



Economic Incentives Matter: Especially When It Comes to Defense

Doug Bandow

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Japan has a new government that has decided to embark upon a major military buildup. The cabinet approved the nation's highest defense budget ever, which also will set a record as a percent of GDP. The ground-breaking decision sent shock waves throughout the Asia-Pacific, which will witness a dramatic shift in the balance of power.

Only kidding!

Tokyo's new military outlays will set a record, but one based on a very low base. Japan will devote \$53 billion to the military this year, high for Tokyo but not the world. Japan trails not only the US and China, but also the United Kingdom, Russia, and Germany, and is matched by France. Japan has traditionally kept its outlays below one percent of GDP. This year they will run 1.14 percent of GDP, compared to 1.01 percent last year and 0.95 percent the year before.

The fact that this small hike is considered transformative illustrates how cheap-riding on America has long been a favorite sport of Washington's supposed allies. For decades Tokyo treated the one percent level as an immutable requirement, even though the Japanese constitution listed no number and Japan enjoyed the world's second-largest economy.

Elbridge Colby and Jennifer Lind, of the Marathon Initiative and Dartmouth College, respectively, recently complained that Tokyo's "defense effort has barely budged in response to China's massive military buildup. Generally resisting Washington's urgings to increase its military spending and participation, Japan's defense budget has remained near its long-standing one percent level."

Of course, Japanese officials always pointed to the "Peace Constitution" imposed by America after World War II, Article 9 of which states: "[I]and, sea, and air forces, as well as other war potential, will never be maintained." However, Tokyo ignored this explicit provision in creating "Self-Defense Forces" which, of course, are "land, sea, and air forces" with more than a little "war potential." The SDF, as their name suggests, are designed to fight a war. The Japanese obviously were the original judicial activists, torturing a legal document until it confessed to the desired result.

Still, there would have been public resistance to spending more. However, Japanese politicians were only too happy to use the one percent limit to save money and leave primary responsibility

for their country's defense to America. And the stratagem worked perfectly. Throughout the Cold War, rise of China, and North Korean nuclear developments, Japanese officials refused to do more than make marginal increases in Tokyo's outlays. That was still enough to deploy a potent modern military, but not one sufficient to end the country's dependence on the US. With the Japanese "too busy" to defend themselves, Americans were supposed to shed their blood and dissipate their wealth on Japan's behalf.

Uncle Sam spent most of that time urging Tokyo to do more. However, like professional poker players, the Japanese took Washington's measure. US officials would whine mightily, end up begging Tokyo, and then retreat, only to rant privately back home. But they would never take the one step that might have changed Japan's behavior: draw down America's forces and abrogate the Treaty of Mutual Cooperation and Security.

Of course, the word "mutual" was misleading. The pact was "mutual" only in the sense that the US agreed to defend Japan and Japan agreed to be defended. Until a few years ago the Japanese government's defense guidelines *prohibited the SDF* from aiding American forces under attack unless they were together acting to protect Japan. American policymakers complained but did nothing, leaving Tokyo free to enjoy its cheap ride.

Only the increase in perceived military threats from China and North Korea, combined with increased concern over Washington's willingness, especially after President Donald Trump, to keep the defense subsidies flowing caused Japan to do more. After all, why should America, which is making almost four times the effort – last year Washington devoted 3.8 percent of the nation's GDP to the military – subsidize countries like Japan? Why should the US be expected to defend contested territory, like the uninhabited Senkaku/Diaoyu Islands, for Tokyo when the latter failed to do all it could for itself? Recognizing the risk, in Japan's October legislative election the ruling Liberal Democratic Party promised to eventually push military outlays to two percent of GDP, a major shift if carried out, though still low compared to the potential threat.

A similar phenomenon is evident on the Korean peninsula. The Republic of Korea has spent seven decades in a very cold peace with communist North Korea, which invaded in 1950, triggering a horrific conflict that lasted three years and drew in China. Despite remaining at great risk, the South spends less than advisable on defense, relying on Washington to make up the difference. ROK officials glory in their dependency, contending that they devote 2.7 percent of GDP to the military, the highest of any American ally. (Strictly speaking, the latter is not true: Croatia will likely hit 2.8 percent this year, and Greece approaches 4 percent. However, Croatia is small and Greece is mostly arming against fellow NATO member Turkey, but that is another story.)

However, doing more than Japan and the ever-feckless Europeans is no achievement. If Seoul believes that it faces an existential threat, it should be devoting a larger share of its resources to the military than does America. In years past South Koreans argued that they were poor and couldn't spend more. However, that argument disappeared as the ROK developed one of the world's largest and most sophisticated economies. Today Seoul is a cheap rider, just not quite as ostentatious as Japan.

