

Schmidt, Helmut

Article — Digitized Version

Military expenditure in a free market economy

Intereconomics

Suggested Citation: Schmidt, Helmut (1968) : Military expenditure in a free market economy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 1, pp. 28-29, <https://doi.org/10.1007/BF02930433>

This Version is available at:

<https://hdl.handle.net/10419/137865>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Military Expenditure in a Free Market Economy

QUESTION: The 1968 Draft Budget of the Federal Republic of Germany assesses next year's military expenditures at a total of DM 19,400 million. Does this mean that our defence budget forms a decisive factor influencing German business development deeply?

ANSWER: Last year, a very thoroughgoing critical discussion of the subject "Armaments and the Economy of the Federal Republic" was published. This study came to the conclusion that the familiar theory about imperialism, which believes in a close connection between capitalist production and armament expenditure, can in no way be proved by what actually happened up to now in armaments procurement in the Federal Republic. Anyway, as the State is the only customer buying military armaments, this monopoly is a strong factor acting contrary to the normal forces of a market economy. German industry, fundamentally, has no need of armament orders. Additional proof for this assertion can be found in the fact, among others, that there has been no move towards a revival of big armaments combines, as they have existed in the past.

However, there is a limited connection between armaments and the economy through the German defence forces' research contracts which, though their main purpose is military, will result in a number of by-products—new technological knowhow—of general economic usefulness. Such "knowhow", however, has a modest influence, fostering economic growth to a

We put a number of relevant questions on the influence exerted by financing, procurement, and planning of military supplies on the general business climate, the growth, and the technical development to Helmut Schmidt, Chairman of the Social Democratic Parliamentary Party in the Bundestag at Bonn.

limited extent by substituting fixed assets for human labour. Expenditure for defence purposes on this account is being made in order to increase our military security, not for the purpose of increasing economic growth. As far as I know, our Defence Budget has no relevant influence, positively or negatively, on deliberations and decisions touching economic stability or steering business activities.

QUESTION: Which are the main sections of industry that benefit from arms purchases, and how big is the share of defence production in the net value added by various industries?

ANSWER: Purchases of the Federal defence forces in the home market are mainly directed to the automotive industry. The battle tank, "Leopard", and the tank-hunter, which belongs to the same vehicle "family", were the first hard ware systems developed and built in the Federal Republic. Next in rank are our shipyards which, however, supply only small vessels, and then the aircraft industry. The latter hitherto lived almost exclusively on development orders, on subcontracting construction under licence, and on repair jobs. Finally, there are the German ammunition makers proper, but they supply only small-arms ammunition to our forces.

It is difficult to judge how much of the total net value added of each single industry is represented by work for defence. Compared with other European countries, our aircraft and aerospace industries are rather small, and about 75 per cent of

their turnover are represented by defence orders. Similar observations can be made about several plants of the explosives industry. A number of its smaller and medium-sized businesses make their living exclusively from defence force orders; which means that these industries are particularly sensitive to cuts in the procurement programmes of our forces. There are other industries, including automotive construction and electronics, for which defence orders are of minor importance.

QUESTION: Aircraft and rocket construction in the United States have radiated strong energies into all fields of industry. They call these influences "fall-out" over there—how big is this "fall-out", this by-product of armaments developments and techniques, in the Federal Republic, and which parts of our industry have benefited from them?

ANSWER: An answer giving definite figures is not possible. I have already stated that no specific armaments industry exists in the Federal Republic which means that industry will, at best, receive some stimulation through the research and development orders placed by the Federal Ministry of Defence. But these orders have been split up into many small sub-

contracts, the sums spent on them have been relatively small—in relation to similar orders placed by other governments—and therefore the “fall-out” from them is correspondingly puny. In the United States, too, “fall-out” consisting of new construction materials and of new electronic components does not play the decisive part. Of major significance for civilian economy are certain procedures and systems developed by military research institutions for planning, programming and control of large-scale development and production programmes. This field of new management procedure has hardly been touched upon by current development and production orders issued by the Federal Defence Ministry. On the contrary, much red tape and bureaucratic delay are hamstringing progress when the Federal Ministry of Defence places orders, instead of supporting the development of advanced techniques.

QUESTION: About one year ago, you still criticised the Federal Ministry of Defence for its lack of decision in initiating research into questions of defence technology. What ought to be done, in your view, in order to streamline such work, so that it leads to useful military and economic results?

ANSWER: I believe that the following steps are necessary:

Military research and development work ought to be directed towards large-scale projects, which are considered to be necessary by the military, and are economically efficient;

The Federal Ministry of Defence will have to draw up long-term defence and development programmes, including a plan for utilising available capacities, in order to guarantee full and continued use of existing research and development capabilities. The lack of such long-term programmes was one of the main reasons why our aircraft and aerospace industries experienced major difficulties during recent years;

The Ministry of Defence ought to utilise, at long last, industry's experience about supervising and controlling pilot projects and experiments;

But even more important is the acknowledgment of the fact that no long-term, rationally planned research and development work will be possible in the absence of long-term political defence planning, which corresponds to the objectives of our security and foreign policies.

QUESTION: In view of the “fall-out” of technological developments for defence purposes, do you think it useful to develop and produce the most advanced weapons systems on a purely national basis?

ANSWER: No. Advanced defence research and development work does not only cost enormous sums but it would also absorb much too high a proportion of our limited economic and technological capacities. We cannot afford to be self-sufficient in the field of defence. Defence research and development work is one of the important fields for advancing more effectively bilateral and multilateral cooperation between nations, especially with those European countries whose defence requirements are similar to ours.

QUESTION: So-called VTOL (military planes for “vertical take-off and landing”) developments in the Federal Republic have demonstrated that lack of follow-up orders may threaten to destroy the results of years of expensive development work, and provoke the emigration of highly skilled specialist workers to foreign countries. Under the economy regime in the Defence Budget, will it not be inevitable that such occurrences fatal for German technology and economic growth can never be prevented?

ANSWER: The main mistake in this case was that developing VTOL planes was started without a clearly defined military concept.

Medium-term budgetary planning has led to a reduction of future de-

fence budgets, compared with earlier conceptions of the Federal Ministry of Defence—no more and no less has happened. This does, however, not necessarily mean reduced expenditure for research and development purposes. On the contrary, we intend to increase this type of spending during the next few years, naturally always with the proviso that the Ministry of Defence proves to be able to spend these sums in a purposeful and sensible way.

The real dilemma of our defence budgeting is of a different kind. For years already, the running costs, which we spend on mere maintenance of the federal forces, have increased cumulatively—they have, in fact, expanded more rapidly than effective troop strength. In his speech on Budget Day, when he presented the 1968 Estimates, the Federal Minister of Finance has specially underlined this fact.

Unless decisive measures are taken, at least in order to stabilise these current costs, but preferably to reduce them, to maintain soldiers will soon absorb the entire defence budget, and hardly any funds will then be left for investments of this or another kind. The Minister of Defence knows the problems very well. But only little progress has been achieved so far in this field of introducing modern organisational and economical procedures in national defence planning and programming. I have the strong impression that progress is still being held up regarding these questions by short-sighted people working in defence matters, and fighting over jealously guarded vested interests. It is high time for the Defence Minister to call for expert assistance from the ranks of industry, because practically everything in his Department needs streamlining, from the top in the Ministry downwards through its centralised agencies, the main command posts of the federal forces to the operating units, which all need to be reformed according to modern management and business operational principles.