

Peak gun

Global arms spending is rising, but covid-19 will trim budgets

In the post-pandemic world, governments will have other priorities

[International](#)

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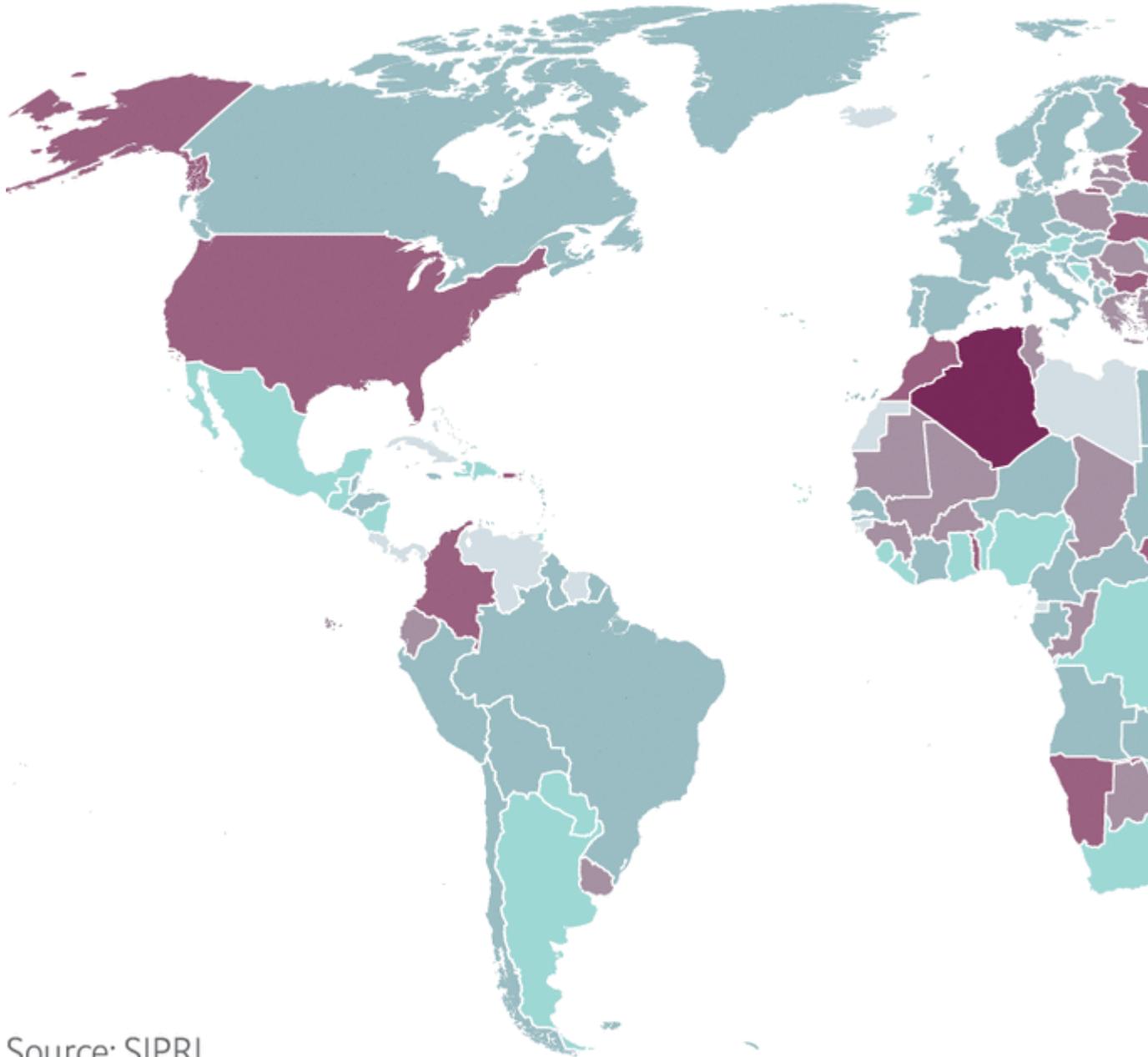
ACROSS THE world, the face of pandemic response has been not just the doctor, nurse and scientist, but also the soldier. Armies have built hospitals, enforced lockdowns and joined the hunt for a vaccine. That is not the usual business of soldiering, but armed forces must earn their substantial keep. Over \$1.9trn was lavished on military spending globally in 2019, the most in inflation-adjusted terms in more than three decades, according to a report published on April 27th by the Stockholm International Peace Research Institute (SIPRI), a think-tank. But as the world economy slumps and debt piles up, guns may lose out to butter.

Global military spending slumped after the end of the cold war, hitting a low of a little over \$1trn in the late 1990s (in 2018 dollars). It then shot up again in the 2000s, as America tooled up for its “war on terror” and China’s economy took off. After a brief dip, spending has climbed each year since 2015, driven by competition between America and China, European fears of Russian aggression and an Arab arms-buying spree. But the league table has been shuffled over time.

