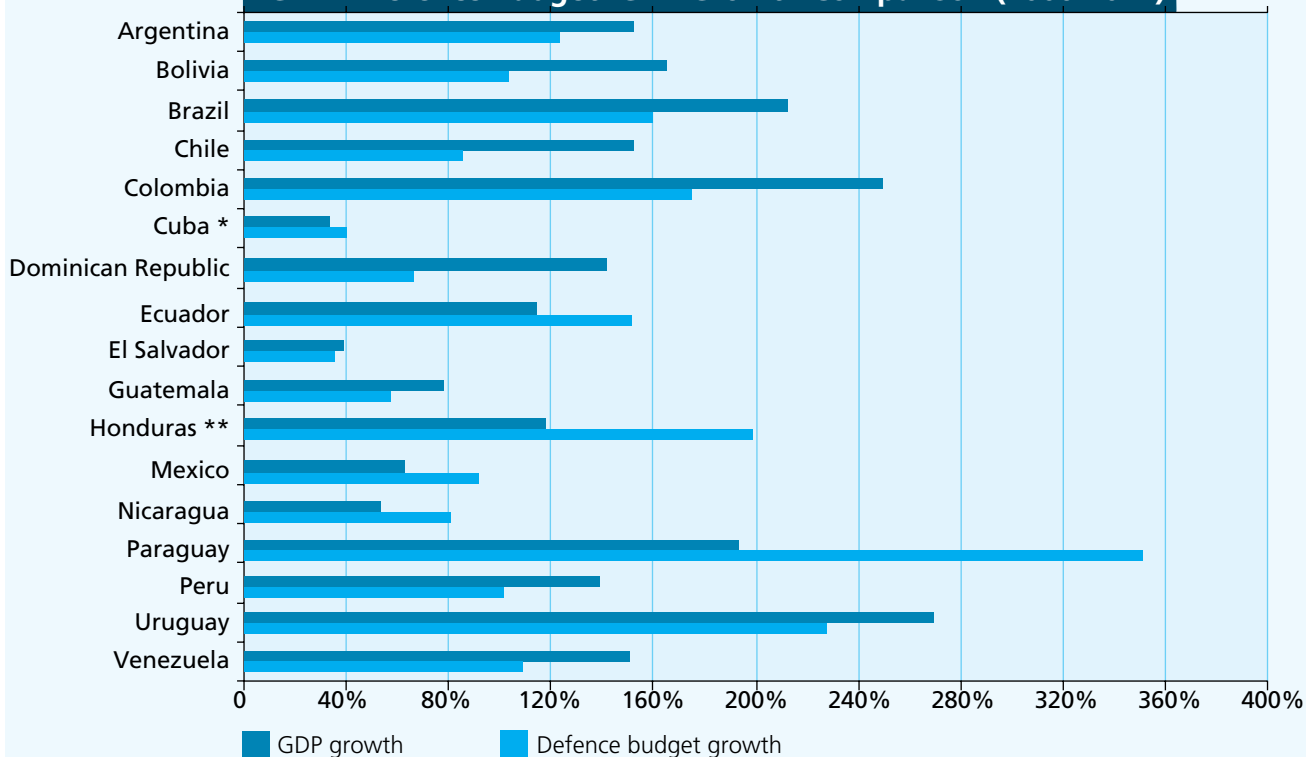
Evolution of the Defence Budget in Latin America (in %)



Over the last 7 years, the defence budget share of Latin American government budgets averaged 3.7%.

Over the last 7 years, the defence budget averaged 1.3% of Latin American GDP

GDP – Defence Budget- GDP Growth Comparison (2006-2012)



* Cuba: "Defence and Internal Order" activity budget.

** Honduras: Retirement and pensions of police officers and firefighters incorporated as members of the Institute of Military Social Security are included as from 2007. No breakdown has been made to the budget items.

Source: Compilation based on the budget laws of each country. In the case of Cuba, 2006, 2007, 2008, 2009, 2010 and 2011 figures correspond to government budget execution (*Anuario Estadístico de Cuba 2010 and Panorama Económico y Social. Cuba 2011*).

For GDP calculation, the data used for each year under review are those provided by the World Economic Outlook Database, IMF. Cuba: *Anuario Estadístico de Cuba 2010, Panorama Económico y Social. Cuba 2011* and 2012 estimation of the Chairmanship of the State Council and Council of Ministers.

