IMPLICATIONS OF MILITARY EXPENDITURE IN INDIA

Arun Kumar N R, BBA. LLB (Hons), School of Excellence In Law, The Tamil Nadu Dr. Ambedkar Law University

ABSTRACT

This paper deals with the insights into the preponderous investments made in the defence sector making it a sector of extortionately highly consuming sector compared to the other canons of public expenditure. It not only drains out the Public Expenditure reserve but it also tends to commit larceny and derogation of the other canons that prove vital to the nation's growth and development. The spending has ought to have increased the tax rates thus incurring extra responsibility on the tax payer's shoulder and the emphasis of welfare nation is deduced down to the lowest divisible strata of public expenditure.

Keywords: Military expenditure, Goods and service tax, Military expenditure per capita, Economic growth, Military Keynesianism

INTRODUCTION

The trend correlation method suggests that the increasing demand on the infrastructural developments of the military camps and India being less innovative in terms of production of advanced defence mechanisms to cope with the developed superpowers, the existing budget allotted towards the function of defence would double in the next 15 years, thus consolidating 9.32 % of the country's GDP. The concentration of resources in building up the empire, has slowly resulted in deforming the factual needs of the country as a whole.

The recent position of the United States of America with the constraints imposed by the pandemic [Covid-19] has made the government cut off the spendings on military expeditions and to create an emphasis on the internal developments. The citizens equivocally voiced out to the sovereign to scatter the spending on various pitfalls of the nation like unemployment. USA has been the major power house of defence expenditure for the past two decades and the Afghan acquisition alone costing them an excruciating 2.26 trillion dollars spent at 300 million dollars/day.¹

Total U.S. defence spending (in inflation-adjusted dollars) has increased so much over the past decade that it has reached levels not seen since World War II, when the United States had 12 million people under arms and waged wars on three continents. Moreover, the US expenditure on defence has jumped from about one-third to about one-half in this same period. Some of this growth can be attributed to the wars in Iraq and Afghanistan, but the baseline or regular defence budget has also increased significantly. It has grown in real terms for an unprecedented 13 straight years, and it is now \$100 billion above what the nation spent on average during the Cold War. The fiscal year 2012 budget request of \$553 billion is approximately the same level as Ronald Reagan's FY 1986 budget.²

It took USA, 20 years to realise the burden that the defence voyage set out by it. So, it's time that India starts cutting down the expenditure of defence and focus more on meeting the needs of the nation. The reason countries construct defence mechanisms is the fear of being oppressed, invaded by the other super powers. Instead on safeguarding the borders, it is viable to enter into Diplomatic Treaties to cut down the cost in its entirety. The Global Administrative Law needs to be emphasised by the developed nations to regulate the functioning of the treaties,

 $^{^{1}} https://watson.brown.edu/costsofwar/files/cow/imce/figures/2021/Human\%20and\%20Budgetary\%20Costs\%20 of\%20Afghan\%20War\%2C\%202001-2021.pdf$

² https://www.americanprogress.org/article/a-historical-perspective-on-defense-budgets/

to hold still 'Peace'. Thus, when peace is restored in humanity, then covalently the needs of the citizens can be achieved by the governments. The biggest issue in choosing to spend on defence by India is, we as a nation import military equipment from other developed nations thus increasing the cost of every article by 20%. And also, India tends to acquire the discarded war equipment like that of INS Vikrant [R11], which was never commissioned by the maker, the United Kingdom.

On the contrary the newly constructed warships at Cochin costed roughly around 23000 crores ³, thus impairing the wide areas of where the public expenditure could be increased. The expenditure on defence foregoing the needs of the nation to render the welfare function has been an important question in the minds of the economists. The two world wars already create a ruckus in the global economy, where everything was allotted to render military functions and the remaining sect of the people were left in ruins. The expenditure on defence is forcing a burden on the economy of the nations, as that kind of an expenditure is equated towards consumption, where you pay and consume a service. The service rendered here is not beneficial to the welfare state. Though we accept the point that a nation to remain sovereign it needs to make it stand and protect the borders, the same can be achieved through diplomatic relations between nations. According to SIPRI's estimates, India have been spending a constant amount of government spending on the defence, though the current government is said to have developed Diplomatic relations. The extortionate budget allotted towards defence affects the society at large and the government is forced to regulate the other canons of the governance thus impounding the expenses of the general public. In this article we will see how the increasing defence expenditure is implicating the other canons of the governance and the burden on the citizens.

REVIEW OF LITERATURE:

1. GOVERNMENT EXPENDITURES EFFECT ON ECONOMIC GROWTH⁴

By Peter Sjoberg.

