

Military Business Cycle, Military Coups, and Economics of Corruption

Bhanupong
Lecture 26

A great quotation

“If we want peace, we must be ready for wars”

“Vast armies sap the strength of the nations”

“National security does not mean militarism or any approach to it.

Security cannot be measured by the size of munitions stockpiles or the number of men under arms or the monopoly of an invincible weapon.

That was the German and Japanese idea of power which, in the test of war, was proved false.

Even in time of peace, the index of material strength is unreliable, for arms become obsolete and worthless; vast armies decay while sapping the strength of the nations supporting them; monopoly of a weapon is soon broken.”

Main themes

1. Determinant of military spending and peace dividends
2. Political vs. military business cycles
3. Pitfalls in budgeting
4. Institution efficiency and growth
5. Macroeconomics of corruption
6. Thailand's imported military war machines

1. Determinants of military spending

- While democracy is negatively related to military burden, other factors contribute to higher defense spending.
- ***External and civil wars***, military spending by population, and ***potential enemies***.

As Baltic security 'deteriorates', Sweden turns to arms

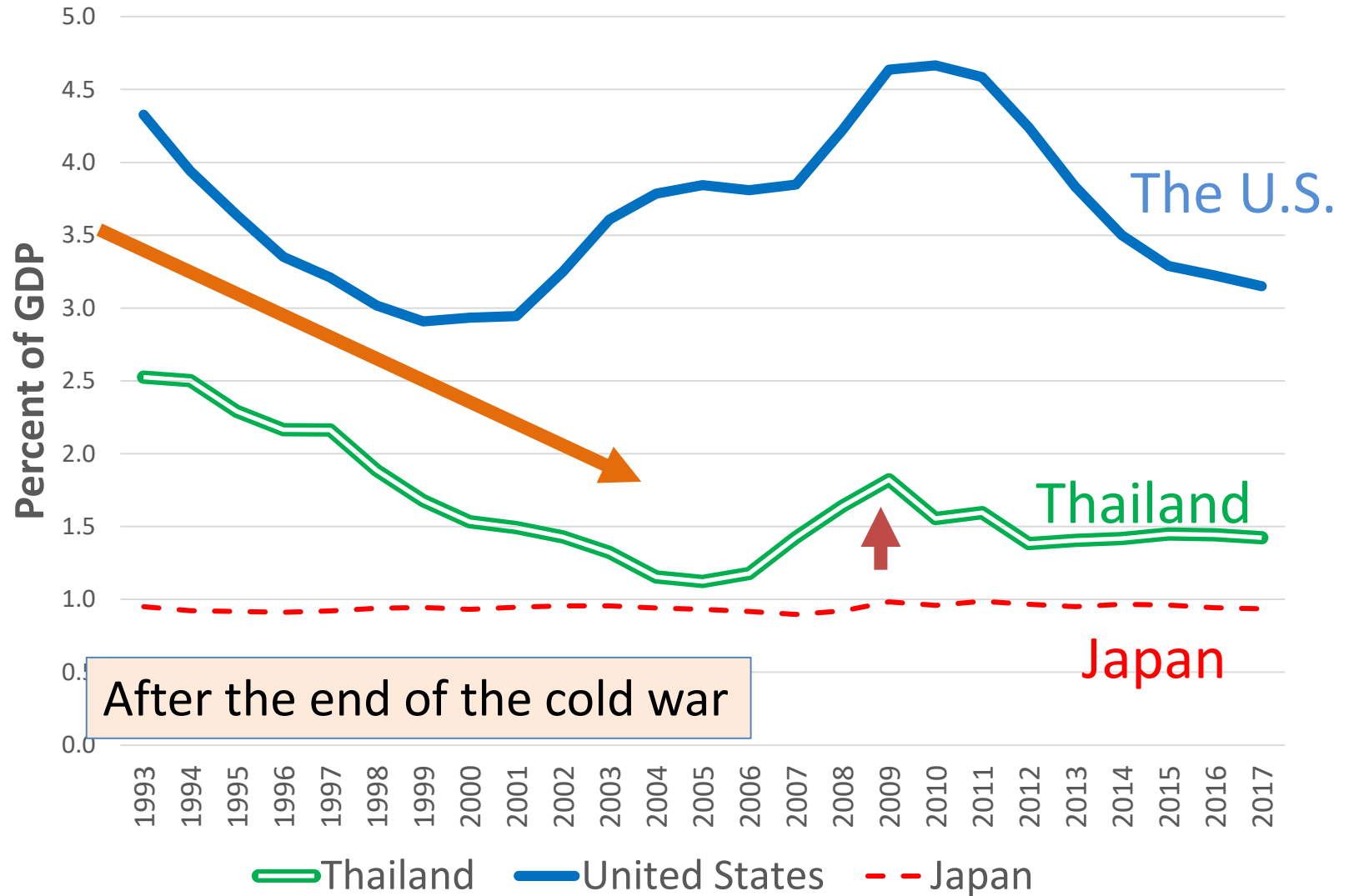
- Sweden embarks on its largest military build-up for decades.
- The threat from Russia prompts a bill to raise defense spending by 40% in five years.



