

Economic development and defense recourse provision

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Abstract: The article argues that the degree of economic development of the national economy as a result of numerous factors action is underlying the provision of resources for the defense and implementation of the country's defense capabilities.

Index Terms: national economy, economics structure, economic development, Gross Domestic Product (GDP), resources for the defense, defense expenditures, defense capabilities.

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I. INTRODUCTION

National defense is in direct relation with the level of economic development of a country, i.e., economy is limiting not only in terms of creating sources but also in terms of their use. This is fully valid for the area of defense, as in contemporary conditions economic approach should be applied to problems related to its resource provision. This means that the system of national defense and its elements should be viewed as a system of economic type, which by processing certain resources produce significant public product – national defense and security. From that, with high degree of reliability, it follows that the level of the defense system of a country is determined, primarily, by the state and potential of the country's economy, and there is no other factor that could make up for the lack of sustainable national economy. Thus, a highly developed economic system guarantees to a great extent both national security as a whole and country's defense in particular.

II. ECONOMIC DEVELOPMENT AND DEFENSE RECOURSE PROVISION

Each national economy is a historically formed interconnected aggregate of economy sectors on the territory of a country. National economy in modern conditions is a part of a certain regional (in our case, European) and the world (global) economy. Bulgaria's national economy is a historically formed system of sectors, sub-sectors and independent groups of activities in continuous interaction mutually influencing one another. It operates in an environment of constantly changing conditions and is subjected to the impact of multiple

factors. Bulgarian economy as well as the economy of any other country consists of production and non-production activities. The level and structure of the Bulgarian economy is a reflection of the country's development, its state, problems, etc., but it directly affects the state of the country. A decline of a country leads to a strong decline in the level of economy and vice versa. In conditions of strong economic downturn, even ruin, the state weakens.

In any historical period the economy of a country has a different level of development and specific characteristics. They are due both to the impact of natural conditions and resources and the inherited factors – a reached degree of division of labor, the number and structure of the population, socio-economic and political organization and the form and effectiveness of government. The development of society is ultimately governed by the operation of objective economic laws and regularities.

Bulgaria's economy is unevenly developed (historically, territorially, economically, technically and technologically). This unevenness is true for particular economic sectors, sub-sectors and certain types of production. In various parts of the country, under the influence of a number of factors, mainly natural-geographical, historical, socio-economic and etc., a specific regional economic structure and level of development of particular types of production and service activities is formed. For this reason, parts of the territory with strong economic development and others - with weaker economic development have formed in the country. This creates a number of differences, which in some cases have the character of contrasts.

A distinctive feature of the country's economy is its being ubiquitous on the territory of the country. There is no part of the Bulgaria, which is not developing some kind of production or at least some service activity.

The other characteristic of our economy compared to developed European countries is its technical and technological backwardness as a result of which production of uncompetitive goods is being carried out.

The territorial specialization of the economic activities, especially in the agrarian economy, forestry economy, transport and tourism is another specificity of the Bulgarian national economy.

The economy restructuring has been a characteristic feature of the last two decades, representing the transition from planned (command-administrative) economy to market economy. This process has been accompanied by a change of ownership of the means of production, which moved from state to mostly privately ownership, through restitution, privatization and some small part through creation of new industries. The transition related to the

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change of ownership is coming to its end, but the process of restructuring the economic sectors still continues, which is reflected in the decrease in the share of industry and increase mostly in the share of services. The share of mechanical engineering decreased drastically while the share of dressmaking and tailoring, food, wine and tobacco industries and other industries increased.

Bulgarian economy is characterized by a low level of labor productivity, as a result of outdated technologies and depreciated equipment of most of the production capacity in the country. This leads to a very low level of GDP produced per capita. The decline in production in most industries as a result of inconsistent and inefficient management policies led to reduced exports and increased imports, and to the formation of negative foreign trade balance. The entering of foreign investors in the Bulgarian economy is a process caused by a shortage of capital available for investment in the sectors of the Bulgarian economy. Direct foreign investments lead to a change of ownership of the main production funds, to modernization and reconstruction of production facilities, as well as to creation of new production capacity. However, at the same time they have negative influences such as export of profits, undermining the economic independence of the country, exports of traditional Bulgarian businesses in other countries, etc. In recent years the influx of foreign investments in the Bulgarian economy has drastically been reduced, which does not further change in its structure in a positive direction.

The achieved level of development of the Bulgarian economy is crucial for the state of the country since economic potential and economic stability as well as its ability to realize high-quality public goods and services depend on it. Therefore, economy development is of great political and social importance, since besides achieving specific economic goals (realization of income and profit) it implies improving people's quality of life and directly affects the national security and defense through the amount of funds allocated for this purpose.