The theory limits itself to the explanation of minimum variables that can be substituted and the government expenditure as a whole is taken as the scope of study, whereas the individual units

 $^{^3\} https://www.newindianexpress.com/nation/2021/aug/04/indias-first-indigenous-aircraft-carrier-ins-vikrant-sets-off-for-sea-trials-from-kochi-2340044.html$

⁴ 2003:130 SHU. ISSN: 1404-5508. ISRN: LTU-EX-03/130--SE

of the government expenditure are the ones to put in light the way the economy of the country is affected by that variable. The conclusion of saying that the government expenditure initiates detrimental economic growth is not acceptable because the public expenditures of instruments of investments form a key part of constituting economic growth of the nation.

2. IMPACT OF DEFENCE EXPENDITURE ON ECONOMIC GROWTH: TIME SERIES EVIDENCE FROM PAKISTAN⁵

By Amjad Ali & Muhammad Ather

The study limits the boundaries to a minimised scope thereby neglecting the external pressure factors that too in a state like Pakistan where it's known for communal riots and internal strife, requiring the government expenditure mostly on the ad hoc conditions of the state.

3. IMPACT OF DEFENCE EXPENDITURE ON ECONOMIC GROWTH:⁶

By MASOUD ALI KHALID* MUNADHIL ABDUL JABAR ABDUL RAZAQ

In this case, shifting resources from military to civilian spending seems to increase long-run economic growth; and resources must be reallocated from unproductive military sector to the civilian activities in order to foster US economic growth. Thus, reallocating resources from military to civilian spending may not result in increased growth unless the military allocation favours productive activities.⁷This resonates to the view and the equivocal hypothesis of this paper we intend to start with. The consideration here too is limited to the internal functions of US and the implications placed on the other variables are still vague and not achievable through empirical calculations alone.

4. MILITARY EXPENDITURE AND ECONOMIC GROWTH

By Jean Drèze

The paper rightly advocates the relationship between the economic growth and the government's expenditure, the opposing view of the Military Keynesianism has opened up new

⁵ Global Journals Inc. (USA) Online ISSN: 2249-4588 & Print ISSN: 0975-5853 Volume 14 Issue 9 Version 1.0 Year 2014

⁶ Research Journal of Finance and Accounting www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.6, No.7, 2015

⁷ Global Journals Inc. (USA) Online ISSN: 2249-4588 & Print ISSN: 0975-5853 Volume 14 Issue 9 Version 1.0 Year 2014

ways of interpreting the relationships, thus initiating interest on new opinions about the topic herein under discussed.

In this paper we will discuss on overall important implicit and explicit ways in which the defence expenditure implicates the canons of general governance. This can be achieved through the non-empirical study with generalised relation development as the focus mainly is to regulate the defence expenditure which is to an extent arbitrary to any nation's developmental schemes. The mechanisms mostly considered are the usual canons of public expenditure that can procure the government with either return on investment or developmental plans.

RESEARCH GAP

The areas identified so far have been the general impact created on the nation's economy as a whole, the motto of this research is to form relationships between the social units and other canons of expenditure and also political decisions.

STATEMENT OF PROBLEMS

The few things on debate are, whether the Military Keynesianism formulates the regulations of Military Expenditure research or the validity can be questioned and disproved and GDP is unaffected by the Increased defence expenditure, the impact on direct public and also to check whether super powers face Decelerating slope because of military expenditure with light on the back log by the US from Afghanisthan?

OBJECTIVES

The main objective of the study is to form non-emprical relationships between Military Expenditure and canons of governance that directly effects the public and to find out the positive and negative effects of the same.

HYPOTHESIS

The Military Expenditure is becoming an extortionate threat in public expenditure burdening and falling on the shoulders of the tax payers.

METHODOLOGY

The methodology taken up here to conduct the research is a non-emprical study to form relationship between the factors that are implicitly being influenced by the increasing Military Expenditure.

MILITARY KEYNESIANISM-A GENERAL SNAG ON MILITARY EXPENDITURE

The theory proposed by John Maynard Keynes proposes the view of Military Expenditure as the way to increase the aggregate demand and thus promulgating the economic growth of a nation. The usual observations made by Keynes dealt with the Nazi government and the World War, that had to take in account the squandered resources too. The said increase in the demand aggregate was observed only for a brief period and swivelled down on the long run.Contrasting to the theory of Military Keynesianism, the trends shown in these models are in preponderance to show the decrease in the GDP of the nations during periods of heavy military investments like that of the present revoking move by USA from Afghanistan after 20 years of military spending on an issue that finally brought to light 'to instil fear and protect the nation's security' as stated.