To buy or not to buy: A decision made in a democratic country

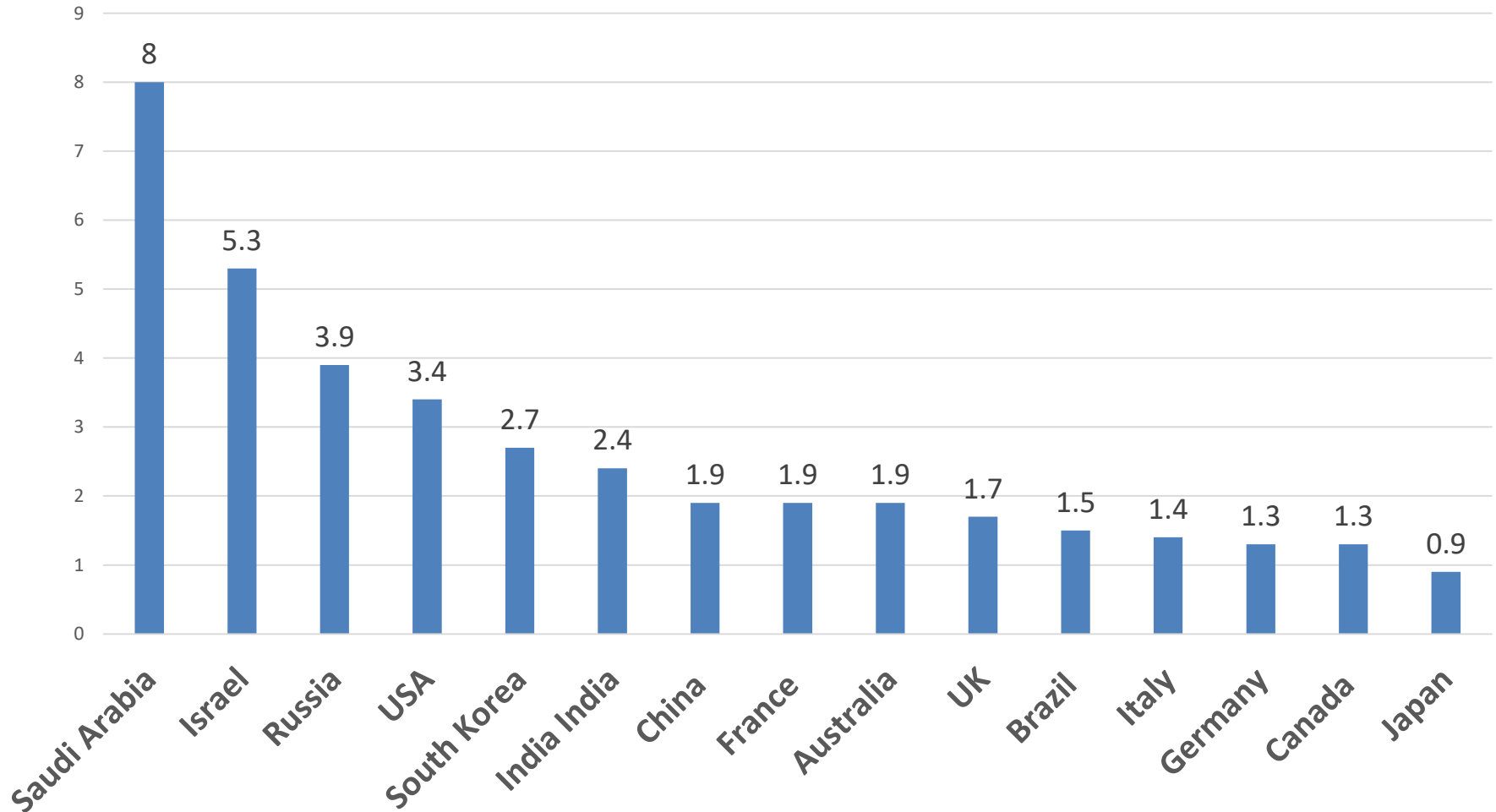
- Switzerland has few enemies and has fought no wars in centuries. But during its campaign, the government argued that the *air force is vital for remaining credibly independent and sovereign* – even if an all-out aerial attack is improbable.
- In the end, 50.1% of the roughly three million voters who cast ballots approved the \$6.5 billion funding packet
- By a margin of fewer than 9,000 votes, Swiss citizens have given a cautious all-clear for a multi-billion purchase of new fighter jets for the air force.

