

## BOOK REVIEWS

---

### **The Peace Dividend Exists: In a Small Way, in a Small Country**

REVIEW BY JURGEN BRAUER

*School of Business Administration, Augusta College*

*The Wages of Peace: Disarmament in a Small Industrialized Economy.* By Nils Petter Gleditsch, Adne Cappelen, and Olav Bjerkholt. Oslo: International Peace Research Institute, Oslo and London: Sage Publications, 1994. 288 pp., \$65.00 (ISBN: 0-8039-7750-6).

In recent years there has been much interest among scholars, policymakers, and even the attentive public in the prospects for a peace dividend resulting from the end of the Cold War. In 1995, Steve Chan conducted a comprehensive review of economic and political economy studies with a bearing on the peace dividend hypothesis. His analysis cautioned against expectations that there would be a significant savings from reduced defense expenditures (a resource dividend) and went on to indicate that the extent of economic benefit from those savings (the product dividend) depended both on assumptions about the general economic impact of defense spending and on the ways in which a resource dividend was redeployed back into the economy (Chan, 1995:55-56). *The Wages of Peace: Disarmament in a Small Industrialized Economy* partially challenges and partially amplifies this conclusion-albeit in a small way and for a small country.

The book's authors-Nils Petter Gleditsch, Adne Cappelen, and Olav Bjerkholt-are well-known and well-respected scholars in the field of defense economics. Associated for many years with Norway's prestigious international Peace Research Institute in Oslo (PRIO), their past work consists primarily of various forms of inter- and intranational macroeconomic modeling of member nations of the Organization for Economic Cooperation and Development (OECD) (Cappelen, Gleditsch, and Bjerkholt, 1984). *The Wages of Peace* continues this work, specifically in relation to the impact of disarmament on the prospects for growth in the Norwegian economy.

Following an introductory chapter, the book contains a brief review of the literature on the economics of military spending. The review is reasonably comprehensive, although largely limited to the macroeconomic areas of employment, economic growth, military research and development, and (too briefly) productivity in industrialized countries. The chapter is prefaced by a note that appropriately argues that, since economists are neither agreed on macroeconomic theory nor even on macroeconomic (let alone military) data, it should not be surprising

that studies generally fail to result in absolutely compelling statistical evidence (p. 11). Nonetheless, the authors stand by their main finding: that the literature supports the contention that "the military establishment represents a diversion of resources away from activities which could lead to higher employment and greater economic growth [even though] the results are not always completely clearcut, and there is a lack of model-based studies" (p. 34). The last statement is puzzling in that the vast majority of studies are "model-based," even if not of the full-scale, multiequation, macroeconometric sort that the authors prefer.

Chapters 3 and 4 are the heart of the volume. The former describes the Norwegian military sector. The latter analyzes various macroeconomic modeling scenarios of how disarmament and conversion might affect the country, concluding with an interesting section on disarmament's possible positive effects on the natural environment and levels of pollution. Chapter 5 uses a global macroeconomic model—Leontief's World Model (Leontief and Duchin, 1983)—to study global disarmament and its possible implications for Norway. This is followed in chapter 6 by a discussion of intra-Norwegian (or local) resource conversion, so that the sequence of chapters 4 through 6 corresponds to a national, global, and local conversion study. The volume concludes with a brief reflection, in chapter 7, on what the future role of Norwegian military forces might be absent any external military threat.

Throughout the volume the authors conceive of "conversion" in the appropriately broad sense of conversion of economic resources from military to civilian economic activity, including, but not limited to, the narrow sense of converting specific military-production or military-base facilities to civilian uses. The authors' main findings are that "global disarmament is likely to have a limited but positive effect on the world economy" (p. 6), and in Norway "there is clearly a peace dividend—and the Norwegians have already started spending it" (p. 7).

Large-scale macroeconomic models permit computations for a large number of target variables, but the study concentrates its discussion on employment and economic growth as the main indicators of the impact of various conversion scenarios. A number of scenarios are tested: a baseline scenario that assumes continued defense spending, abrupt disarmament completed within one year, and a phased disarmament option both with and without economic countermeasures. The countermeasures involve a number of options, such as (1) reducing taxes (that is, savings from disarmament passed on to the private sector); (2) shrinking the government budget deficit or increasing the surplus (that is, the public sector keeps the disarmament savings); (3) reallocating the disarmament savings to public investments; or (4) reallocating it to public consumption for such things as education, health, or social services.

A rich matrix of scenarios emerges. Intriguingly, the scenario that consistently produces generally desirable results (in terms of employment and economic growth) across a range of scenario specifications, modeling approaches, and time periods is reallocation of disarmament savings to home-help and health services. In contrast, the tax reduction scenario consistently shows the least desirable results.

This finding is both interesting and provocative. Of course, "desirability" depends on the criteria one uses to determine what constitutes a "good countermeasure." According to Gleditsch, Cappelen, and Bjerkholt, a countermeasure should be highly labor intensive; provide a regional matching of lost jobs with new jobs; have a nonnegative impact on female employment; put little additional pressure on scarce complementary resources; tap as unused a labor reserve as possible; fill unmet needs; be popular and visible as a peace dividend; and have no or few known negative effects (p. 75). One need not be European or "liberal" to regard

this as a very desirable list of conversion attributes, and it is not surprising that the labor-intensive home-help and health services disarmament-cum-conversion scenario fits these criteria well. What is surprising, and even provocative, is that a tax reduction plan would not achieve nearly as much employment and economic growth. It would, in fact, generate negative employment and growth effects relative to the baseline scenario of continued defense spending over a modeling horizon that extends until the year 2030.

To an economist (European or not, "liberal" or not), the obvious question is: Why would releasing the resources to the private sector in the form of tax reductions achieve less growth than reallocating them through the public sector? The answer is not clear. A hint is given in that the Norwegian central government sector alone (not to speak of the district and local governments) constitutes about half of the entire economy (p. 55, Table 3.1). Factored into the models' equations, this results in much quicker employment and growth effects when reallocation takes place via the public sector. One must trust the modelers' judgment, but this suggests that the findings may have limited applicability to other countries, such as Russia or the United States.

All in all, *The Wages of Peace* is a slim book that many readers should find stimulating and useful. It is broad in scope, reviewing much international literature, yet it stays highly focused on Norway. At times, the sheer number of modeling scenarios can be a bit confusing, but they are all well discussed and reasoned. There are also ample tables and figures, although the mathematics stays in the background in the form of a brief nine-page appendix. A good work, many readers will find *The Wages of Peace* thought provoking and satisfying.

#### References

- CAPPELEN, ANNE, NILS P. GLEDITSCH, AND OIAV BJERKHOLT. (1984) Military Spending and Economic Growth in the OECD Countries. *Journal of Peace Research* 21:361-373.
- CHAN, STEVE. (1995) Grasping the Peace Dividend: Some Propositions on the Conversion of Swords into Plowshares. *Mershon International Studies Review* 39:53-95.
- LEONTIEF, WASSILY AND FAYEDUCHIN. (1983) *Military Spending: Facts and Figures, Worldwide Implications, And Future Outlook*. New York: Oxford University Press.