Thus, emphasis can be made, where the US government had to spend optimal resource on Military investments starting from the year 2000, during the George Bush period where they had to put in military setups and settlements, that period saw a huge growth in military expenditure, tabulating,

Table.1	

S.NO	YEAR	MILITARY EXPENDITURE AS PART OF GDP
1.	2001	9.6 %
2.	2002	10.3 %
3.	2003	11.3 %
4.	2004	12 %
5.	2005	12.1 %

SOURCE: SIPRI

In this tabulation the desired values of the Military expenditure as part of GDP are obtained and it shows convulsive behaviour with the increasing military needs of the acquisition and peace, the resources that could have been allotted towards the canons of positive government expenditure as for example the unemployment crisis that already had roots during the period of 2000-2005.

5. CASES ON DEFICIT SPENDING

On August 25, 2005, Hurricane Katrina hit the Gulf Coast of the U.S. as a strong Category 3 or low Category 4 storm. It quickly became the biggest natural disaster in U.S. history, almost destroying New Orleans entirely due to severe flooding. Hurricane Rita quickly followed Katrina, only making matters worse. Between the two, more than \$175 billion in damage was done. More than 500,000 jobs were lost and more than homes were destroyed. Hundreds of thousands of people were displaced, and more than 1,800 were killed or missing. The effect on oil and gasoline prices was long-lasting.⁸ After a brief slide post 9/11, the stock market rallied but began to slide again in March 2002. The market reached lows not seen since 1997 and 1998 by July and September of 2002. The corporate fraud scandals, such as Enron, along with 9/11, were contributors to this loss of investor confidence in the stock market.⁹

These are the instances where the spending has been outwardly invested and to quote, we can say that these were the instances that led to major power nations and other USA namely China and India.

S.NO			GDP	(Trillion		INCREASE
	YEAR	dollars)				
1.	1997	12.055			-	
2.	1998	12.595			0.595	
3.	1999	13.195			0.6	
4.	2001	13.875			0.68	

Table.2

⁸ https://www.doi.gov/emergency/factsheets/hurricanes-katrina-and-rita

⁹ https://money.cnn.com/2002/07/19/news/crash2002/

5.	2002	14.117	0.242
6.	2008	16.326	2.209
7.	2009	15.912	-0.414
8.	2019	19.975	4.063
9.	2020	19.294	-0.681

Source: World Bank

Table 2 indicates the increase in the GDP during the periods of on and off Military Expenditure of the US, thereby procuring a significant decrease during 2008 and 2020 namely. The economic depression was led not only by the stock market crash but also the par investments and the aftermath couldn't be calculated in advance and the government had a drained-out reserve for public spending thus letting the GDP find a steep decrease for the first time in 11 years. The 2020 drop was the actual impact of the military spending of about 6.74 trillion dollars by the US government between 2000-2020. The investments and the ad hoc measures weren't kept in mind and the internal developmental public expenditure was neglected during the voyage. Though said for a swift period in the history, there was increase in the overall GDP due to Military Expenditure, we can sum it to be in the short run with a long drawn negative impact on the future reserves, and also equipment manufacturing for outsourcing and it getting a roof under military expenditure is another question on debate as this formed the major portion of GDP increase during that period. In India as well the military expenditure had to be increased in recent times due to the border tensions and a lot of allotments have been made under the head 'Border Maintenance'.

India made a constant expenditure on military during the last three years, and also during the said period there has been a decline in the GDP of the country and that's because India is not self-sufficient to support a pandemic by not cutting off costs fro defence, if there has been caution, the nation could have put the resource to better use than defence. Compared to US, India being a less financially stable country, the effect of military expenditure has immeditaely reflected upon the GDP.

Table.3

S.NO	YEAR	MILITARY EXPENDITURE AS A		
		PART OF GDP		
1.	2018	9.0 %		
2.	2019	9.0 %		
3.	2020	9.1 %		

Source: SIPRI

The Military Keynesianism is not an absolute theory to form relationship between the military expenditure and the economic growth or we can conclude that the postulations of the theory come down with heavy criticism.

MILITARY EXPENDITURE AND TAXATION

Tax has always been the area where the government can exercise exclusively unadulterated rights and governance, the regulation having no foreseen limit. Thus, it is safe to say that the extortionate expenses made by the government can be brought back in form of tax, thus shifting the burden back on the citizens.