Europe is the same, only more so. The continent is in a frenzy over potential Russian military action against Ukraine. And Europeans expect *America* to do something. Which is what Europeans always expect. If war erupts with Moscow, everyone knows who would be expected

to do the heavy lifting. And it wouldn't be Montenegro, Italy, Belgium, Germany, or North Macedonia, the latest inductee in the celebrated transatlantic club.

American officials have spent years – decades, actually – pushing the Europeans to do more. But to no avail. Which should surprise no one since the incentives make European cheap riding inevitable. The US deployed forces to the continent. The US promised to use nuclear weapons to defend the continent. The US sent a stream of officials to “reassure” Europeans that America would defend them, no matter what. The US created a special “reassurance” fund to increase troop activities on the continent. How could the US expect anything but endless defense dependence?

Yet that reliance on America caused a steady stream of secretaries of state, secretaries of defense, and presidents to ask European governments to spend more. When nothing happened the Americans tried different tactics – cajoling, whining, begging, whingeing, threatening, complaining, and crying – but nothing worked. Overall, European governments have been slowly upping military outlays since 2014, when Russia annexed Crimea and backed ethnic Russian separatists in Ukraine's Donbas region, though results remain far below what the Europeans could afford and what would seem necessary if they took seriously the supposed threat of a revived Red Army led by a new Hitler, or whatever.

Luxembourg, Spain, Belgium, Slovenia, Canada, Italy, Denmark, Czechia, Albania, The Netherlands, Germany, Portugal, Bulgaria, Turkey, Hungary, North Macedonia, Slovakia, Montenegro, and Norway all fall under the two percent of GDP spending standard set by NATO. France, Romania, Lithuania, and Poland are right around that level. Latvia, Lithuania, and the United Kingdom run 2.27, 2.28, and 2.29 percent, respectively. Only Croatia and Greece are measurably above.

These are almost uniformly poor performances from wealthy nations which claim to face a fearsome foe – with a GDP about the size of Italy and military outlays comparable to London's. Moscow's military gets more for its ruble, perhaps, but remains vastly outmatched by a continent with 11 times the GDP and three times the population as Russia.

However, three of the countries with the largest economies and populations, Germany, Italy, and Spain, are noteworthy for freeloading on the defense efforts of others. Most disappointing are the outlays of Poland and the Baltic States, which are in an almost constant state of fear and outrage regarding Russia's activities. They meet the two percent standard (Poland barely!), but surely their independence is worth more than a couple cents on the Euro. While they could not alone defeat a determined drive by Moscow, they could create territorial defenses which would exact a high price for any aggression.

Europeans do little because they, and especially their peoples, mostly dismiss the Russian military threat and figure Washington would do whatever was necessary if an attack occurred. By promising to do and in fact doing almost all the heavy lifting, the US has infantilized its allies and discouraged them from doing more for themselves. Indeed, America's commitment does not stop at conventional arms. Washington theoretically extends its “nuclear umbrella” over all NATO members, including such behemoths as North Macedonia and Montenegro. (Up next for alliance membership: The Duchy of Grand Fenwick, featured in *The Mouse that Roared.*)

In short, incentives matter. As any economist could tell security specialists.

The US is essentially bankrupt. Republicans and Democrats alike keep spending without limit and borrowing to avoid forcing anyone to pay for anything. By mid-century the federal government is likely to have debts running at 200 percent of GDP. Something will eventually have to be cut and military spending, much of which has nothing to do with defending America, should be on the chopping block.

Since military outlays are the price of a nation's foreign policy – the more officials want to do in the world, the more force structure they need – the right way to reduce spending is to implement a more restrained foreign policy. Once the government plans to do less overseas, then it can reduce military manpower, equipment, and other materiel.

A natural corollary is that allied and friendly states should do more. However, telling other governments what to do rarely succeeds, and has failed utterly when tried by Washington. Other nations have watched what the US did, not said, and realized that America would pay no matter what. So that must change.

No more reassuring words and programs. No new bases and garrisons. No additional alliance commitments. Indeed, existing forces should begin coming home. Washington should give other nations a timetable for America's troop withdrawal and welcome the ensuing transition to allied defense.

This would accelerate planning by friendly states to spend, deploy, and do more. As they should have been doing all along. At least Japan has started doing more.

Doug Bandow is a Senior Fellow at the Cato Institute. A former Special Assistant to President Ronald Reagan, he is author of Foreign Follies: America's New Global Empire.