

INTRODUCTION

JÜLIDE YILDIRIM^A and SELAMI SEZGIN^{B,*}

^a*Afyon Kocatepe University, Department of Economics, Afyon/Turkey;*

^b*Pamukkale University, Department of Public Finance, Denizli/Turkey*

INTRODUCTION: THE ECONOMICS OF MILITARY AFFAIRS IN GREECE AND TURKEY

There are two countries which always go together when defence is the subject: they are Turkey and Greece. This is the second special issue in this journal concerning the economics of defence in Turkey and Greece. In the previous issue, the papers mainly analysed the relationships between defence expenditure and economic growth in Greece and Turkey. In this issue, the defence affairs of the two countries are further analysed. Although world defence expenditure in 1999 increased by 2.1% in real terms (some \$780 billion), this is almost one-third less than 10 years earlier (SIPRI, 2000). Over that period, defence expenditure in Turkey and Greece has not shown a decreasing trend. In NATO, Turkey and Greece are still exceptions with high defence burdens. Greece is an exception in the EU with the highest defence burden. Both are still leading arms importing countries. They have large armed forces, similar developing defence industries and they have just announced a multi-billion dollar expansion of their indigenous arms production industries (Brauer paper in this issue). Turkey and Greece are members of the NATO alliance, but at the same time these two countries have a long history of conflicting interests and often hostile relations (Makrydakis and Kollias, 1997). After the devastating earthquake in Turkey, the relationships between Turkey and Greece are relatively smooth. Turkey was invited to start accession negotiations with the EU in 1999 and the EU and Turkey signed an accession partnership in 2000.

This special issue on the economics of military affairs in Turkey and Greece is important because these countries' economies are highly affected by their defence behaviour. For Greece, large armed forces cause labour shortages and balance of trade problems; for Turkey, they result in balance of trade problems and the diversion of resources from education and health to defence. Greek and Turkish defence expenditures need to be reviewed. Table I briefly summarise the defence indicators of these two countries

This special issue on *the economics of military affairs in Turkey and Greece* focuses on the economic impacts of defence expenditures and arms races. All of the papers in this issue

*Corresponding author. Tel.: 0258 213 4030; Fax: 0258 213 4030; E-mail: ssezgin@pamukkale.edu.tr, selamisezgin@hotmail.com

TABLE I Main defence indicators in Turkey and Greece

	Defence Expenditure		Growth rate of defence expenditure (%)		Defence Burden ME/GDP (%)		Per capita military expenditure ³	
	Greece ¹	Turkey ²	Greece	Turkey	Greece	Turkey	Greece	Turkey
1996	647663	16402	6.1	6.9	4.5	3.3	388	100
1997	681584	17263	5.2	5.3	4.6	3.3	406	104
1998	740737	17913	8.7	3.8	4.8	3.3	439	106
1999	772385	18956	4.3	5.8	4.9	3.5	456	110

¹1990 prices and exchange rates (million Drachmas).

²1990 prices and exchange rates (billion Turkish Liras).

³1990 prices and exchange rates (US\$).

Source: NATO Review (2000).

were presented at the ERC/METU III International Conference on Economics held in Ankara, Turkey in September 1999. The first paper by Brauer extensively reviews the literature on Turkish and Greek military expenditure, its politico-military underpinnings, its economic effects and also identifies some shortcomings and gaps in the literature. The Brauer paper firstly surveys the literature on military expenditure, armed forces and arms production of Turkey and Greece. Secondly, the arms race literature of Greece and Turkey is critically reviewed. Demand for military expenditure and the economic impacts of defence are also surveyed. He indicates that whilst most of the papers are highly sophisticated and use econometrics and mathematical techniques, there is a lack of a political dimension.

The Athanassiou *et al.* paper analyses the effects of defence spending reductions in the case of Greece. The paper estimates potential benefits from a reduction in Greek defence spending using a general equilibrium model. They suggest that diversion of the resources from defence to other public spending would have an important beneficial impact on the Greek economy.

The Sezgin and Yildirim paper presents the demand for Turkish defence expenditure. The Brauer paper in this issue indicates that there is no rigorous study of the demand for Turkish defence expenditure. This paper attempts to fill this gap. It uses the recent econometric technique of ARDL approach to cointegration methodology. Their findings show that Turkish defence spending is mainly determined by the defence expenditure of NATO allies and Greek defence expenditure in the short run. However, in the long run, Greek defence spending has no important impact in determining Turkish defence expenditure.

It is generally agreed that there is a trade-off between defence spending and welfare spending. The Ozsoy paper focuses on budgetary trade-offs between defence and education, defence and health expenditure for the case of Turkey for the period 1925–1997. Ozsoy reviews the defence-welfare literature and then develops an empirical model for estimation. The empirical findings suggest that there are trade-offs between defence and welfare spending, but they are different for education and health expenditures. While there is a negative trade off between defence and education, the relationship is positive between defence and health. It appears that there is a competition between education and defence expenditures in the budget process.

The final paper in this special issue come from Kollias and Sirakoulis. This paper provides a theoretical model for arms races and the costs of arms imports. The arms race is another important issue for Turkey and Greece. Their theoretical model assumes two antagonistic regional players and a demand for military hardware and advanced weapon systems satisfied through imports which is easily applied to Greece and Turkey. This second issue on the defence economies of Turkey and Greece provides further evidence for policy maker and economist in these two countries.

References

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