International comparison of military expenditures



Defense Spending in 2019

(% of GDP)



Peace Dividend

- Military spending can be considered as a wasteful spending in time of peace.
- The term “peace dividend” refers to a potential long-term benefit as budgets for defense spending are assumed to be at least partially **redirected to social programs** and/or a decrease in taxation rates.
- **Guns versus butter theory** explains peace dividend at the end of the Cold War, when many Western nations significantly cut military spending.
- **Submarines versus hospitals**

2. Political vs. Military Business Cycle

- **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)

Land of smiles and futile coups

- *Since Siamese Revolution brought democracy to Thailand 88 years ago, sine 1932, there have been 26 general elections, 20 constitutions, and 19 coups,12 of them successful.*
- *Thailand experiences the middle income trap an the coup trap: A vicious circle. The two traps are related.*
- ***Thailand has had more coups than any other country** Washington Post: December 3, 2013*

Coup Galore

(PM name)

1971 (*General Thanom*)

1976 (Seni)

1977 (Thanin)

1981, 1985 (General Prem, coup attempts)

1991 (PM Chatchai was overthrown by *General Suthorn Kongsompong*, February *15 years later...*)

PM Thaksin was overthrown by *General Sonthi*, Sep 19, 2006



นักแสดงในชุดลายพรางออกมาเต้นบริเวณลาน
พระบรมรูปทรงม้า เพื่อให้ความบันเทิงกับ
ประชาชนหลังเหตุการณ์รัฐประหารในเดือน
กันยายน 2549 AFP PHOTO / PORNCHAI
KITTIWONGSAKUL

Coup supporters with a soldier during the 2006 military coup in Thailand.

(via [Wikimedia](#))



Judicial Coup: Junta Picked Court Decides to Dissolve Government /Coalition Parties

[Bloomberg](#): December 2, 2008

- Thailand's Constitutional Court dissolved the ruling People Power Party and two coalition partners, forcing Prime Minister Somchai Wongsawat and dozens of leaders to step down and banning them from politics for five years.

“The court's ruling may create disagreement among some people,” said Judge Chat Chalaworn in reading the decision to disband the party for vote buying in last year's election.

- “But the court wants every party to accept the verdict because the judgment was made in line with the constitution.”

Judicial coup?

- It is clear the Thaksin/Yingluck Puea Thai party would win any fair election, because its promise of largesse to the poor will see the majority voting for their own personal best interest.
- She was found guilty of corruption, neglect and mismanagement in the rice-buying scheme.
- Yingluck was deposed as a result of a judicial coup.

