



# ISSUE BRIEF

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## Defence Expenditure: Is it a Drain on the Nation's Economy

Recently, one of the leading news dailies published three articles on defence issues on the same day. One, quoting a senior politician from Kashmir, alluding that the entire Army is unable to defend Kashmir from the terrorists. In all likelihood, he also understands that but for the Army, it could be worse. The second piece articulated that we should stop looking at China as an adversary. In the light of the huge trust deficit, is it prudent to take our eyes off China, even as we do our best to mend fences with it? The third article sounded the most alarming. It quoted a leading Delhi-based think-tank study to suggest that a major chunk of the Army's budget was being spent on personnel, at the cost of operational efficiency. The study has analysed the defence expenditure of the top ten militaries of the world, including the US, UK, Russia, China, France and Pakistan. The study, which submitted its report to the 7<sup>th</sup> Central Pay Commission, analysed the expenditure of top military spenders on personnel, operations and equipment procurement as a proportion of the defence budget. The findings of the study, keeping 2007 and 2012 as the benchmark years, are as given below (Figs 1 and 2).



Sameer Sharan Kartikeya is a senior Fellow at CLAWS.

### Key Points

1. There is a definite sense of urgency in the government's effort to catapult India into an economically powerful and vibrant nation state. The government rightfully focusses on addressing health, agriculture and such other sectors to eradicate poverty.
2. It is against this backdrop that resources for defence expenditure in a competing economic environment, coupled with the nation's desire for steady development, create a dilemma as well as necessity to ensure balanced allocation of funds for defence as well as value for money in expenditure.
3. Of late, noises are being made projecting defence expenditure almost as a liability and a hindrance in the nation's march towards economic excellence. But there is more to this than meets the eye.
4. A thorough study and appreciation of the security needs of the nation will testify that our expenditure on defence is just about adequate, and is way below that of top military spenders in net worth value of expenditure, given the ever present security threats in different forms.

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an autonomous think-tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflict and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

## Defence Expenditure ...

Fig 1

2007

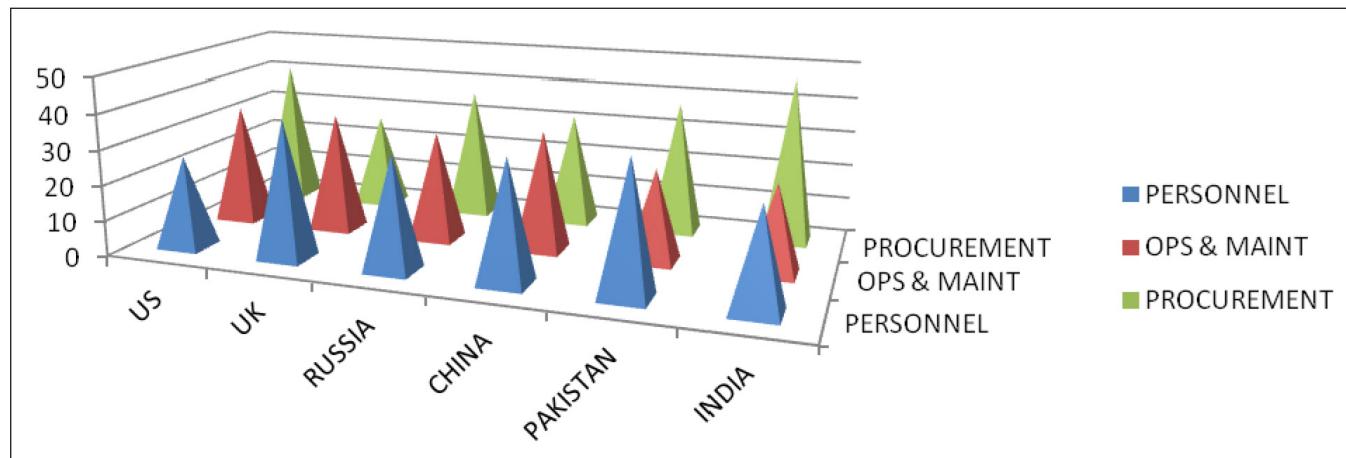
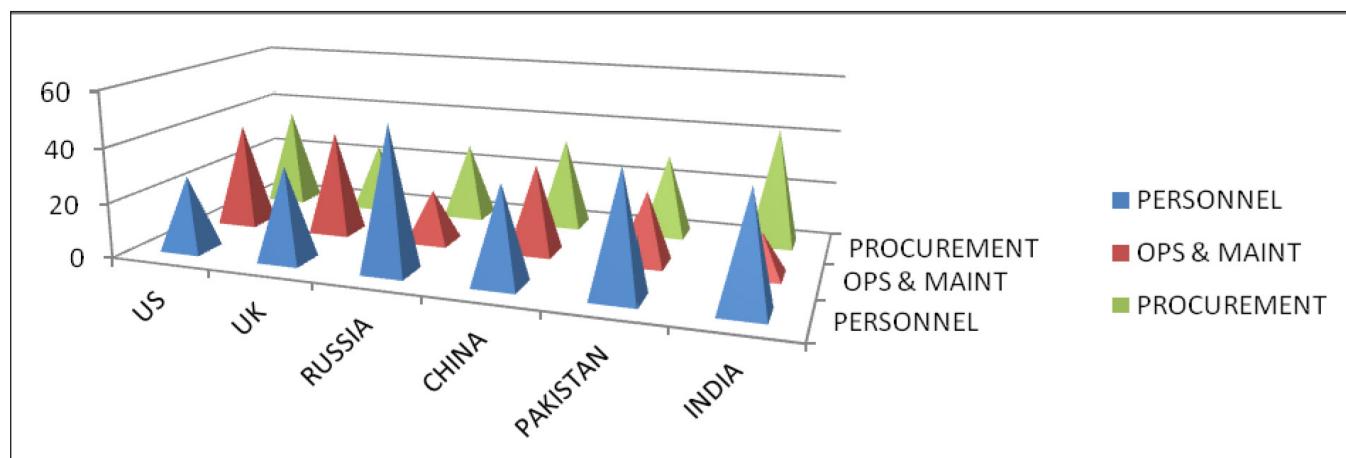


