

Military Business Cycle, the Coup, and Economics of Corruption

Bhanupong

Lecture 27b

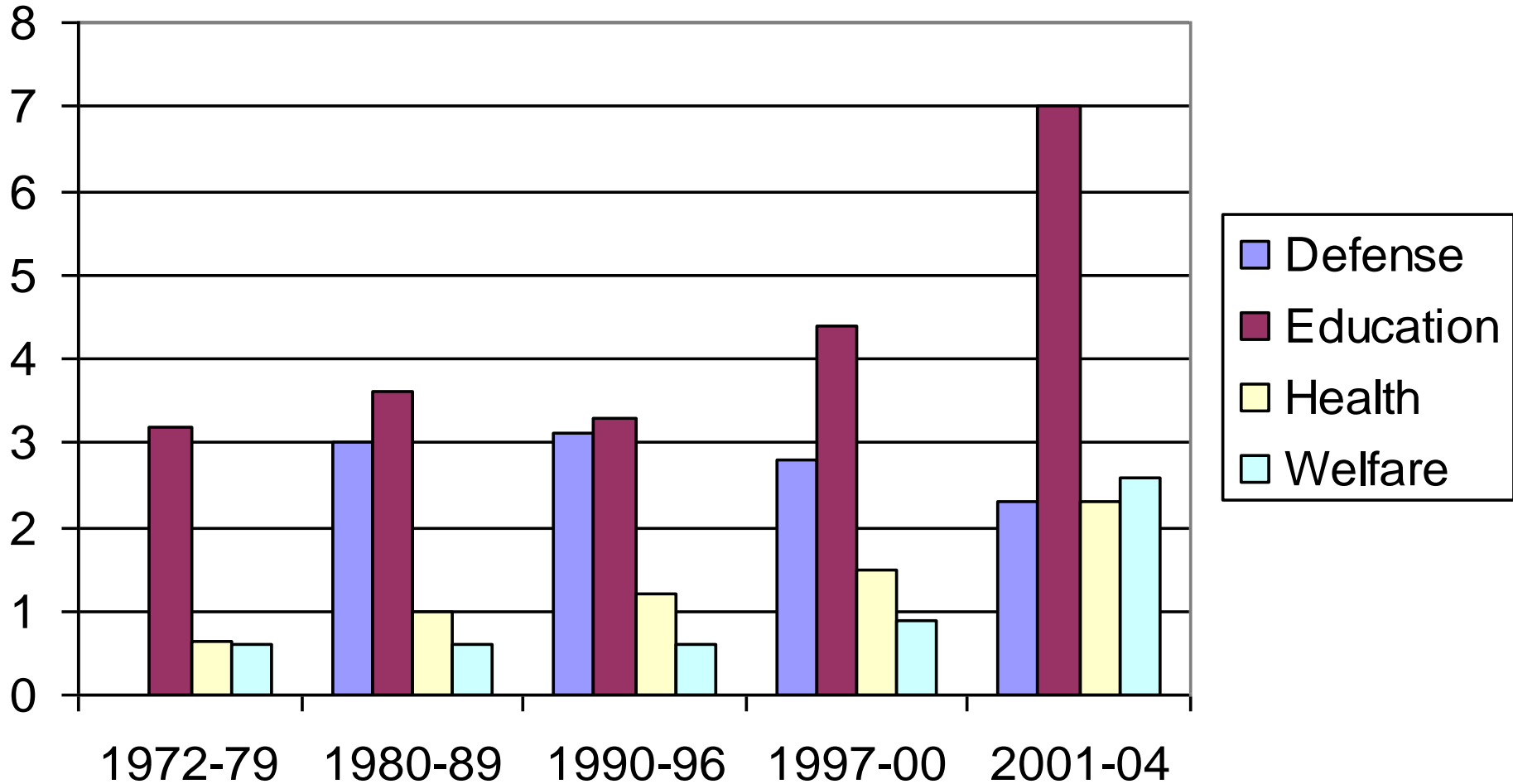
Determinants of military spending

- External and civil wars, military spending by potential enemies, population, and democracy.
- Democracy is negatively related to military burden.
- Military spending can be considered as a wasteful spending in time of peace.