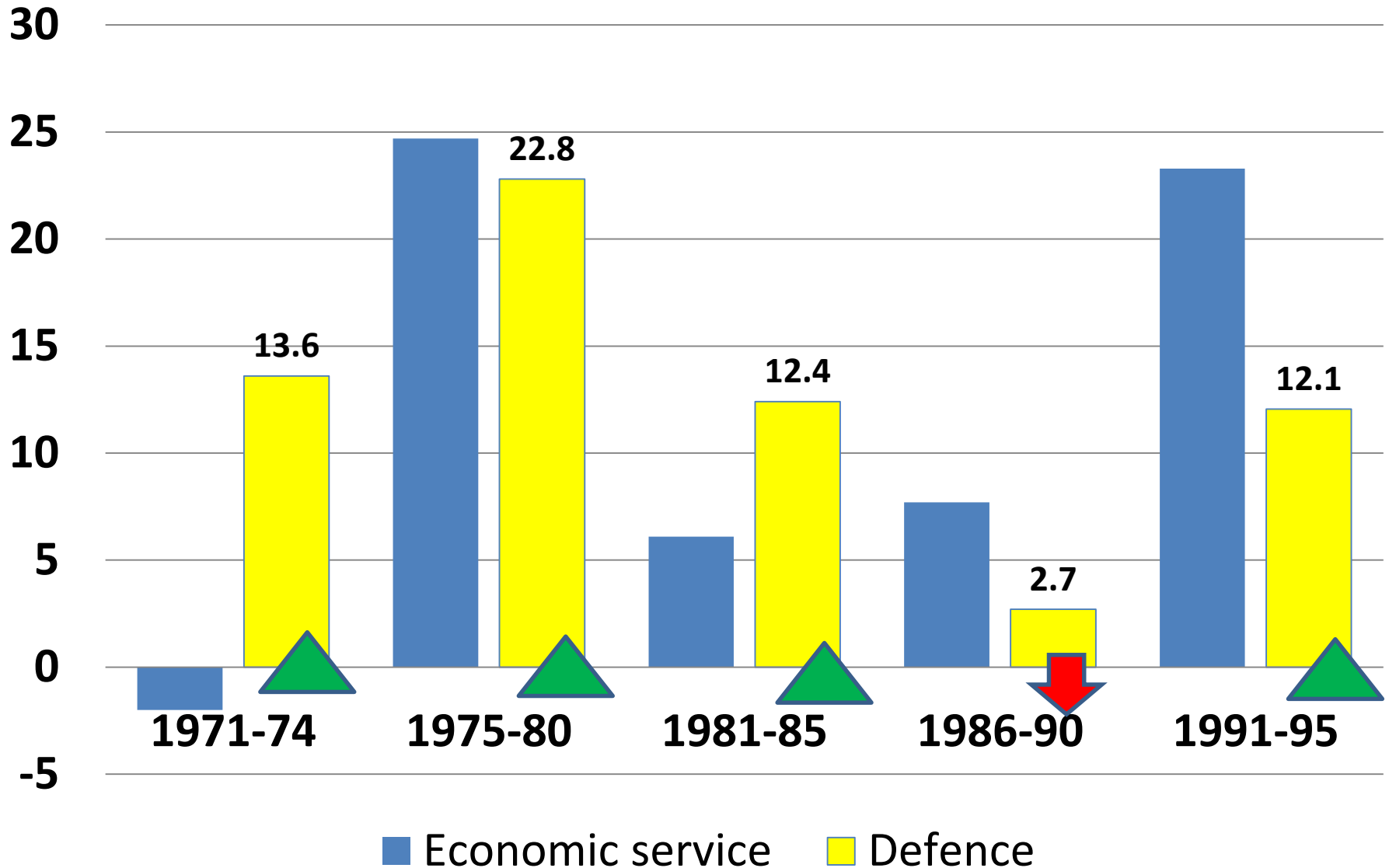
Military Business Cycle

“Military spending rises rapidly after a military coup and slowly dies off as a democratic government is elected under a new constitution.”

A corollary: A slump in military spending can predict a military coup in Thailand

Military Business Cycle Hypothesis

(period average growth rate)



Military and Democracy

- Too low military spending may be dangerous to democracy because the military needs to be pacified.
- Justifications for the 2006 coup were similar to those in the 2014 coup.
- Indiscipline and defiance to the rule of law have a long-lasting impact, causing addiction to military coups.

Some Thais protested, some brought flowers and cold drinks to the soldiers guarding the area near the Victory Monument in Bangkok, a popular protest site. (Associated Press)



General PCOC staged a coup on May 22, 2014.

There are seven Vietnamese military generals

- Vietnam's military currently has seven generals while its police force has two.



The land of 1,700 generals

- In comparison, Thailand has a population of 66 million, with a military force of about 350,000.
- But the Thai military is burdened with over **1700 generals and admirals**, which is more than their total number of warships, tanks, and aircraft put together.
- Over 300 of the generals work in Bangkok.

3. Pitfalls in budgeting

- If power is based on the pork barrel, power can be bought by patronage.
- Fiscal discipline has been neglected in the pursuit of short-run political gain at the expense of the long-term economic growth and stability:
- ***Dynamic (time) inconsistency***
- **Ultra-populism policy can be a legal means of *vote buying*.**

Naïve votes

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

Multi-year Budgeting:

Seemingly transparent procedure

- 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)
- The populist policy of Palang Pracha Rath Party (PPRP) costs only 200 billion baht in the first year
- We don't know how much it will cost in the following years.

Fiscal indiscipline

- Multi-year budget is detrimental to fiscal flexibility and efficiency: It makes the fiscal policy become ***inflexible***.
- Recall the PCOC government's 20 years national plan, which was included in the institution drafted by the National Legislative Assembly (NLA).
- Non-transparent budgetary (national security budget or **central budget**) procedures ***conceal corruption***.
- Accountability and the rule of fiscal prudence have been ignored.

Creative fiscal policy: Off-balance budget

- Creative and strategic uses of what is kept in and off the public budget.
- **Central Budget Expenditures** conceal **hidden agenda** in the name of flexibility and **national security**.
- **Over-optimistic prediction** of policy impact makes the proposed projects look attractive.
- *Populism policy is supposed to return “happiness” to us and pacify the poor.*
- Alas, we seldom hear the word “happiness” lately.

4. Institutional efficiency retards economic growth

- Revolutions and **coups**, political assassinations **tend to lower long-term growth** (Barro, Quarterly Journal of Economics: 1991).
- This hypothesis is vindicated by the Thai context after the coups in 2006 and 2014.
- Can institutional reform promised by the military government make Thailand's institutions efficient?

7 Indicators of institutional inefficiency

Mauro (QJE, 1995)

(1) Political *changes*

Possibility that institutional framework will be changed by elections, military coups, juristic coups, and flaws in new constitutions.

(2) Political *instability*

Conduct of political activity and the degree to which the orderly political process tends to disintegrate or become violent.

Recall the Bangkok shutdown in 2013, youth uprising in 2020.

Compare Thailand's with India and Indonesia national elections in 2019: They were 800 million Indian voters and the two countries' elections results were announced much ahead of Thailand by two months.

Indicators of institutional inefficiency

(3) *Probability* of opposition group takeover
(a snap election or dissolve the parliament)

(4) Instability of *labor market*

Degree to which labor represents possible disruption for manufacturing or business activity.