Fig 2

2012



As evident in the figures given above, India's defence expenditure shows a substantial increase in the spending on manpower and an equally perceived disturbing decrease in the spending on operations and maintenance. An alert and honest taxpayer, going through the news daily, reading all three articles in one issue, may be left wondering about the rationale of maintaining such a huge Army and armed forces. However, a careful and detailed revisit of the study indicates a lack of holistic vision and unidirectional statistics to buttress a preconceived thought process. The headline of this study, in an eye captivating font and in bold said, "Operation bears the brunt of '**expensive**' def personnel", "India spends more on **military officials** than US,

UK, says IDSA". The great Chinese philosopher Confucius had articulated, "The beginning of wisdom is to call things by their proper name." The *Oxford Dictionary* meaning of 'expensive' is costing a lot of money. 'Official' as in military official, as a noun, means a person holding a public office and, as a verb, is related to an authority. God forbid, if the people of India, which faces all pervasive, multi-layered security threats, are made to believe that the armed forces are costing a lot of money on the basis of skewed and unidirectional data. To the common citizen, the term military official would invariably mean officers, whereas the study covers all defence personnel. The headline itself is, to say the least, was misleading.

A comparison of the defence expenditure of the top 10 military nations was in itself highly unbalanced and misplaced as security paradigm, involvement of their Armed Forces with in the nation, region and at the world stage is as diverse as GWOT to Counter Insurgency operations within the national boundary. We don't have to rush to the USA for every kind of benchmarking. The **American armed forces defend American interests, and not America.** China has no threat to its territory, nor does the UK or France. In contrast, India has neighbours claiming a large chunk of Indian territory as their own. In a nation where **land** is revered and placed on a high pedestal, akin to a **mother**, land orientation *inter alia* boots on the

ground, is an inescapable necessity. The collective conscience of the nation will never tolerate loss of territory. Kargil could have been won with fewer casualties, but such was the pressure of the public, the media and the government, that the soldiers, led by gallant officers, embraced certain death in order to reclaim our territory in the right earnest. Therefore, the size of the armed forces, even if trimmed into a lean and mean force, will remain large. Let's take a few more statistics. The first is as picked up from the 2014 edition of *The Military Balance*, published annually by the International Institute for Strategic Studies(IISS). The 2013 Global Go Think-Tank Index has ranked IISS as the ninth best think-tank worldwide.

Table 1

Country	Active military	Reserve military	Paramilitary	Total	Per 1,000 capita (total)	Per 1,000 capita (active)
USA	1,492,200	843,750	14,000	2,349,950	7.3	4.6
China	2,333,000	510,000	660,000	3,503,000	2.6	1.7
France	222,200	29,650	103,400	355,250	5.3	3.3
UK	169,150	79,100	0	248,250	3.8	2.6
Pakistan	643,800	0	304,000	947,800	4.8	3.2
India	1,325,000	1,155,000	2,288,407	4,768,407	3.9	1.1

As per the data available with the Stockholm International Peace Research Institute (SIPRI) 2015 Fact Sheet (for 2014), the country-wise details of the defence expenditure as a percentage of Gross Domestic Product (GDP) are appended below:

Table 2

Rank	Country	Spending (\$ Bn.)	% of GDP
—	<b>World total</b>	1,776.0	2.3
1	United States	610.0	3.5
2	China <sup>[a]</sup>	216.0	2.1
3	Russia <sup>[a]</sup>	84.5	4.5