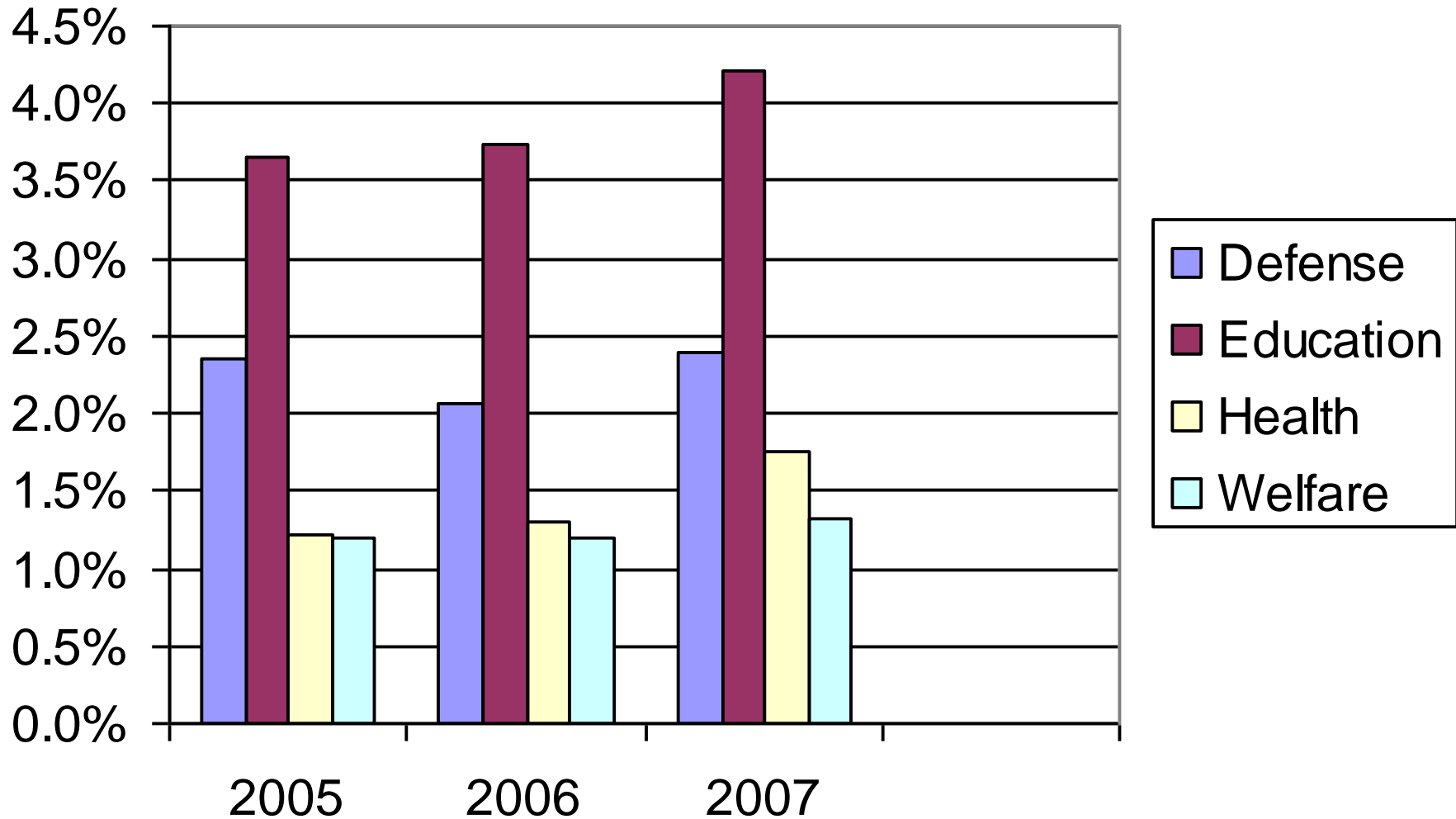
Political business cycle

- Governments tend to stimulate their economies with expansionary fiscal and monetary policies *before* elections, resulting in employment gains or wealth transfers, thus increasing government popularity.
- Restrictive policies *after* the election lead to a full circle in economic activity (Nordhaus, 1975)

Thailand's public spending (%GDP)



Public Spending (% GDP)