Nowadays the global economic environment is unfavorable, which directly influences our economy too, as it has well-expressed open character. Therefore, the main goal of the economic development of Bulgaria should be preserving macroeconomic stability and realization of sustained rapid growth, based on investment in high-tech strategic sectors of the economy in order to generate long-term production capacity, the establishment of a competitive production and sustainable growth. This requires changing the character and nature as well as the ways of realization of Bulgaria's economic policy, which should be aimed at creating jobs in economy sectors with high added value, export orientation and international cooperation in high-tech goods and services. That also requires using to the maximum the EU's potential for expanding Bulgaria participation in the European and regional integration initiatives, as well as building a predictable and stable institutional environment, which can ensure high quality public services, including defense as a public service.

Therefore, the long-term strategic goal of Bulgaria is to achieve sustainable levels of accelerated economic growth of the gross domestic product (GDP) by 2035 which will allow implementation of mutually complementing synergistic reforms in all key sectors, aimed at improving the quality of economic life and the lives of the citizens, as a result of which an increase of the funds allocated for the country's defense will be realistic.

Building on the most important features of the Bulgarian economic space in terms of the necessity of formation of sustainable economic growth as a condition for exiting the economic crisis, we believe it is necessary to examine and evaluate the parameters of the economic environment, and in that context to try to answer the question of how the state of the economy affects the level of defense expenditures. For this purpose it is necessary to see what the nature of the country's economic policy is and in what way it affects the state of the economic environment as a precondition for the amount of defense expenditures that are the basis for the creation of security and defense as a public good. The problem is extremely complex and includes a number of aspects, whose detailed analysis can be made within the framework of a complete scientific study. In this sense, we do not aim at an exhaustive examination of this specific topic, but focus on the economic aspects of the researched issue. Therefore, the relationship between economic policy and defense expenditures is seen as part of the economic practice in the government of country, by making decisions related to achieving a certain level of security (especially economic and military) on the basis of allocation of scarce financial resources among the various sectors of the economy. The thesis is that it is necessary to seek a balance in determining the amount of funds allocated to the respective directions, without giving priority to one area over another, as it is inappropriate for the growth and development of economy. According to the Chief of Defense Vice-Admiral Rumen Nikolov "... trends show that the international security environment remains dynamic and difficult to predict, and the impact of asymmetric and transnational threats will increase. ... In these conditions the role of the military factor will be increasingly crucial to our national security, which requires maintenance and development of defense capabilities adequate to modern risks and threats... In the long term planning of forces and capabilities we must be able to rely on stable resources allocated to defense."*

The impact of changes in size and growth rate of the gross domestic product on the funds allocated for defense, is an essential part of the larger issue related to the impact of state revenues and expenditures on the national economy as a whole. Defense funds, that each government allocates, are determined by several factors. First, they are strongly influenced by the security environment, the presence or absence of military threats and risks for the country. At the

* http://www.pan.bg/view_article-58-29841-VICEADMIRAL-NIKOLOV-VOENNIQT-FAKTOR-ShtE-IMA-VSE-PO-KLJuChOVO-ZNACHENIE-ZA-NACIONALNATA-SIGURNOST.html

same time the capabilities of each country, to devote resources to this vital sector, depending on its socio-economic development, are of crucial importance.

In Bulgaria, defense expenditures as a percentage of the Gross Domestic Product after joining the North Atlantic bloc (2004) decreased not only as a rate but in absolute value, due to the reduction of its GDP, although after joining NATO Bulgaria engaged itself to spend not less than 2.55%[†] of its GDP for its defense.

III. CONCLUSIONS

The funds allocated for defense in Bulgaria are insufficient and only cover the expenses related with payment obligations to personnel and current urgent expenses. As a result, the goals of the Armed Forces are not met as agreed with NATO and the ways of spending the defense budget is done without the required transparency, "coupled with corruption practices, which led to significant delays in the technological modernization of the Bulgarian Armed Forces, related to directions important for the interoperability"[‡]. On the eve of the Bulgarian Army holiday May 6, 2014 the President and Supreme Commander of the Armed Forces of the Republic of Bulgaria Rosen Plevneliev said that modernization and people are the two key aspects guaranteeing the building up of the necessary defense capabilities. "For modernization we must harness all the possibilities, including significant additional financial resource from the state budget, because the budget of the Ministry of Defense, as it is, is not sufficient for the mission that we have for the modernization of the Bulgarian Armed Forces"[§]. At the end of 2014, the President said that the security environment in Europe had changed "drastically and dramatically" and that required more defense expenditures, and added that the "clear commitment" of NATO countries is not to reduce their defense budgets.