Rank	Country	Spending (\$ Bn.)	% of GDP
4	Saudi Arabia <sup>[b]</sup>	80.8	10.4
5	France	62.3	2.2
6	United Kingdom	60.5	2.2
7	India	50.0	2.4
8	Germany <sup>[a]</sup>	46.5	1.2
9	Japan	45.8	1.0
10	South Korea	36.7	2.6
11	Brazil	31.7	1.4
12	Italy	30.9	1.5
13	Australia	25.4	1.8

Rank	Country	Spending (\$ Bn.)	% of GDP
14	United Arab Emirates <sup>[a]</sup>	22.8	5.1
15	Turkey		

The tables above clearly indicate that our expenditure on defence is just about adequate, and way below that of the top military spenders in net worth value of expenditure, given the ever present security threat in different forms. While it is a fact that the revenue vs capital proportion from 60:40 in 2007 has become 65:35 (approximately) in 2014, and needs to be maintained at 40:60, this is also attributed to the recent new raisings necessitated by the reassessed threat perception. At the same time, defence expenditure has to catch up with inflation, leading to more outgo in revenue vis-à-vis capital. The strength of the Indian Army is approximately 82 per cent of the armed forces [excluding the Ordnance Factories (OF) and Defence Research and Development Organisation (DRDO)], as a result of which the average of the last 10 years ratio of revenue to capital is greatly skewed at approximately 70:30. The expenditure under both the heads with respect to the Army for the last four years is tabulated below:

**Table 3**

Heads/ Year	2011-12	2012-13	2013-14	2014-15
Revenue	69,791.57	77,380.54	85,785.81	89,358.96
Capital	14,947.82	14,760.68	14,433.53	14,843.37

It is a logical fallout of an incremental budgeting system where the share of revenue (pay and allowances) would increase, impacting operations and maintenance. An intra-Service comparison is futile as, unlike the Indian Air Force and Indian Navy that are platform-centric, the Indian Army continues to operate with the boots on the ground philosophy. The world is debating the merits of "boots on the ground" versus "combat disrupting technology". A lot of conflict resolution efforts by the application of military force in the recent

past have led to a far more unstable situation due to an early exit of ground troops or lack of boots on the ground. While the Indian Army must shed its excess baggage, it has to keep the regional texture and national context in mind. Some nations have territorial disputes, while others suffer from the scourge of terrorism. Unfortunately, India has both problems as non-contact warfare and war by other means have increased the danger of degrading the war-fighting potential and, at the same time, the threat of conventional war remains ever present. The changing nature of the conflict spectrum, with a technological springboard, poses a greater challenge for the policy and decision-makers. Index Mundi, which contains detailed country statistics, compiled from multiple sources, ranks India at 70, with approximately 29 per cent of the total population still below the poverty line. As the government rightfully focusses on addressing the issue of poverty, the resources for defence expenditure in a competing economic environment, coupled with the nation's desire for steady development, create a dilemma as well as a necessity, to ensure balanced allocation of funds for defence as well as value for money in expenditure.

The defence expenditure has seen a lot of fluctuation over the years and has been, in fact, on the downswing in terms of percentage of GDP in the last few decades. To illustrate the same, refer to Table 4 below:

**Table 4**

Year	GDP (at the Market Price) Rs in crores	Defence Expenditure (% of GDP)
1992-93	7,74,545	2.27
2000-01	21,77,413	2.8
2010-11	77,84,115	1.98
2015-16	1,42,47,410	1.73

The Indian economy took off in 1991 due to liberalisation as it migrated from a regulated and protected economy to a market-based one. While



India prospered, the unrest in Jammu and Kashmir (J&K) became a major security threat. There were 'liberated' zones within the Kashmir Valley. The terrorists' writ ran large as they picked up and eliminated people with impunity. The systemic carnage against Kashmiri Pandits saw their mass exodus from the Valley. The events necessitated the raising of a counter-insurgency force, namely, the Rashtriya Rifles. This comprised major force structuring in the Indian Army, with a long lasting impact in controlling the spiralling terrorists' activities in J&K. The defence outlay was able to absorb the expenditure of the Rashtriya Rifles even at 2.27 per cent of the GDP. While the force has been the major tool in the hands of the government as well as the Army to date in maintaining peace in the state, it dents the expenditure pocket of defence, as it is a force running on extension of government sanction. 1999 saw the Kargil War, leading to a fresh impetus in force structuring as well as modernisation. A new Corps Headquarters to look after the Leh and Ladakh area was raised. As seen in Table 4 above, defence expenditure against such a backdrop in 2000-01 was pegged at 2.8 per cent of the GDP. After the Kargil War, the defence forces were spending less than the allocation. During 1999-2000, the defence forces spent Rs 48,504 crore - nearly Rs 3,000 crore more than the allotted sum of Rs 45,694 crore. But in 2000-01, they spent Rs 54,461 crore as against the allocation of Rs 58,587 crore - Rs 4,000 crore less than the allotted amount. In 2001-02, the defence forces spent Rs 57,000 crore as against the revised allocation of Rs 65,000 crore - a big gap of Rs 8,000 crore. The defence budget allocation in the current financial year has one of the least percentages of GDP. The Indian Army is already in the process of raising another corps in the Northern Sector without any firm financial allocation, severely impacting the allocated defence budget, especially the revenue budget. The above statistics clearly indicate that the allocation of the defence budget has been reasonable all along, irrespective of the economic and security situations.