America remains comfortably on top, despite some lean years. Total military spending, including the cost of operations around the world, declined continuously, by over a fifth, between 2010 and 2017, and remains 15% below its peak in 2010. But a heavyweight on a diet still packs a punch; the numbers are dizzying. America’s outlay in 2019 grew by 5.3% to \$732bn, almost two-fifths of the world’s total and more than the next ten countries combined. Its year-on-year increase alone was equivalent to the entire annual military expenditure of Germany, notes SIPRI.

Guns or butter?

Military spending, % of GDP, 2019



Source: SIPRI

The Economist

Moreover, America also widened the gap with second-placed China, which upped spending by 5.1% to \$261bn, equivalent to just over a third of America's total. However, some experts argue that China's opaque military budgeting means that its spending is consistently underestimated, and that SIPRI's use of market exchange rates disguises the lower wages and cheaper prices available to lower-income countries.

Factor all that in and China's defence budget may in fact have reached around 87% of America's, suggests Frederico Bartels of the Heritage Foundation, a think-tank. Raw spending disguises technological advances, too. "China appears to be driving the military-technical competition in critical areas such as quantum science, biotechnology, hypersonics, and ballistic and cruise missiles," warns Robert Work, a former deputy secretary of defence in America.

Everyone else is a straggler by comparison. India, which has climbed from ninth place in 2010 to third in 2019, spent a relatively modest \$71.1bn while Russia, whose long spending boom on tanks, missiles and warships is drawing to a close, splashed out \$65.1bn (though, as with China, using exchange rates adjusted for purchasing power suggests a figure two or three times higher). Saudi Arabia's spending fell by 16%, but, at \$61.9bn, remains formidable.

Notably, no western European country stands in the top five. Britain and France, once reliably in the top rank, and Germany, which is gradually rearming, each spent around \$50bn or so. But closer to Russia's borders, budgets are swelling. Spending in central Europe was up by 14%, driven in large part by free-spending Poland. Despite NATO's various diplomatic travails—the alliance has been criticised by Donald Trump and Emmanuel Macron—its member states, excluding America, spent \$303bn last year, more than even the most generous estimate of Russian expenditure.

That so many countries are spending so much on the means of war is little surprise. Tensions between America and China have worsened in recent years, and the pandemic has deepened mistrust. The breakneck pace of Chinese armament has driven up defence investment across Asia, from Vietnam to Australia. At the same time, arms-control regimes are collapsing and last year saw missiles criss-cross the Persian Gulf. Those trends look likely to continue. But for all that, military spending now faces some serious headwinds.

Bomb and bust?

Oil prices have crumbled to their lowest in decades, as global demand crashes. Even if a Saudi-brokered deal among producers to cut output holds, the collapse is likely to pummel petrostates who piled up weaponry during the fat years. Russia is expected to lose around \$165bn in oil-and-gas export revenue in 2020 (based on an average oil price of \$30 a barrel), about a third of its total exports, notes Tatiana Evdokimova, chief economist of Nordea, a bank. Saudi Arabia, Qatar and the United Arab Emirates, all big arms-buyers in recent years, are expected to cut government spending.

But democracies have little to cheer about, because the wider economic consequences of the covid-19 pandemic will be more severe still. The IMF forecasts that the world economy will shrink by 3% this year, the worst contraction since the Depression. America, Britain, Canada, France, Germany and Italy—the six largest spenders in NATO—are projected to be among the very worst-hit. Emergency spending to cushion the blow already runs to \$8trn globally, or 9.5% of world output, and will leave a mountain of debt.

In these circumstances, political leaders are likely to face pressure to spend more on health and social safety-nets, and less on weapons. "We're seeing signs that governments might begin delaying major acquisitions," says Michael Formosa of Renaissance Strategic Advisors, a consultancy, which would leave smaller firms short of cash. "There's a very good chance that key parts of the supply chain will be distressed or in trouble in the very near term."

South Korea has said that it will trim next year's defence budget by 2% (\$738m) and Thailand by 8% (\$557m), with the money going instead to a disaster-relief fund and stimulus package

respectively. Others are certain to follow. European cuts “could sound the death knell” to NATO’s target that allies spend 2% of GDP on defence, note Christopher Skaluba and Ian Brzezinski of the Atlantic Council, a think-tank. “That could reignite a burden-sharing debate damaging to transatlantic solidarity, and by consequence, the willingness of the United States to keep forces in Europe.”

But America will not emerge unscathed itself. The RAND Corporation, another think-tank, estimates that even if American defence spending remains steady at 3.2% of GDP, the Pentagon might have \$350bn-600bn less than forecast under current plans over the next decade, about the same amount (\$500bn) as under a massive budget sequestration initiated in 2011. That is probably a lower bound, says RAND, because input prices for American arms are likely to rise as post-pandemic production moves out of China.

National priorities “will lean first and foremost towards improved income and health security, and better resilience and infrastructure”, says Frank Hoffman of the National Defence University in Washington. In a worst-case scenario, he says, defence spending could fall to about \$610bn, “a level that could require force reductions, reduce US basing and exercises overseas, and cuts in modernisation plans”. If covid-19 is a war against the virus then the peace dividend will, as usual, go to the civilians.

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