(5) Conflicts with neighboring countries

(6) Terrorism (suicide bombings in Columbo killed 359 people in April 2019)

Inefficient institutions: Legal system and red tape

(7) Legal system and the judiciary efficiency

The perception of low level of ***integrity of the legal environment*** bring business uncertainty and risks.

(8) Bureaucracy and red tape

Excessive bureaucracy or adherence to official rules and formalities. ***Sometimes it can drive you crazy.***

Recall the verdict by the Election Committee on the leader of Future Forward Party, the verdict on the General Rolex, the status of PCOC: he is not a government official therefore he can be PM.

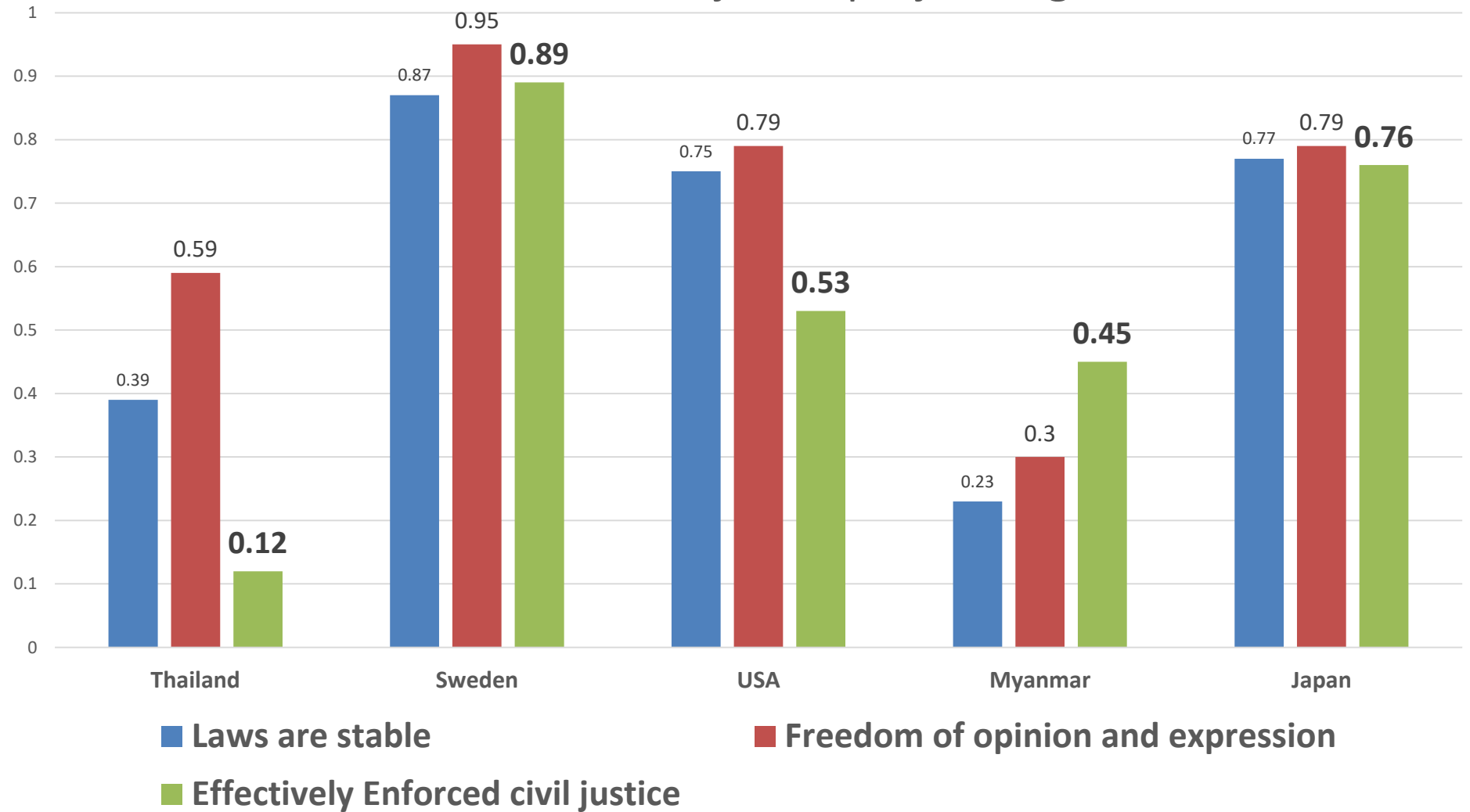


When the legislative and executive powers are united in the same person, or in the same body of magistrates, there can be no liberty; because apprehensions may arise, lest the same monarch or senate should enact tyrannical laws, to execute them in a tyrannical manner. Again, there is no liberty, if the judiciary power be not separated from the legislative and executive.

