

ECONOMICS AND SECURITY: COMMENTS AND A SUGGESTED FRAMEWORK

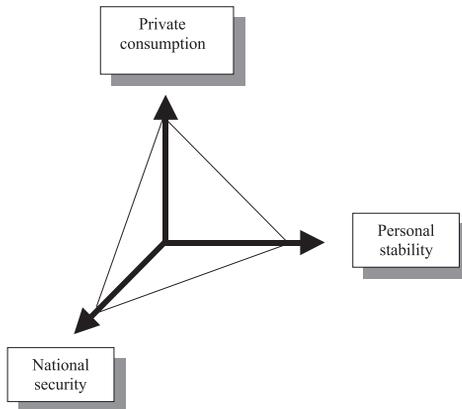
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Despite the many excellent observations made by the speakers at this Colloquium, there remains a lack of clarity about the relationship between “economy” and “security.” Though some have called this “obvious,” I believe that the relationship is complicated and often subtle. A review of some of the best ideas at this Colloquium will show how complicated the relationship is at present in Eurasia.

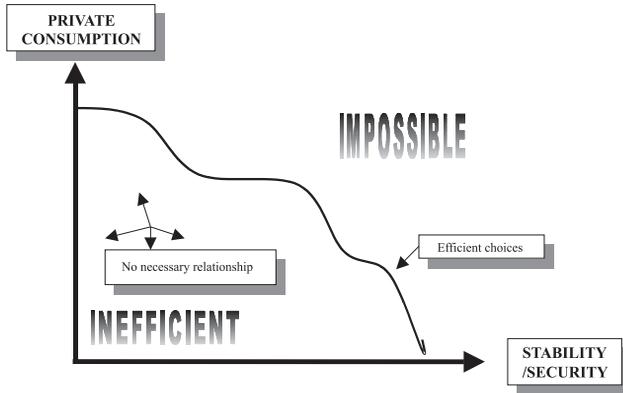
Economists have long recognised that any economic system may aim at more than one objective. Among them are growth of consumption, equity, stability, and the preservation of peace.¹ “Economy” is not an objective itself, but rather the rational pursuit of some combinations of these objectives, where (static) efficiency means achieving maximum current welfare from existing capabilities. Since a society has several possible objectives, it must somehow consider the choice among them. Given adequate attention to equity and other objectives, therefore we may conceive the three dimensional surface representing the possible combinations of consumption (whether provided by private or public goods), stability (meaning the avoidance of the unexpected²), and national security. (See **Figure 1**)

Figure 1 : The Consumption-Stability-Security Surface



If we were somehow to collapse the stability and national security objectives into one variable “security,” we would have a two-dimensional frontier, similar to the familiar production possibility curve of elementary economic theory. (See **Figure 2**)

Figure 2 : The Consumption-Security Frontier



Along the consumption-security frontier, we see efficient choices of maximum consumption at each and every level of security, and vice versa. The precise form of the efficient trade-off is not well defined, however, hence the wavy representation of a generally downward sloping line.

The point of this theory is to show that the relationship between consumption and security depends on the state of the economy. In most transition economies, which have a large degree of inefficiency, policy measures may improve both consumption and security or may improve only one or the other or may in the worst case actually detract from both objectives. Only when the economy is efficient is there a necessary trade-off between security and consumption, such as when a society decides to provide universal health insurance or last-resort public employment for all working age adults. Both would sacrifice consumption for increased security. Enhanced GDP might not lead to greater national security. Of course, a society which is on the efficient frontier may drop below it owing to unwise economic policies, but social choice among the ultimate objectives is necessary and may of course change with circumstances. Some countries habitually emphasise employment security at some expense of consumption - Germany, for instance - while others have tried to expand consumption instead of spending on national defence - Japan, for example. The USA and the former USSR have chosen to spend on national security at the sacrifice of consumption; needless to add, these choices were not always made democratically. The USSR, unlike the USA, provided a high degree of personal stability (fixed prices,

generous pensions, free health care and education) at a further sacrifice of personal consumption.

Several of the most important ideas raised at this Colloquium show the use of this framework and are worth emphasising in any case. Dr. Andrei Klepach asserts that the Russian need to preserve national unity requires higher defence spending, while its suspicion of foreign direct investment reflects a fear of loss of national patrimony or of control over peripheral regions. The severe concentration of FDI in a few regions, as reported by Keith Bush, poses a threat to central control. Professor Alexander Kennaway says that Russia's desire to remilitarize and to increase arms sales comes in considerable part from the military-industrial complex, though, not necessarily from a broad social consensus. Mr. Bush adds that arms are among the few items that Russia can successfully export at this time, so emphasis on their production need not be inefficient. Where large plants are isolated in small cities, as has occurred in Russia, local governments press to keep these open at all costs - another move which emphasises security, but not necessarily at the expense of consumption or efficiency, to the extent worker families would have to be supported anyway.

Mr. Gérard Wild stated that the need for personal stability and equality had been reinforced among the Russian people by the Soviet practice of high social consumption and provision of health, education, and housing, albeit at a fairly low standard. Mr. Wild also made the excellent point that Russia's concept of security has been conditioned by its long history of openness to foreign invasions on all sides.