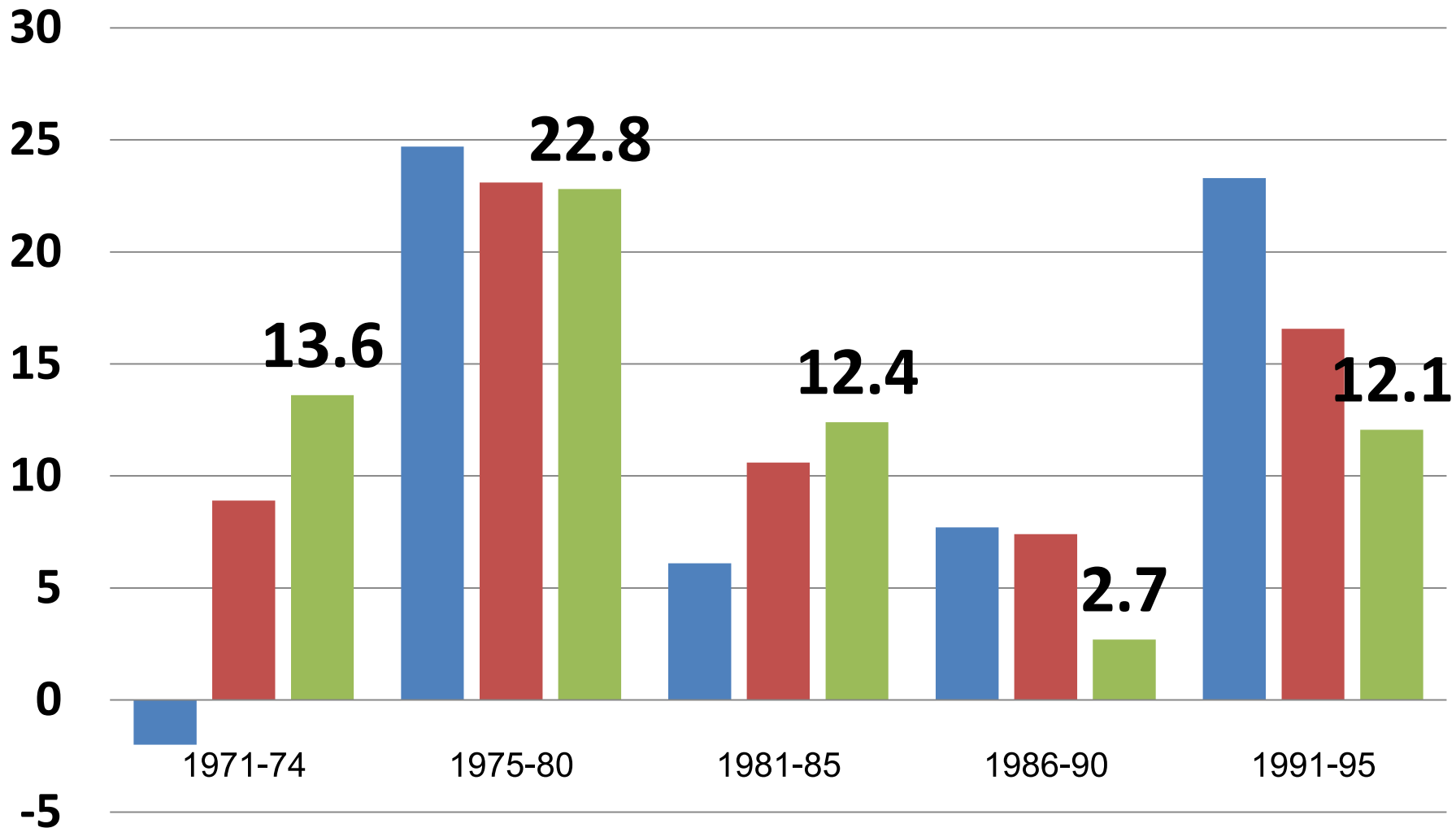


Years of recent coups (PM name)

- 1971 (Thanom)
- 1976 (Seni)
- 1977 (Thanin)
- 1981, 1985 (Prem, coup attempts)
- 1991 (Chartichai)
- 2006 (Thaksin)

Cyclical Military Spending

(period average growth rate)