(Charles de Montesquieu)

Rule of Law Index: 2014

Source: www.worldjusticeproject.org



THAILAND RANKINGS

WJP Rule of Law Index 2020 performance (1 is best)

THAILAND OVERALL GLOBAL RANK: 71/128

THAILAND OVERALL REGIONAL RANK*: 10/15

FACTOR	GLOBAL RANK	REGIONAL RANK*	INCOME RANK**
Constraints on Government Powers	82/128	11/15	25/42
Absence of Corruption	54/128	9/15	17/42
Open Government	61/128	9/15	19/42
Fundamental Rights	90/128	10/15	33/42
Order and Security	67/128	11/15	22/42
Regulatory Enforcement	83/128	12/15	30/42
Civil Justice	84/128	10/15	32/42
Criminal Justice	70/128	11/15	26/42

*Countries and jurisdictions measured in the East Asia and Pacific region: Australia; Cambodia; China; Hong Kong SAR, China; Indonesia; Japan; Malaysia; Mongolia; Myanmar; New Zealand; Philippines; Republic of Korea; Singapore; Thailand; Vietnam

5. Macroeconomics of corruption

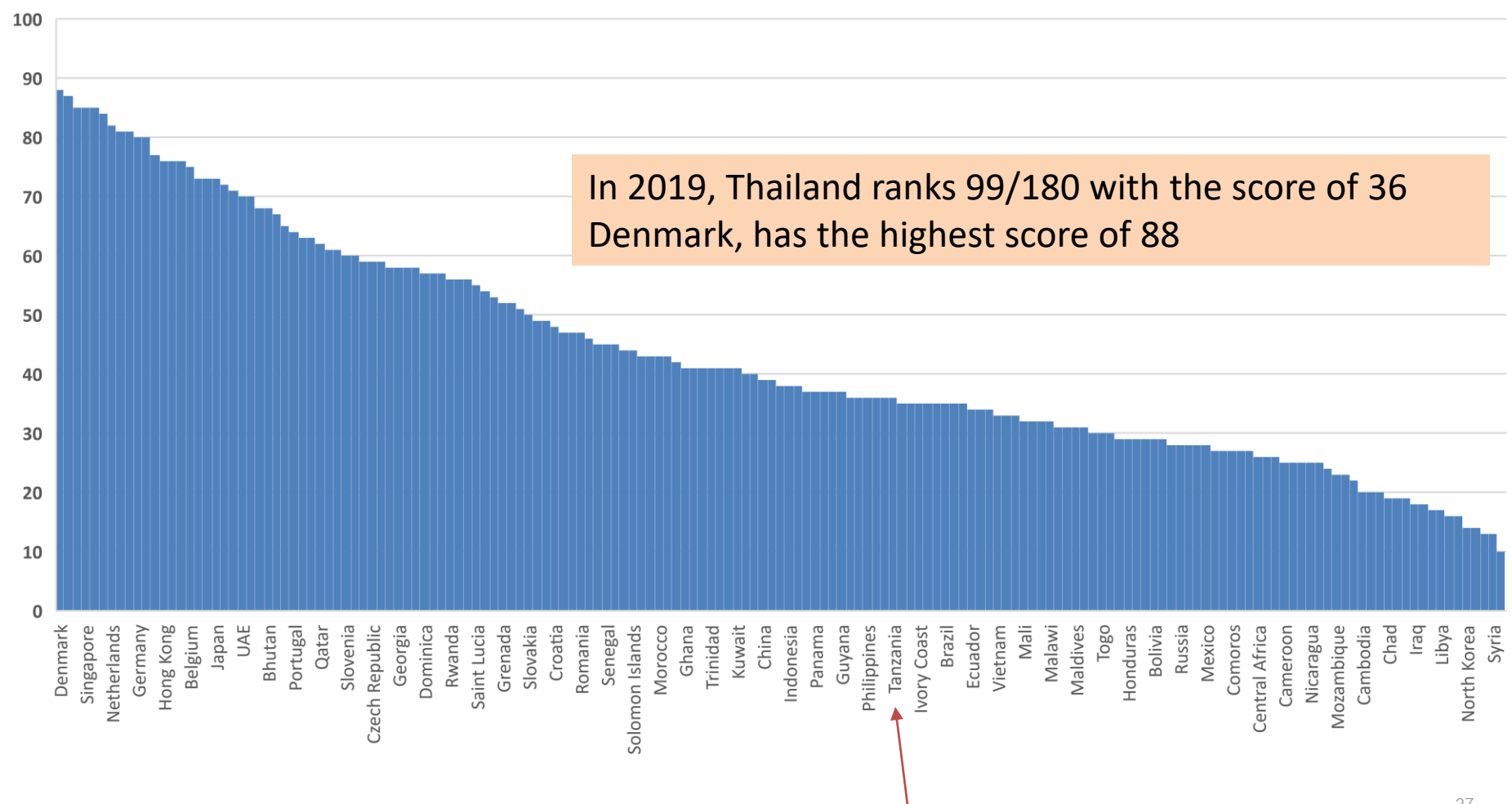
An indicator of ineffective institutions

Corruption Perceptions Index (CPI)

The degree to which business transactions involve corruption or questionable payments

The higher the CPI, the lower the level of corruption

The CPI defines corruption as “the misuse of public power for private benefit.”