Economists rue the fact that the armed forces are being allocated funds at the expense of the health, agriculture and infrastructure sectors. But to undermine the armed forces for any reason is fraught with danger. Given the security paradigm and unrest across the globe, and the highly unstable neighbourhood, looking after the armed forces and its personnel is an unavoidable choice. As Kautilya famously wrote to Chandra Gupta, "**While the citizenry of the State contributes to see that the State prospers and flourishes, the soldier guarantees it continues to EXIST as a State! To this man, O Rajadhiraja, you owe a debt: please, therefore, see to it, on your own, that the soldier continuously gets his dues in every form and respect, be they his needs or his wants, for he is not likely to ask for them himself.**"

### **Financial Prudence vis-à-vis Efficiency in Expenditure**

The Standing Committee on Defence, during the time of the second United Progressive Alliance (UPA II) government, had observed the lack of budgetary support as well as inefficient utilisation of the allocated funds. It comprised a disturbing trend wherein the revenue budget is fully utilised and the capital budget remains underutilised. A huge portion of capital funds is being used for committed liability at the cost of fresh projects and, for the last couple of years, a sizeable portion of the capital funds gets transferred to revenue, initiating an avoidable last quarter rush for expenditure. The Navy and Air Force spend at least three times more than the Army on equipment. A healthy 61-62 per cent of their budget is spent on capital expenditure, i.e. new warships, aircraft, weapons and ammunition. It's time the Army got its rightful share of expenditure on modernisation and equipment. Future wars will be fought divorced from the past and a holistic vision of force structuring is needed to get the right balance among manpower, modernisation and equipment

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acquisition. The armed forces also have to remain alive to the fact that they are being allotted funds at the cost of some important nation building projects. Hence, utmost care and prudence is needed in defence expenditure. The complex deployment of the armed forces, running across the length and breadth of the nation necessitates the right balance of economy of resources and effort, as well as positioning of resources. The military decision impacting finance has to be rational, logical and bereft of a feudalistic mindset. The armed forces also need to create specialists who understand finance and have the required knowledge base and background to hold important appointments in budget and finance. Accountability for results must be given equal impetus and decision cost must be factored in while assessing expenditure on a project.

### Conclusion

As brought out earlier in this paper, annual analysis of defence expenditure may not be in the right context as defence projects and procurements run for decades. The armed forces in India continue to follow the incremental budgeting system. On an annual basis, incremental factors are applied, keeping in view the trends in expenditure. In fact, financial allocation to all the ministries is on an incremental basis, based on the expenditure in the previous financial year. The incremental system

basically ensures monitoring of expenditure against allotment. While the existing system can generate information regarding expenditure under various heads such as stores, works, pay and allowances, etc, there is no mechanism to forecast a budget based on desired outcome viz operational capabilities, logistics sustenance, etc. The financial allocation to defence needs a holistic approach, integrating all activities, leading to tangible outcomes.

Finally, any nation that ignores the relevance of its military, does so at the peril of its own sovereignty. A cheap Army becomes expensive in war. Absence of war should not make the armed forces irrelevant, for the brilliance of a nation is in its ability to prevent a war and not to wage and win it. And how is that done? By a strong leadership, with sustained economic growth which can financially absorb a war, and by maintaining a credible deterrence in the form of potent and capability driven armed forces. At the end of the day, each element of nation building has to make sure that the future we want, is the future we get.

### Sources of data

IDSA Study on Defence Expenditure

SIPRI

IISS

Index Mundi

<http://businesscasestudies.co.uk>

[indiabudget.nic.in](http://indiabudget.nic.in)

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**CENTRE FOR LAND WARFARE STUDIES (CLAWS)**

RPSO Complex, Parade Road, Delhi Cantt, New Delhi 110010

Tel.: +91-11-25691308, Fax: +91-11-25692347, Email: [landwarfare@gmail.com](mailto:landwarfare@gmail.com)

Website: [www.claws.in](http://www.claws.in)

CLAWS Army No. 33098