■ Economic service

■ Total expenditures

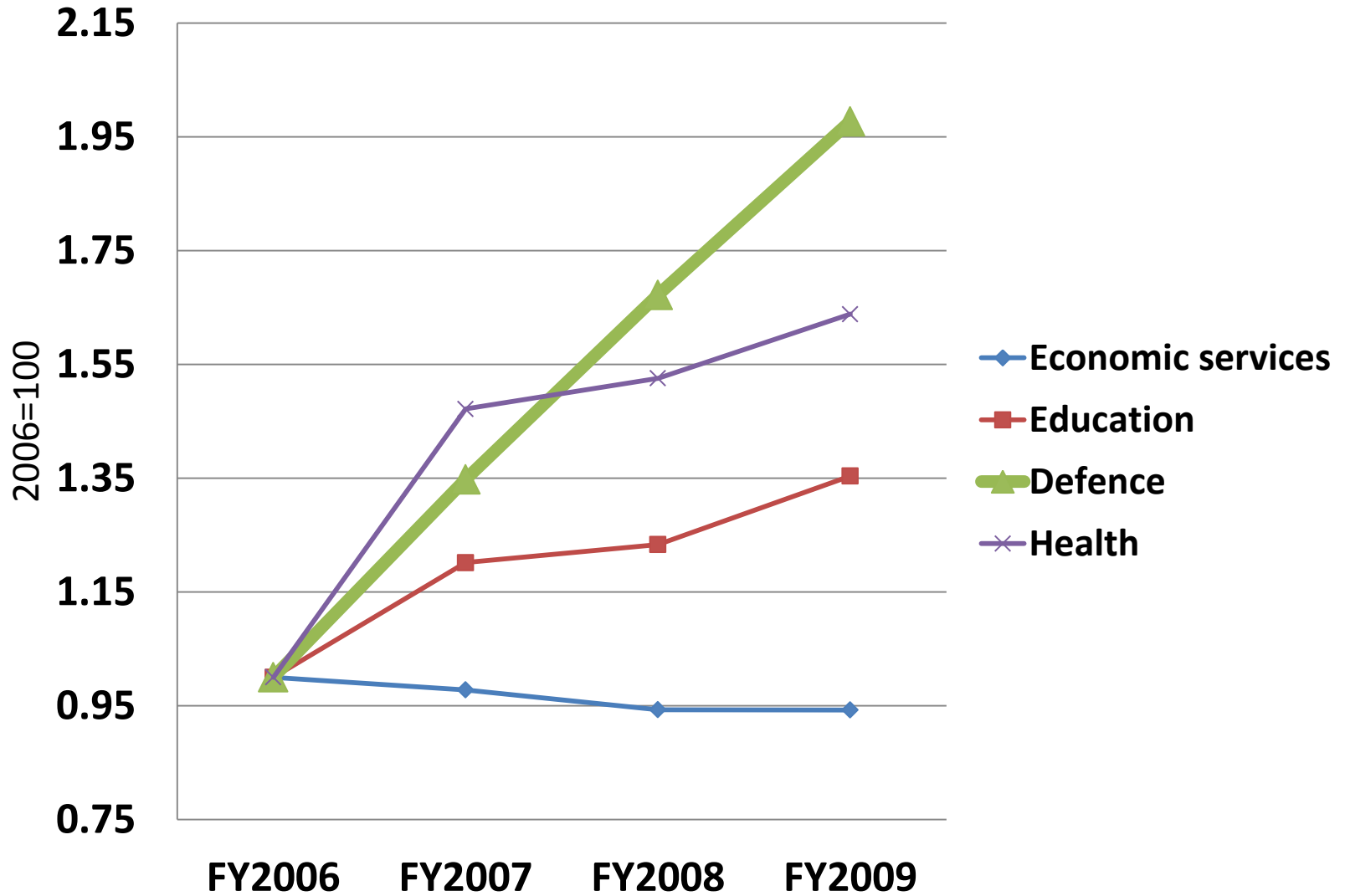
■ Defence

Hypothesis of military business cycle

- ***Military spending slump is a leading indicator of a military coup in Thailand.***
- A steep rise in military spending follows a coup and dies off as society regains sensibility.