The National Anti-Corruption Commission hopes Thailand to score 50 out of 100 points in 2021.

According to the Deputy PM, Wissanu Krea-ngam, the Corruption Perception Index is crucial to investors' confidence.

Top 10 most corrupt countries in 2019

(Total score = 100, Thailand's = 36)

Somalia (9)
South Sudan (12)
Syria (14)
Afghanistan (15)
Yemen (16)
Sudan (16)
Libya (17)
North Korea (17)
Venezuela (18)
Iraq (18)

Lunch for Thailand's conscripted soldiers



Ukraine Kids' school lunch



Thailand purchased **GT 200 bomb detectors** for 500 million baht and employed in the Deep South



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)

GT200: Testing
“You need to have steady hands
and enough sleep
to make it work properly”



“We shall continue using the GT 200 bomb detector”

Director of the forensic Institution.

Feb 16, 2010



A fraudulent bomb detector.

- A bomb-dowsing rod: The GT200 devices have proved worthless at finding explosives.
- Even more seriously, they have actually resulted in casualties, and inhuman rights violations against civilians, particularly in the South.
- The UK manufactures were sent to jail for deceiving the public.

Corruption decreases private investments because it reduces the marginal product of capital; thereby lowering investment and economic growth.

6. Thailand's imported war machines

A multi-billion-baht boondoggle
(unnecessary and wasteful)

- *Who are Thailand's belligerent countries?*
- The list of boondoggle 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.
- Design and constructed by Spanish shipbuilder Bazan, *Chakri Naruebet* was ordered in 1992, launched in 1996, and commissioned into the Royal Thai Navy in 1997.

Thailand's first aircraft carrier

- ***Chakri Naruebet*** is the flagship of the Royal Thai Navy--The first and only aircraft carrier.
- The aircraft carrier HTMS Chakri Naruebet was sent out to rescue people stranded on islands like Koh Tao.

HTMS Chakri Naruebet

It requires a
vertical takeoff
aircraft



China's first aircraft carrier: Laioning



USS Gerald Ford



Americans like their aircraft-carriers large, like their cars and restaurant servings. They also insist on them being good. This makes them very expensive. When it was commissioned in 2017, the 100,000 ton *USS Gerald R. Ford*, the first in a new class of carriers, became **the priciest warship in history at \$13 bn.**

The 11 supercarriers that America's navy is required by law to power like no other, able to fly fighters, bombers and reconnaissance aircraft wherever it likes without the need for nearby allies to provide airbases. (The Economist, 17 November 2009)

Aircraft carriers are big, expensive, vulnerable—and popular

- *Carriers have long been threatened by **submarines***. During the Falklands war Argentina's navy kept its only carrier skulking in port for fear of British submarines.
- Now they are increasingly threatened above the waterline by ever more sophisticated **land- and air-launched anti-ship missiles**.
- To remain safe, carriers must stay ever-farther out to sea, their usefulness dropping with every nautical mile.
- America's mighty carriers, surrounded by their protective battle groups and watched over by satellites, are more likely to ***survive a serious assault than the smaller carriers of other nations***.
- This is in part because those smaller nations cannot afford fleets large enough to protect their carriers.

For the appearance of being a major naval power

- The other countries with *carriers capable of launching jet aircraft*—Britain, China, France, India, Italy, Russia and Spain—make do with smaller and less potent vessels.
- But their numbers are increasing. Britain, India and China are all getting new carriers ready.
- Britain is settling for two; India aspires for three; China plans to have six or so by 2035.
- Japan is joining the club. In December 2018 it announced that it would convert its two Izumo-class destroyers to carry jets.

The Thai Air force and the Gripen

- Adding to the equally ground-bound Alpha jets purchased against massive public opposition, the Gripen fighters were purchased from Sweden.
- Vertical takeoff jets bought together with the aircraft carrier (complementarity goods)
- The problem is that the Gripen has never effectively flown in combat.

The Gripen

\$45-55 million – Saab JAS 39 Gripen



Chinese tanks: T69-II

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.

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.

Why couldn't the T69 move?

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

Decommissioned tanks and the army's care for environment

The 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 demonstrated that it is not just a heartless fighting machine, but has a soft side 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.

The Ukrainian T-84O Oplot Main Battle Tank Operators

In 2011, the Royal Thai Army placed an order
October 2017 , 49 Ukraine tanks were delivered

A turret retaining 125 mm gun, with thermal sighting system,
It observe, detect, recognize and identify targets and to deliver aimed fire from the main
and coaxial machine gun under all conditions of vehicle operation.
The loading system can automatically load the main gun with ammunition
of the available types and consisting of a conveyor, automatic loader and control system.