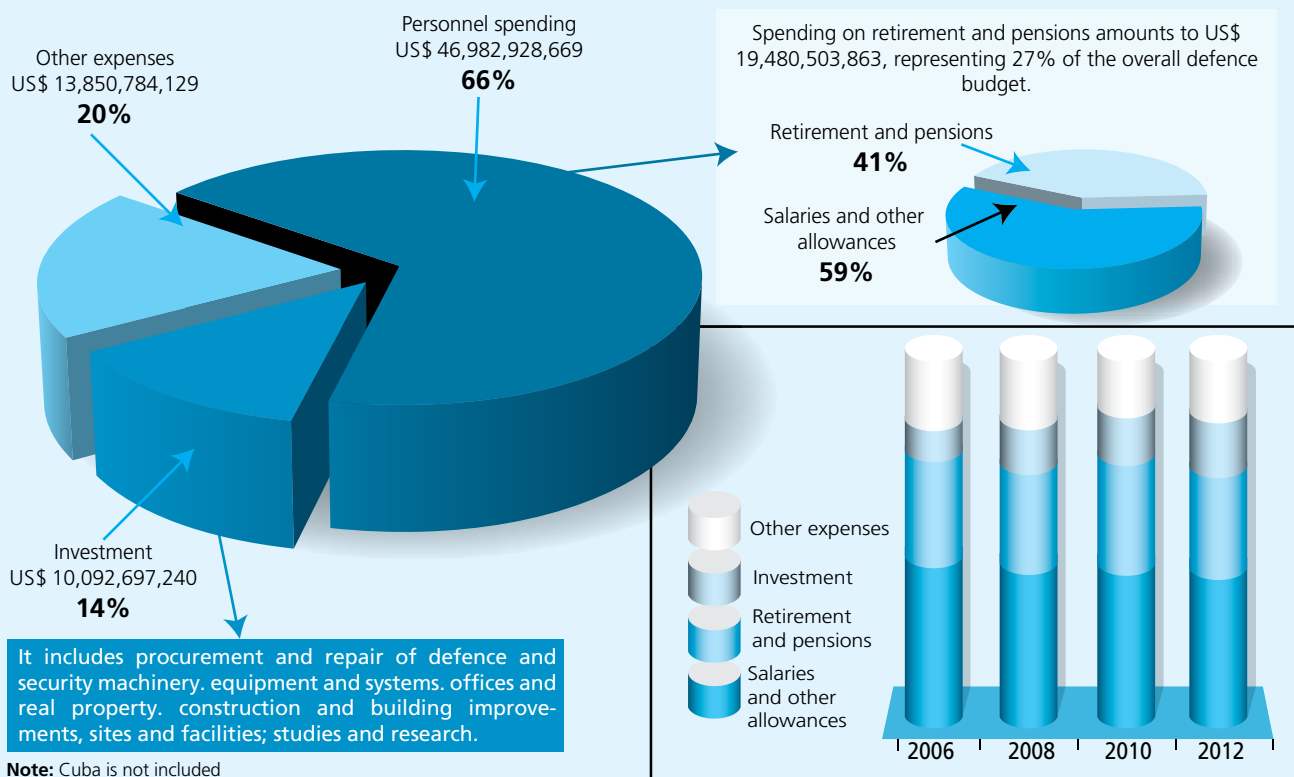
The dollar exchange rate considered is that provided by the World Economic Outlook Database, IMF, for each year under review. This source has been taken for comparative purposes.

The defence budget is made up of all funds allocated to meet the needs of the defence system, regardless of the specific institutional classification expressed in the respective budgets. Only in the case of Cuba, the "Defence and Internal Order" activity is considered, as expressed in the Cuban budget. Headquarter Administration, Decentralized organizations and Social Security items are included. For further details, see Section "The Countries" from this publication. In the case of Chile and Peru, out-of-budget spending forecasts provided for by law have been included.

Note: We included budget figures in a single currency (US dollar) for comparative purposes. However, by doing so, it might seem that, in some cases, defence budgets have suffered a great increase. This can be due to overvaluation of local currencies against the US dollar or to hidden inflationary effects. Moreover, we should take into account that GDP estimations, in more than one case, underestimate the actual value.



Latin American 2012 Defence Budget Breakdown



Personnel and Investment (in %) P: Personnel / I: Investment

COUNTRY	2006		2008		2010		2012	
	P	I	P	I	P	I	P	I
Argentina	77.1	2.4	78.7	3.1	75.4	3.1	76.4	3.9
Bolivia	69.9	3.8	62.1	5.2	62.2	5.8	63.6	3.7
Brazil	74.8	6.3	70.3	10.9	71.6	14.0	70.0	14.0
Chile	55.3	25.8	50.5	31.6	58.4	24.0	59.6	21.9
Colombia	48.9	12.7	43.9	25.5	48.8	14.0	49.3	11.3
Dominican Republic	76.0	3.8	73.7	8.7	80.7	4.6	78.7	1.6
Ecuador	73.0	5.3	78.6	1.8	74.4	15.3	81.4	7.2
El Salvador	75.0	7.7	72.6	7.4	72.6	3.0	75.0	2.4
Guatemala	51.9	11.6	66.1	2.3	61.6	1.4	62.7	4.8
Honduras	72.1	0.7	71.5	4.9	77.0	0.6	84.1	1.6
Mexico	79.5	0.8	78.7	3.0	75.2	5.3	74.3	4.8
Nicaragua	58.7	3.3	57.7	2.6	62.6	2.4	44.6	25.3
Paraguay	84.8	3.7	84.0	5.7	81.8	7.1	69.7	18.3
Peru	51.5	3.3	47.6	7.9	48.5	14.9	48.4	24.9
Uruguay	73.6	5.1	73.8	5.4	79.7	5.8	80.0	3.3
Venezuela	75.2	13.3	76.7	2.3	82.5	1.6	48.6	40.9