Budget appropriation after the coup

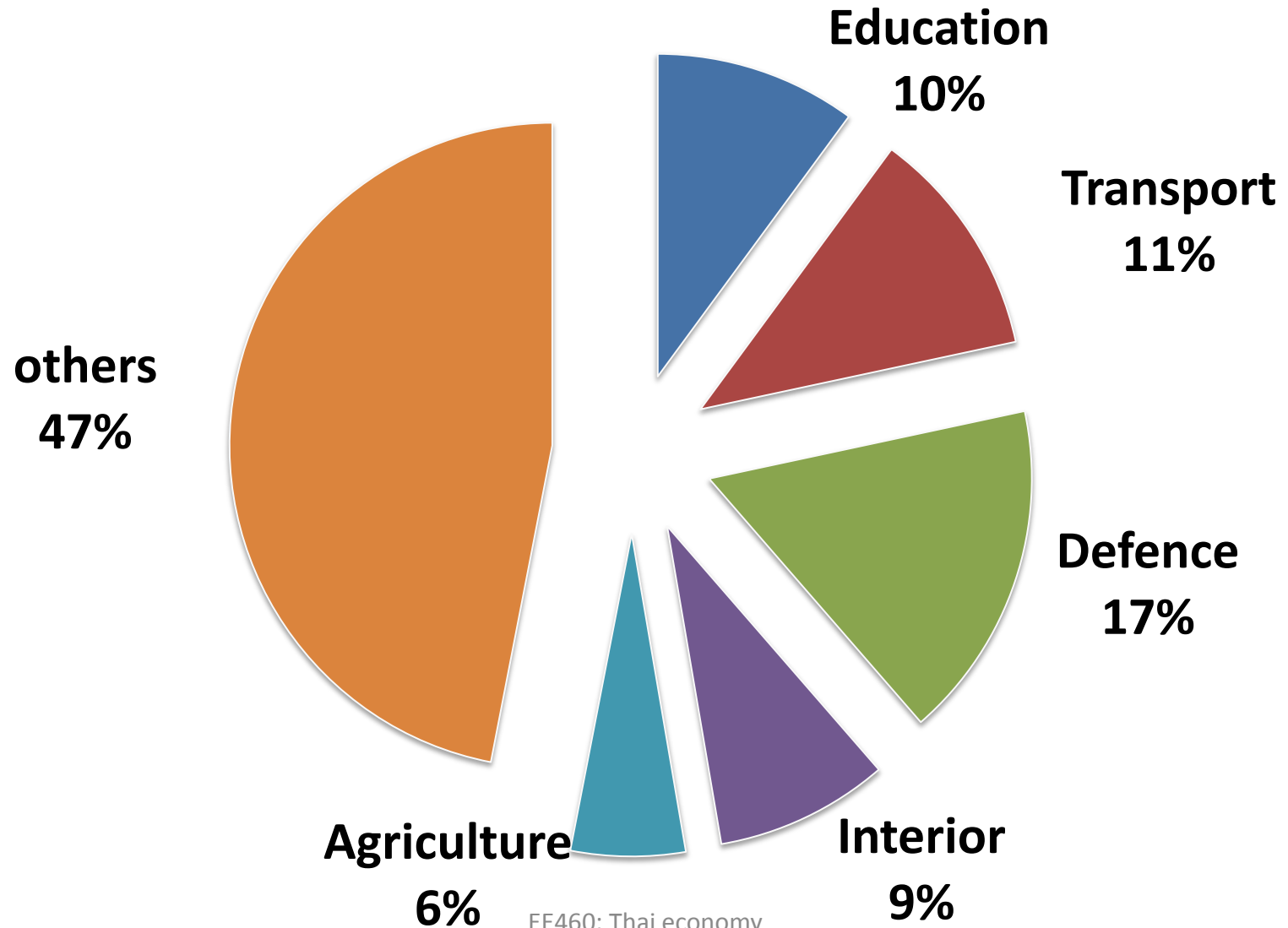
Source: Bureau of the Budget



Seemingly transparent procedures

- Strategic use of multi-year budgeting whereby really tough policies are systematically postponed to year 2,3, or 4 of the plan and seldom implemented since multi-year plans can be revised every year (Alesena & Perotti (AER, 1996)

Total multi-year commitment budget FY 2008-2012



Fiscal illusion

- Politicians generally choose to be ambiguous.
- Buchanan and Wagner (1977): Uninformed and naïve voters underestimate the costs of current and future public programs.
- Even with rational voters, ***strategic ambiguity*** may create advantage for policy makers in pursuing their goals (Rogoff, 1990).

Creative fiscal policy

- Optimistic prediction on key macroeconomic variables.
- Optimistic forecasts of the effects on the budget of various new policies.
- Creative and strategic use of what is kept in and off the budget.
- *The Thai government estimated that economic growth would rise to 2% to 3% in 2010 as the result of the 2009 fiscal stimulus, and 5 % annually with in the next few years.*

Fiscal indiscipline

- Fiscal prudence cannot be ignored.
- Multi-year budget is detrimental to fiscal flexibility and efficiency.
- Un-transparent budgetary procedure would lead to rising corruption.
- ***Tax payers are financing corruption activities.***

Indicators of institutional inefficiency

Mauro (QJE, 1995)

- Political change—institutional: Possibility that institutional framework will be changed within the forecast period by elections or other means.
- Political stability—social: Conduct of political activity and the degree to which the orderly political process tends to disintegrate or become violent.