Buying 49 Chinese VT-4 tanks

The army had signed an agreement to purchase 28 VT-4 tanks from China and in the second phase would procure more such tanks until it has a full fleet of 49 tanks in fiscal year 2017.

After problems with the delivery of 49 Oplot tanks ordered from Ukraine, the army committee which decides on military hardware procurements has opted to cut the number of tanks to be bought from Ukraine and buy more from China instead, he said.

The problem facing the Ukrainian supplier was due mainly to Ukraine's internal situation, he said.

However, the Ukrainian tank maker should be able to deliver all 49 tanks to the Thai army by October, 2017, according to Gen Chalermchai.

No more purchasing Ukraine tanks;
they didn't deliver spare parts

VT-4 Tanks from China



Why Chinese made weapons?

An army source said the army also has drawn up a plan to procure several more fleets of 49 VT-4 tanks to replace US-made ones that need to be decommissioned.

Military hardware produced in the US and other Western countries is high quality but also expensive.

"In any procurement, the budget is also a key factor to put into account."

Still, the US had previously not offered to sell weapons to Thailand due to the US's own legal restrictions on selling weapons to Thailand since the coup, he said.

What's more, several other countries in this region had also turned to Chinese-made military hardware, he said.

The US will not sell weapons to countries ruled by Dictators. But China will, also at cheaper prices.

A Sky Dragon: 350-million air surveillance

The "Sky Dragon" had problems with flying.



With 70 million baht cameras, can you see insurgents hiding underneath the rubber trees?



Back then, when he was the army chief

- When Prime Minister General Prayut Chan-o-cha was Army chief, the Army hired a firm to provide ***maintenance for the airship for Bt50 million*** a year, after which it was subsequently used sporadically.
- There was additional criticism that if the airship flew lower than the safe altitude, it would become an easy target.
- *It was eventually put in storage until its term of operations expired.*

Army chief defends decommissioned Bt350-million surveillance airship

The Nation: *September 14, 2017*

- Army commander-in-chief General Chalermchai said *the airship had reached the end of its term of operations* because it was **made of canvas**.
- But the accompanying surveillance camera system could still be used. However, the Army did not plan to buy a new airship to replace the old one
- The airship project had a total budget of Bt350 million. The airship cost Bt260 million while the camera system, ground support equipment and other expenses cost Bt90 million.
- ***Maintenance for the airship cost Bt50 million*** a year.

Submarine fever: burning desire

Two attempts have been made to buy vessels in the past.

In 1995 Thailand pursued a Swedish Gotland submarine and in 2011 it sought a German 206A-class vessel. **Both deals failed.**



Will the U-boat get stuck in the Gulf of Thailand?

- Rear Admiral Suriya Pornsuriya, the first commander of the submarine unit, said:
- "These submarines will travel at a depth of 30 meters,"
- "Don't believe rumors they can't run in the Gulf of Thailand because the sea is too shallow.
- The U-boat can work well down there."
- The Atlantic Ocean has a mean depth of 333 meters.

Thailand set to get the first Chinese submarine

The Nation July 2, 2016

- **The Royal Thai Navy will buy its first submarine from China in the coming fiscal year, Defense Minister General Prawit Wongsuwan.**
- Prawit, who is also deputy prime minister overseeing security affairs, said the Navy planned to buy three submarines at Bt12 billion each.
- "The budget is **not too high because** payments can be made over a period of about 10 years"
- This is the so-called multi-year budgeting.

Chinese made S26-T
(We need three ships: 36 billion baht)



At a friendship price: 12 billion baht each

Illogical arguments

Prawit said China's submarine technology was good and modern, playing down criticism . He said the Navy had studied all details. "It first presented its plan in 2008 or 2009."

Asked why the Navy would want submarines since it had abolished the submarine division, Prawit said the country needed them to **protect** its massive marine resources in the Andaman Sea.

Not many fish left in the gulf of Thailand. You don't need a submarine to push illegal fishing boats from neighboring countries.

"Neighboring countries all have submarines. *Myanmar has 10*," Prawit said.



“History repeats itself, first as a tragedy,
second as farce.”
Karl Marx



Dwight D. Eisenhower
34th U.S. President

“Every gun that is made, every warship launched, every rocket fired signifies a theft from those who hunger and are not fed, those who are cold and are not clothed. This world is spending the sweat of its laborers, the genius of its scientists, the hopes of its children. The cost of one modern heavy bomber is a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 populations. It is two fine, fully equipped hospitals. It is some 50 miles of concrete pavement. We pay for a single fighter plane with a half-million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8,000 people. This is not a way of life at all. Under the cloud of threatening war, it is humanity hanging from a cross of iron.”