The present world condition with the tension increasing between Ukraine and the Russian Federation has shown significant increase in the need to stabilise the overall global economy, as the exports of oils and fuels to a certain extent has been refrained. This is likely to create within a few months a significant increase in the tax rates charged for consumption of the fuels. India not bringing the fuels under GST¹⁰ has given itself an upper hand to regulate the high calibre tax rates, as when not under GST, the tax rates can be high and not limited to 28%. The percentage of tax calculated was marked at 178.40% in the year 2020, the base dealer price being Rs. 25 and the tax charged on consumption being Rs. 47.3. The tax on income expenditure can also be seen to have increased though not expeditiously but at a constant pace of increase in the past 10 years.

The increase in personal income expenditure can be seen to have a significant spike between the years 2018 and 2020. Conclusions can be derived from this to match up with the

¹⁰ Goods and Services Tax

investments made in 2013-2016, whereby the government increased the tax rates so as to accommodate the extortionate spending and a point to note is the introduction of GST in the said period. GST for the past few years have proved to have tax rates higher than the already existed VAT¹¹. The slow imposition of tax on the citizens would have helped and went unnoticed if not for the pandemic, where the government's financial position was exposed and possibly might lead to privatisation in the near future. The world bank data enumerates the weapon sales of India plotted against the Income tax rates over the last decade and it is surprising to note that when the weapon sales were skyrocketing so were the rates of the tax charged on the income of the individuals. Though this not being the only factor affecting the tax increase, but still it stands as a factor of influence that affects the tax rates.

MILITARY EXPENDITURE PER CAPITA

The tax rates charged by the government constain a part of the expenditure allotted towards the defence maintenance and improvement which is termed under the head as the Military Expedniture Per Capita. This generally in layman terms is the amount a citizen pays to the governemnt for it to render protection. This has been a major threat in the income tax rates for the citizens has the constant need to upgrade the defence to world standards calls for more and more sophiticated investments for the military.

Military expenditure per capita of India

Once again supporting observations can be seen in the way the outcome has been shown, where we can find the relationship of slowly increased military expenditure that has resulted in increase in Military Expenditure per capita in India. Thus, the relationship between an individual, GDP and the Military Expenditure can be summed into an equation of proportionality as follows;

Military Expenditure \propto Military out supply \times Individual Income Tax/GDP.

This shows the various factors that are being affected producing a derogatory effect on the public while the military expenditure is increased.

¹¹ Value Added Tax

OBSERVATIONS THROUGH SURVEY

DEMOGRAPHY

S.NO	DEMOGRAPHY	CRITERIA	NO OF	PERCENTAGE
			RESPONSES	
1.	AGE	10-20	12	24%
		20-30	11	22%
		30-40	19	38%
		>50	8	16%
		TOTAL	50	100%
2.	OCCUPATION	PROFESSION	9	18.4%
		EMPLOYMENT	13	26.5%
		BUSINESS	6	12.2%
		UNEMPLOYED	21	42.9%
		TOTAL	49	100%
3.	SEX	MALE	18	36%
		FEMALE	19	38%
		OTHER	5	10%
		RATHER NOT SAY	8	16%
		TOTAL	50	100%
4.	STREAM(OPTIONAL)	ENGINEERING	5	20.8%
		MEDICINE	2	8.3%

	RESEARCH	4	16.7%
	SCIENCE AND ARTS	13	54.2%
	TOTAL	24	100%

STATEMENTS

S.NO	STATEMENT	CRITERIA	NO. OF	PERCENTAGE
			RESPONSES	
1.	Tax should be	AGREE	23	46%
	proffered towards Military	NEUTRAL	14	28%
	Reinforcements over Diplomatic Relations	DISAGREE	13	26%
		TOTAL	50	100%
2.	Military Expanditure is	AGREE	14	28%
	Expenditure is having a Derogative	NEUTRAL	20	40%
	effect on GDP	DISAGREE	16	32%
		TOTAL	50	100%
3.	Military Expenditure is	AGREE	19	38%
	Expenditureisbeinggiven	NEUTRAL	14	28%
	"Prerogative importance"	DISAGREE	17	34%
		TOTAL	50	100%
4.		AGREE	19	38%