Indicators of institutional inefficiency

- Probability of opposition group takeover
- Stability of labor: Degree to which labor represents possible disruption for manufacturing or business activity.
- Relationship with neighboring countries
- Terrorism

Indicators of institutional inefficiency

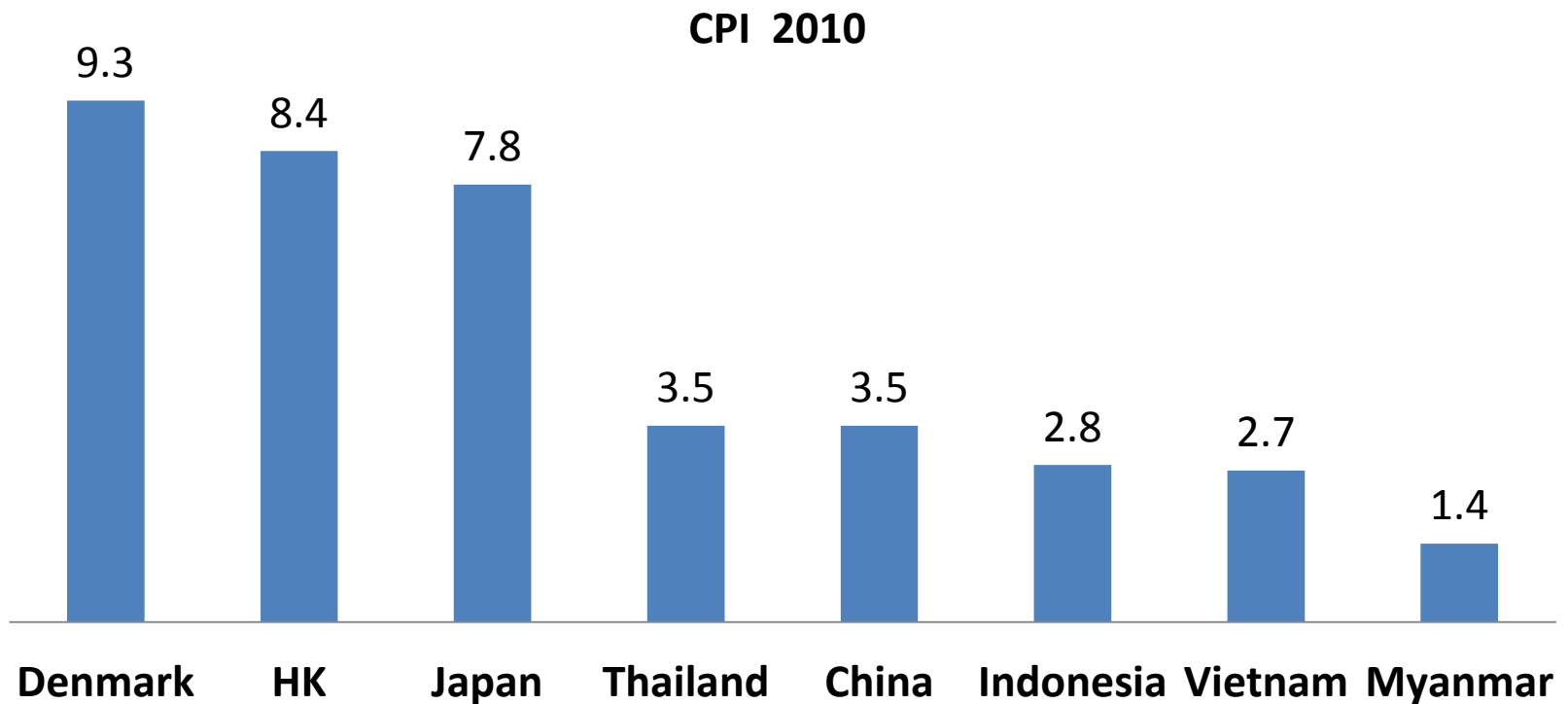
- Legal system, judiciary: Efficiency and integrity of the legal environment as it affect business.
- Bureaucracy and red tape
- Corruption: the degree to which business transactions involve corruption or questionable payments