Defense expenditures are a mechanism through which a state influences the development of the economy. These expenditures represent a significant proportion of the state budget, and this in turn, affects significantly the reproduction process in which different amounts of expenditures act differently when realizing the production of the national product.

TABLE 1.
MoD BUDGET FOR THE PERIOD 2004 - 2015

| | MoD budget, Millions of Euro | MoD budget, % of GDP |
|------|---------------------------------|-------------------------|
| 2004 | 489 | 2,46 |
| 2005 | 525,5 | 2,3 |

[†] State Gazette, No.103, 23.11.2004, „Plan for organizational structure and modernization of the Armed Forces until 2015”.

[‡] White Book for the Defense and Armed Forces of the Republic of Bulgaria, 2010, p. 17.

[§] <http://www.dnes.bg/politika/2014/05/05/biudjetyt-za-otbrana-ne-e-dostatychen.224436>

| | | |
|--------|-------------------|--------------------|
| 2006 | 558 | 2,16 |
| 2007 | 707,5 | 2,35 |
| 2008 | 662 | 2,24 |
| 2009 | 565 | 1,86 |
| 2010 | 610,5 | 1,7 |
| 2011 | 532 | 1,39 |
| 2012 | 490,5 | 1,21 |
| 2013 | 540 | 1,38 |
| 2014** | 523 | 1,28 |
| 2015 | 489 ^{††} | 1,15 ^{‡‡} |

In this sense, a major problem of all government spending in Bulgaria and the defense, in particular, is not so much its quantity but its spending without clear priorities. Thus problems are deferred, and in most cases they become larger. Mechanical cutting of government expenditures, going along with deepening of the economic crisis, constitute a refusal of making decisions and policy. It can be regarded as proper only from extreme liberal positions, but in practice there is no country that does not somehow boost the development of its economy. This applies particularly to developed countries which we want to join.

A purposeful stimulating of economy by defense expenditures in the years of transition is impossible. Especially in the years before the final orientation of Bulgaria to NATO membership, defense expenses as a main instrument of the defense policy of the state had difficulty in fulfilling their main function, namely, to strengthen and develop the Bulgarian defensive potential. There is a lack of clarity about the relationship between national security strategy and the role it assigns to the Ministry of Defense and the Bulgarian Armed Forces. In the new environment of security, cooperation and integration on a global scale, there is a tendency towards reducing the absolute share of defense expenditures in the state budget (as a percentage of GDP) and redirecting the efforts of governments to the social function of the budget – education, medical insurance, social insurance.

Therefore, the question of how to find a balance between armed forces, capable of defending national interests, meeting the requirements of the National Security Strategy, NATO interoperability standards and the corresponding available national resources, which society can spare for defense, remains open. That is why it is extremely

** http://www.mod.bg/bg/doc/ministry/DeputyMinister2/20131118_InterviewPresa.pdf

†† <http://www.investor.bg/ikonomika-i-politika/332/a/sykrashtavat-4600-dushi-v-otbrantelnia-sektor-ako-ne-se-aktualizira-biudjetyt-189825/>

‡‡ That means that the country will not fulfill its engagements for defense expenditures of 1.5% GDP for 2015, as it was declared by the Head of State and the Defense Minister Velizar Shalamanov at the summit meeting in Wales.

important to manage effectively defense resources and to report on the achieved results from implementing the defense budget.

Since in many cases defense spending aim at markedly stabilizing effect on the national economy and stimulate economic development, setting of a general criterion related to the appropriateness of military expenditures in the stated versatility and contradictory effects is a very complex task requiring a sequence of actions. Macroeconomic performance under crisis conditions show the need for a complex economic modeling of relationship between military expenditures and budget, as the effectiveness of military expenditure is to achieve maximum results possible with predetermined limited resources. The increase of their use effectiveness allows an increase in the defense capability of the country in conditions of stability and reduction of material costs for the defense.

In other words, although Bulgaria does not have the resources the big countries have, it could develop a defensive potential adequate for the twenty-first century. Without allocating huge amounts of funds for armament necessary for conducting a total war, capital expenditures in the defense budget should be spent for weapons and equipment appropriate for the new millennium. The funds spent by the state in the form of defense budget, and the way of their spending form government policies in this vital sphere for the whole society.

Summing up everything mentioned above, we can conclude that to ensure the amount of funds needed for defense, the governmental economic policy must be geared towards stabilization and enhancing economic growth in 2015 and the subsequent years. This could be achieved by creating any kind of institutional conditions for using advanced technologies, embedding innovation in manufacturing, building competitive industries characterized by low material, capital and energy consumption, repeatedly increased labor productivity, production specialization and cooperation, raising of capital, improving the quality of the country's economic life, change in the level of competitiveness and a real reduction of the difference in economic development levels between the EU and Bulgaria.

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