Source: Compilation based on the budget laws of each country. The dollar exchange rate considered is that provided by the World Economic Outlook Database, IMF, for each year under review. This source has been taken for comparative purposes. The defence budget is made up of all funds allocated to meet the needs of the defence system, regardless of the specific institutional classification expressed in the respective budgets. Headquarter Administration, Decentralized organizations and Social Security items are included. The following items are considered as "investment": Real direct investment (Argentina); Real assets (Bolivia); Fiscal and social security budget investments and investment budget (Brazil); Acquisition of non-financial assets and investment initiatives, and revenues for the copper fund (Chile); Investment (Colombia); Non-financial assets (Dominican Republic); Annual investment plan (Ecuador); Institutional investment (El Salvador); Properties, plants, equipment and intangible assets (Guatemala); Capital assets acquisition (Honduras); Investment (Mexico); Capital expenses/Machinery and equipment (Nicaragua); Physical investment (Paraguay); Acquisition of non-financial assets and revenues for the Fund for the Armed Forces (Peru); Investment (Uruguay); Real assets (Venezuela). The budget laws of each country present different degrees of details on investments. The budget laws of each country present different levels of detail on capital investment. In the case of Chile and Peru, out-of-budget spending forecasts provided for by law have been included. For further details, see Section "The Countries" from this publication.

Analysis:

Defence Budgets: Bringing the Political Economy of Security into Analysis

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The global economic recession has slowed to a halt the growth in global defence spending that characterized the last decade with increases of 5% annually. While the United States and Western Europe have the biggest effect on global defence spending figures, the regional trend in Latin America and the Caribbean (LAC) has been similar in terms of slowed economies spending less on defence. Such aggregate trends provide important first-cut information, but as always the devil is in the detail. Establishing correlations and trends in data on budgets and how they are broken down is necessary but insufficient for the larger project of understanding the *impact* of defence spending. We should know more about the nexus between “security” and “economy.” How are economic resources allocated to defence and security? How do economic pressures impact defence sector investments? How should we rethink the state-bound notion of “defence and security” in light of the extensive privatization of security? These are the kinds of questions a political economy approach to defence and security takes, and this article is a call to consider how we might answer such questions by collecting new kinds of data related to defence spending.

In this article, I focus on two topics for discussion: linkages between defence/security spending and economic development, and the understudied phenomenon of military entrepreneurship. Neither of these topics is readily understood, based on the kinds of quantified data typically gathered in go-to references like the SIPRI *Yearbook*, the IISS *Military Balance*, or the RESDAL *Atlas Comparativo* (though the *Atlas* you are reading goes furthest, as it includes for some countries information on military involvement in economic activities). Therefore, bringing political economy issues into discussions of defence spending is a logical next step that deserves systematic consideration.

Relating Defence and Security to Economic Development

No state can ignore the classic “guns or butter” trade-off. Yet the most prominent defence expenditure datasets do not make ready connections to economic development indicators. Making such connections can be eye-opening. For instance, in a 2010 paper, Kevin

Casas-Zamora of the Brookings Institution compared military expenditure in South America with national taxation and education spending levels in other regions. He found that military expenditure in South America absorbed significantly higher proportions of both tax receipts and education expenditure than almost anywhere else in the world – only the Middle East and North Africa fared worse on both fronts.¹ As Casas-Zamora notes, “simply put, amid pervasive low taxation in Latin America, military expenditure *does* compete with scarce resources for development.”

Let’s narrow the focus. If *defence* and social spending typically compete, is the same true of *internal security* and social spending? The labyrinth opens before us if we take into account the social and economic costs of contemporary crime levels in the LAC region. It has been established that the economic costs of crime in its most acute venues are astonishingly high. In particular, a World Bank study found that crime “costs” between 8 and 10 percent of GDP in Central America, in terms of expenditures on law enforcement, private security, and healthcare.² Although defence and public security are budgeted separately, in virtually every country in the LAC region military forces are being called upon to provide internal security to back up police forces overwhelmed by the challenges of organized criminal groups; it is therefore reasonable to expect payoffs from defence budgets for internal security successes. Yet assessing this linkage presents important challenges and requires careful data collection. For instance, expenditures for “soft” security like community policing and military “presence” in remote territories should be distinguished from “hard” security like the use of special forces to combat organized criminal groups. Of course public security expenditure needs to be clearly distinguished from private security expenditure, though at present the confirmed data on private security forces is notoriously uneven across the LAC region.