Impact on investment and growth

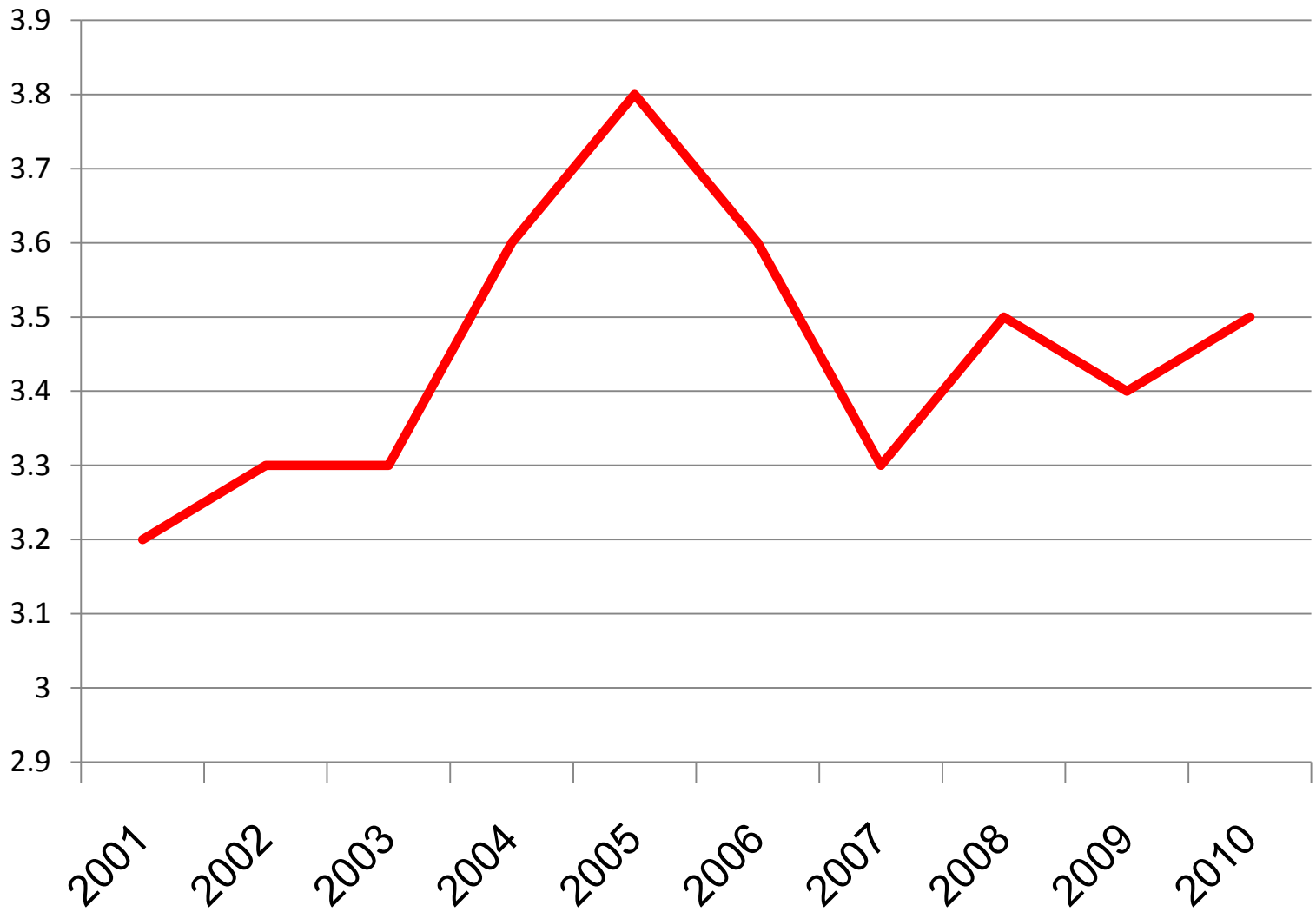
- Corruption lower investments by reducing the private marginal product of capital; thereby lowering economic growth rate.
- Revolutions and coups, political assassinations tend to lower long-term growth (Barro, QJE 1991)
- Institutional inefficiency causes low growth.

Corruption Perceptions Index

(longer bar, less corrupt)



Corruption Perceptions Index: Thailand



Source: Transparency.org

FE460: Thai economy

Concluding remarks

- Too low military spending may be dangerous to democracy because the military need to be pacified.
- Justification for the 2006 coup?
- Bad decisions in the past do have a long lasting impact in the future.
- Political dynamics would make it difficult to cut current spending in the future.
- Fiscal discipline has been neglected in the pursuit of short-run political gain at the expense of the long-term economic growth and stability.
- Ultra-populism policy is a legal means of vote buying.

The Army's GT200

- A bomb-dowsing rod: The GT200 devices have proved worthless at finding explosives. (500 million baht)
- Even more seriously, they have actually resulted in casualties, and in human rights violations against civilians, particularly in the South.

UK GT200 distributor found guilty of fraud – but what about Thailand?