Prof. Silvana Malle and Dr. Rostislav Kapelouchnikov both stressed the long-term inefficiency of protecting jobs. But Russians' preference for stability and security at the expense of consumption is not necessarily inefficient. Kapelouchnikov's data indicate that Russians easily abandon unattractive jobs in fact, though they retain job rights to return. They sometimes take critical equipment with them! This indicates that new enterprises would have little difficulty recruiting skilled workers. Indeed, highly skilled nuclear scientists are all too likely to leave Russian nuclear establishments to work for rogue regimes abroad. Hence "creative destruction," in Joseph Schumpeter's terminology, is not necessary to establish new activities when the economy is massively inefficient, as is the case in Russia. Only when the economy approaches the consumption-security frontier would it have to destroy low productivity capacity in order to liberate resources for more productive uses.

Turning to papers dealing with the Balkans and Caucasus region, several presenters urged the advantages to their countries of integrating with the European Union and with NATO. The promise of such accession, even if remote in time, is seen as a stimulus to continued reform and liberalisation. But only the representative from Georgia gave any attention to regional cooperation and integration, which could occur more readily and arguably would have greater benefits in widening the regional market, allowing economies of scale in

manufacturing, facilitating transportation and competition in the domestic market, and so forth. Since Adam Smith, economists have believed that the division of labour, a key to increased productivity, is limited by the extent of the market. Hence, as American and European prosperity amply demonstrate, a larger free market contributes to prosperity and a better choice among objectives. In other words, the relevant frontier in **Figure 2** would be shifted further to the north-east. Dr. Friedemann Müller considers such cooperation unlikely at the present because of political conflicts and suspicions among the newly independent Caucasian states. The GUUAM grouping does not include Armenia because of its unresolved dispute with Azerbaijan over the Karabakh. Such regional conflicts are why outside investors and groupings are embraced. To some extent, the earlier Visegrad and Baltic groupings too have lost credibility and interest, as some of these countries prefer the larger and richer European groupings.

When it comes to growth based, at least at first, upon the export of oil and gas, as is the case in the Caspian Basin, national security and consumption are complementary, not a trade-off. Pipelines, pumping stations, and ports assume security. The integrity of the Baku-Supsa pipeline cannot be guaranteed without the policing of Georgia and Armenia, states that are on or close to the export route. The unreliability of the Baku-Novorossiisk pipeline through Chechnya demonstrates this elementary fact. Dr. Kairat Abuseitov of Kazakhstan particularly stressed this point.³ All representatives from the Caucasian states, notably Dr. David Aptsiauri and Prof. Neil MacFarlane, call for cooperative arrangements which will benefit all states from the transit revenues due to increase once oil throughput increases during the next decade. What is more, multiple exit routes - including the Baku-Ceyhan corridor promoted by Turkey and the United States - reduce the possibility of pressure from any regional power upon the small states of the region.⁴ Competition would also permit lower fees and more reliable revenues.

In the present author's opinion, too little attention was paid at this Colloquium to non-traditional threats to security and stability which undoubtedly also threaten consumption and general prosperity. These include criminal gangs, terrorists, drug smugglers, and rogue experts on nuclear, biological, and chemical warfare who are available for hire by states opposed to the present world order, as expressed in the UN Charter. North Korea, Iran, Iraq, and Libya are all declared enemies of members of the United Nations and NATO. Such declared hostility cannot be dismissed lightly.

General economic distress doubtless makes non-traditional threats more likely, as governments cannot control malefactors or provide alternative employment, but it seems improbable to this observer that a general palliative will be effective and propitious. We simply cannot provide enough resources to revive the lagging countries of the former Soviet Union, nor can we be sure when they will do so on their own. Rather, specific remedies, such as the Nunn-Lugar program to buy and disable ICBM's, are to be sought. Cooperation of the NATO allies

with Partnership for Peace countries as well as Russia is essential to dealing with the common threats. Full cooperation, though, will require reducing suspicions about spheres of influence, unilateral advantages, hegemonialism, and so forth. To be frank, recent NATO actions in the Balkans may have engendered such suspicions in Russia. A great help in reducing suspicions would be renewal of nuclear force reduction talks between the United States and its NATO allies on the one hand and the Russian Federation, on the other. Another would be the confirmation and strengthening of the ABM treaty to protect both the NATO countries and their neighbours to the east from missile threats from rogue states.

Notes

1. John Michael Montias, *The Structure of Economic Systems* (New Haven, Connecticut: Yale University Press, 1977). This is known to specialists as the Koopmans-Montias framework.
2. The most significant forms of instability are involuntary unemployment and unexpected inflation of the general price level. During hyperinflations or repressed inflations the lack of goods normally available is another form of instability.
3. Dr. Abuseitov extended the point to water supply security, a crucial consideration for down-river states such as Kazakstan and Uzbekistan.
4. As Dr. Müller comments, Russia accepted sectoral division of the Caspian undersea resources when its threat to use force was ignored and the littoral states acted to lease out concessions in their sectors. An agreement was signed in July, 1998. This **fait accompli** has been accepted by Russia, which now has a stake in Azerbaidjani oil exploitation.