Refocusing back to the wider angle: the irony *and* complexity of the defence-development nexus is vi-

1 Kevin Casas-Zamora, “An Arms Race in South America?” *Perspectives on the Americas* (Miami: University of Miami, Center for Hemispheric Policy, 2010), 3.

2 The World Bank, *Crime and Violence in Central America: A Development Challenge* (Washington, DC: World Bank Group, 2011), 7.



tally important to understand. In the past, and with growing frequency in the commodities boom of recent years, militaries have been called into tasks of protecting strategic resources – oil pipelines, mining operations, even forests at risk for illegal logging. Many states in the LAC region continue to include “contributing to national economic development” as a core mission of the armed forces. Archaic holdover of the past, or present-day necessity? Probably some of both, though clearly worthy of the question: *is this a role armed forces should indeed assume in the new millennium?* No matter how we might answer this question, we need to think beyond traditional categories and datasets to better understand tradeoffs between spending on fighting forces and spending on social and economic development.

Recognizing Military Entrepreneurship

Is the military in your country entrepreneurial – contributing to the creation of new goods or resources? If it is, then even those who know that military entrepreneurship exists probably don’t know the details of how it operates. Put succinctly, military entrepreneurship involves militaries as owners, managers, or stakeholders in enterprises that generate financial resources or goods that directly benefit the military.³ It can be found today in countries as politically and economically different as Cuba and Colombia. Though not as widespread as in the past, militaries in a number of countries in the LAC region remain active not only in state-owned defence-industrial enterprises, but also those related to tourism, agriculture, real estate development, and service sectors like banking and commerce; they also invest in the national economy (and in international markets) through military pension funds. In general, these activities are legitimated through national laws or through organizational directives of defence ministries. They often reflect significant resources that can be either “on” or “off” budget. When military resources are off-budget, meaning they are not accounted for in the regular national defence budget, accountability to the public for these *state-based* resources virtually disappears and civilian control of the military is rightfully in question.

Not all military entrepreneurship goes the path of diminished transparency. A surprising outcome of Colombia’s long counter-insurgency and drug war is the defence ministry-led restructuring of a collection of enterprises that had long been run by the military. In 2008, *Grupo Social y Empresarial de la Defensa*, (GSED) was created to encompass the existing enterprises, which are now formally overseen by the ministry. Comprising 18 defence sector and social enterprises traditionally associated with the

military, GSED functions as “a supportive system” for the Public Forces (military and national police) and seeks to “project itself toward domestic and international markets.” With assets valued at over US\$ 3 billion (in 2006, at the height of the economic upturn) GSED is one of Colombia’s largest business consortiums. GSED is state owned and funded through the national defence budget, with proceeds apparently reinvested in the discrete enterprises, most of which are typically managed by retired and active duty military personnel.

The creation of GSED reflects an attempt to make a break from past practices: whereas Colombia’s military enterprises were once autonomous fiefdoms of the services, they are now subject to efficiency controls and external audits. More subtly, the creation of GSED reflects a full-scale push to transform Colombia’s national defence sector into an *internationally-marketable* breadwinner for the state, with N.A.T.O. certification of defence products, new exports (light aircraft, Israeli-licensed Galil rifles), and technologies essential for the lucrative mining sector. It is obvious that we should take such developments into account to gain a more complete picture of the role defence sector activities play in the region.

Evolving Our Analysis

Now more than ever before, reliable standardized data on defence budgets exists. Yet still there are areas of the defence sector we know remarkably little about. We are, of course, not interested only in collecting raw numbers and making broad correlations. Rather, we need to think carefully about what kind of useful information is currently missing or incomplete, and about what kinds of new comparisons would be most worthwhile to undertake.

The tasks will not be easy, but neither will they be impossible. For instance, even if information about military businesses is not formally reported in the public domain, at a minimum researchers compiling defence sector datasets can identify and code the applicable laws governing military enterprises and pension funds, the general categories of holdings, and their management structures. Moreover, research and advocacy organizations can pressure governments to require state agents (including the military) to provide missing data – or explain why it cannot be produced. In fact, the research and advocacy organization Transparency International has begun to examine military businesses in a systematic way and is developing a cross-regional Defence Integrity Index to quantify corruption and rule of law failures in the defence sector. There is great potential for research synergies to develop among the increasingly diverse range of civil society organizations that exist in today’s world.

³ Kristina Mani, “Military Entrepreneurs: Patterns in Latin America,” *Latin American Politics and Society* 53:3 (Fall 2011), 25-55.