A Thai soldier using the fraudulent bomb detector GT200 at an army checkpoint. The UK-based manufacturer was sentenced to jail last Friday. (Pic: AP)

Biggest boondoggle

- The list is long but includes the country's greatest white elephant ever, the multi-billion-baht aircraft carrier purchased from Spain during the height of the country's economic growth in the late 20th century.
- the flagship of the Royal Thai Navy and Thailand's first and only aircraft carrier.
- Design and constructed by Spanish shipbuilder [Bazán](#), *Chakri Naruebet* was ordered in 1992, launched in 1996, and commissioned into the RTN in 1997.

HTMS Chakri Naruebet



The Air force and the Gripen

- Vertical takeoff jets bought with the aircraft carrier, which have never effectively flown in combat or war exercises.
- To them, add the equally ground-bound Alpha jets purchased against massive public opposition, and the recent Gripen fighter purchases.
- The purchase of the Ukrainian armoured cars was another expensive exercise in poor military judgment.

The Gripen



And the Navy

- After years of being turned down, it now appears the Royal Thai Navy is actually closer to getting permission to purchase submarines than ever.
- The aircraft carrier HTMS Chakri Naruebet was sent out to rescue people stranded on islands like Koh Tao.

T69-II

During the 1980s, China was reported to have sold hundreds of Type 59 and Type 69 main battle tanks to Iraq



Size of this preview: 800 × 546 pixels. Other resolutions: 320 × 219 pixels | 640 × 437 pixels | 1,024 × 699 pixels | 1,280 × 874 pixels.

Threat by neighbors

- The decision to buy the Chinese-made tanks was prompted by the fact that Thailand then faced a serious security threat on its eastern border from a hostile Vietnam, which had occupied Cambodia and fought a war with Cambodian resistance forces secretly backed by Thailand and the United States.
- The Thai army also ***could not afford*** the more expensive armored vehicle from the US or the other western countries.
- The 25 tanks were bought at a "friendship price" of about one billion baht from China in 1987 when Gen Chavalit Yongchaiyudh was army commander-in-chief.

Too heavy tanks

- The Chinese-made tanks were found to be too heavy and became stuck in the muddy terrain on the eastern border, especially during the rainy season.
- This meant the tanks were never positioned near the border, particularly at the Aranyaprathet-Poipet border, where it was feared Vietnamese armour would make its move if there was an invasion.

Army's wasteful defense spending

- Bangkok Post, published: 27/07/2010
- The army's dumped a fleet of 25 decommissioned Chinese-made T69-2 medium tanks into the sea off Narathiwat and Pattani provinces
- The good news is that the army has demonstrated that it is not just a heartless fighting machine, but has a soft side too, for the environment.
- The unusable tanks (there are no parts for repairs) will form an artificial coral reef, a shelter for fish and other marine life in the sea off the two southernmost provinces.

Ukraine BTR-3E1

The **BTR-3** is an 8×8-wheeled [armored personnel carrier](#) was designed by Adcom Manufacturing from [UAE](#) in 2000/2001 and manufactured in [Ukraine](#)



ins/c/c9/BTR3.jpg

Ukraine BTR-3E1

- Altogether 535 units were bought at an average price of one million baht a piece;
- Ukraine BTR-3E1 armoured personnel carrier(APC).
- 96 BTR-3E1s delivered with the price tag of 4 billion baht, 120 more on order from Ukraine.
- The first 2 of 96 BTR-3E1 have been delivered at U Tapao Airport on 17 September 2010.
- The second batch of 121 BTR-3E1s with a price tag of 5 billion baht have been ordered by [Royal Thai Army](#) and 14 BTR-3E1s have been ordered by [Royal Thai Navy](#)

SKY Dragon

The 350 million baht airship, which leaks and has yet to be fixed and which fails to rise to a safe altitude, above the reach of gunfire The 350-million-baht "Sky Dragon" dirigible cannot yet even fly right.



The U-boats

- **The Navy is pushing for Cabinet endorsement of projects that require funding of more than Bt16 billion, to buy six used submarines and to upgrade two of its frigates.**
- The subs - being decommissioned by the German navy - are more than 30 years old but are expected to be good for another 10 years.

U-206



Gulf of Thailand: Shallow water

- Rear Admiral Suriya Pornsuriya has been appointed the first commander of the submarine unit, the source said:
- "These submarines will travel at a depth of 30 metres,"
- "Don't believe rumours they can't run in the Gulf of Thailand because the sea is too shallow. They can work well there."

Logical argument?

- Deputy Prime Minister Suthep Thaugsuban has defended the purchase, saying that the 7.7-billion-baht procurement is "necessary for maritime territory protection", and that "some countries in the region have submarines and could pose a threat to the national interest".