	Comprehension of	NEUTRAL	16	32%
	the term "Military Outsourcing" is tough	DISAGREE	15	30%
		TOTAL	50	100%
5.	SIPRI is ineffective	AGREE	11	22%
		NEUTRAL	25	50%
		DISAGREE	14	28%
		TOTAL	50	100%
6.	Ĩ.	AGREE	18	36%
	proper military equipment	NEUTRAL	11	22%
		DISAGREE	21	42%
		TOTAL	50	100%
7.	Tax burden is	AGREE	22	44%
	imputed by increasing military	NEUTRAL	16	32%
	requirements	DISAGREE	12	24%
		TOTAL	50	100%
8.	Unproportionate	AGREE	18	36%
	spending on military was the	NEUTRAL	15	30%
		DISAGREE	17	34%
	backlogging from the Afghan war			
		TOTAL	50	100%

9.	•	AGREE	11	22%
	for a nation	NEUTRAL	17	34%
		DISAGREE	22	44%
		TOTAL	50	100%
10.	"The military expenditure per	AGREE	24	48%
	capita" is inflating	NEUTRAL	14	28%
		DISAGREE	12	24%
		TOTAL	50	100%
11.	Increasing military	AGREE	23	46%
	expenditure per capita is a threat	NEUTRAL	15	30%
		DISAGREE	12	24%
		TOTAL	50	100%
12.	Immaculately high	AGREE	19	38%
	budget is allotted towards defence	NEUTRAL	12	24%
		DISAGREE	19	38%
		TOTAL	50	100%
13.	Comprehension of	AGREE	19	38%
	the term "Border Maintenance" is	NEUTRAL	17	34%
	common	DISAGREE	14	28%
		TOTAL	50	100%
14.	The privilege	AGREE	14	28%
	expenditure of the	NEUTRAL	23	46%

	military and ministry must be categorised towards poverty	DISAGREE	13	26%
		TOTAL	50	100%
15.	Given a Defence Equilibrium	AGREE	18	36%
	[Peace], a country	NEUTRAL	12	24%
	should invest in sophisticating infrastructure using public revenue	DISAGREE	20	40%
		TOTAL	50	100%
16.	Countries underspends public	AGREE NEUTRAL	16	32% 26%
	revenue on necessities	DISAGREE	21	42%
		TOTAL	50	100%
17.	Peace is	AGREE	21	42%
	Extravagantly Extortionate	NEUTRAL	16	32%
		DISAGREE	13	26%
		TOTAL	50	100%
18.	People like to procure increased	AGREE	18	36%
	return on tax	NEUTRAL	14	28%
	payment	DISAGREE	18	36%
		TOTAL	50	100%

19.	Government	AGREE	23	46%
	propitiates only during elections	NEUTRAL	11	22%
		DISAGREE	16	32%
		TOTAL	50	100%
20.	Accountable military spending is	AGREE	19	38%
	important	NEUTRAL	18	36%
		DISAGREE	13	26%
		TOTAL	50	100%

The overall observations that can be inferred from the research is that the Military expenditure incurred has been affecting the economy of India and also the individuals of the nation. The astounding effects are so far unknown to the ones who have to be told. The observations do support the hypothesis formulated as the relationships established show that the regulation of Military Expenditure is creating a effect on the economy, this predominantly creating a derogatory effect as these resources could be alloted for fulfilling other canons.

LIMITATIONS

The study is limited to India in particluar with only a few comparative analysis of other modern superpowers. The study is not exhaustive of all canons of public expenditure, as some may produce results in contrast when viewed from the government's point of view, for example increased taxation is gonna curl down capitalism and promote equitable sharing in the future.

The study can't be put into emprical observations as the study is implicit and suggests the wasy to reduce the burden on taxpayers by cutting off Military Expenditure.

SUGGESTIONS AND CONCLUSIONS

The results obtained are consistent with the anticipated growth mechanisms and have been useful to establish the relationship between Military Expenditure and other canons of general governance. The way the Military resources are put use can be substituted with lower cost treaties of 'Peace', thereby getting the needed protection through diplomacy and not fight over to prove the sovereign supremacy as violence should never be an option and if so the government chooses to develop the military against these odds, it is advisible to choose military outsorucing thererby reducing the cost of privilege given to the army officials.

The area where the governemnt needs to stand corrected is choosing military over the internal uprising needs. The internal needs form the GDP and the economic growth is the biggest form of protective equipment a country can possess. Japan can be said as an example to this, as the technological development there has led them to dictate terms I many industries and mostly all nations open up trade with them, thus automatically providing themselves with protection with trade diplomacy.

Poverty has been the important grave factor in India and this is the area where we have to focus all the funds available. Reducing the defence Expenditure is helpful to reduce the tax rates so that equitable application of resources can be made and job opportunities can be opned up to light.

The Military Expenditure hence needs to be curtailed down to bare minimum and the funds have to be allocated in areas that can procure return on investment to the country.

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