MILITARY SPENDING AND THE WASHINGTON CONSENSUS: THE UNRECOGNIZED LINK BETWEEN MILITARIZATION AND THE GLOBAL POLITICAL ECONOMY

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DEDICATION

To all those who think a peace dividend is just a figment of the imagination.
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ABSTRACT

Military spending briefly dipped in the early 1990s only to rebound by the end of the 20th century, yet policymakers and academics alike predicted a peace dividend if the cold war should end. What happened to this peace dividend? How do some countries actualize a peace dividend in a world that seems not to encourage one? Typically military spending is analyzed through lenses focusing on international politics, bureaucratic process, or domestic political economy. I argue that these three lenses have failed to account for some of the reasons military spending remains high in the post-cold war era. Utilizing sociological institutionalism and world models, I examine how the rules of the Washington consensus via the neo-liberal economic agenda and the national security exception promote high levels of military spending that the three main theories fail to recognize. This study particularly delves into the roles of states and transnational corporations in terms of competitiveness in the global political economy and privileges allotted to the military industry. My tests rely on fuzzy-set comparative qualitative analysis (fsQCA) as an innovative means for looking at necessary conditions as well as sufficient conjunctural causation through which countries can achieve a peace dividend in the post-cold war era.
CHAPTER 1: INTRODUCTION

War is just a racket... It is conducted for the benefit of the very few at the expense of the masses... There isn't a trick in the racketeering bag that the military gang is blind to. It has its 'finger men' to point out enemies, its 'muscle men' to destroy enemies, its 'brain men' to plan war preparations, and a 'Big Boss' Super-Nationalistic-Capitalism. (Major General Smedley Butler, 1933)

It was widely believed that once the cold war ended the resources used toward militaries and security during the cold war would transfer to other needs. Now just a decade and a half after the end of the cold war much of these resources throughout the world continue to be allotted to the military.¹ Traditionally, scholars see international politics, bureaucratic process, and the domestic political economy as the most compelling explanations for military spending. I argue that the identities and social constructs that comprise the global political economy mediate the impact of the external environment on military spending such that the traditional explanations only capture part of the picture. I suggest that military spending decisions are shaped by the identities and social constructs that impact how people view the world and their societies. These identities and social constructs influence the role militaries play in how we define states, transnational corporations, and international financial institutions, as well as the expectations we assign these actors in the global political economy.

¹ While below I discuss regional and country variation, overall world military expenditures are reaching the 1987-88 cold war peak. Current figures show world levels close to this peak (SIPRI 2005: Recent Trends; see also WMEAT 2003). Since the late 1990s, military spending as a percent of gross domestic product has increased in high- and low-income countries while decreasing in middle-income countries (SIPRI 2008b).
The current chapter sets the context for this study then outlines the contributions made by
the three main approaches to understanding military spending: international politics
especially in terms of threat; bureaucratic process; and the domestic political economy. I
then suggest a fourth approach that focuses on the Washington consensus in terms of the
neo-liberal economic agenda and the national security exception. I argue that the manner
in which we conduct the global political economy under the Washington consensus via
the neo-liberal economic agenda and by privileging the military through the national
security exception explain what the other theories miss about high post-cold war military
spending. What is it that those countries that do have peace dividends in this era have in
common under the Washington consensus that encourages them to lower military
spending even as the global trend is to increase this spending? While it is possible this
fourth approach works independently, it more likely has elements that interact or overlap
with the more traditional explanations. For these reasons, this study sets out to examine
what elements of the global political economy might contribute to lower military
spending, even with the dominance of the Washington consensus and its national security
exception, and just how much and in what ways.

**Context**

At the end of the cold war, many proponents of the neo-liberal economic agenda
expected a decrease in militarization via decreases in military spending (see, e.g.,
Rockoff 1998). In fact, the early 1990s saw a general decrease in world military
spending, both in terms of overall spending and in terms of spending specifically on
weapons.\(^2\) However, while throughout most of the 1990s world military expenditures did remain below cold war peak spending, there has been a marked upward trend in overall military expenditures since the mid-1990s (WMEAT 2003: Table 1; SIPRI 2008b). In general, world military expenditures in the post-cold war period reached an overall low in 1996 with developed countries as a group reaching a low in 1998. During this time, developing countries more quickly reversed the downward trend reaching an all-time high in 1999, albeit with significant variation by region (WMEAT 2003). At the same time there is regional and income-grouping variation in military spending trends, by some estimates world military spending reached over a trillion US dollars in 2005 (SIPRI 2006a). In addition, according to some figures, since 1988 world military spending increased in all geographic regions (except Eastern and Western Europe), while some regions have seen double or triple digit increases (SIPRI 2008e).\(^3\) Further, even though military spending appears to have decreased in Europe as a whole, in recent years, some European countries have seen an increase in military spending in terms of percent of gross domestic product (GDP) (e.g., Latvia), others have merely maintained spending levels (e.g., Austria, Greece, and Poland), and most of the rest have seen very small decreases, with many decreases less than one percent (e.g., Hungary) (SIPRI 2008a).

\(^2\) There are many issues with trying to measure military expenditures, especially when making generalizations about the world. These issues will be covered in more detail below and in Chapter 3. For now, please note general military expenditures can include upkeep of forces; research and development; arms spending; military aid; training; equipment maintenance; and other related military expenditures. Spending on arms is an attempt to measure how much is spent specifically on weapons themselves.

\(^3\) Since 1988, East Asia has recorded an 81 percent increase in military spending, South Asia a 105 percent increase, and North Africa a 109 percent increase. At the same time, military spending in sub-Saharan Africa remained stable and decreased 82 percent in Eastern Europe (SIPRI 2008e).
By 1994 world arms spending had reached a post-cold war low of US$43.5 billion, climbing to US$58.4 billion in 1997 before dropping back to US$51.6 billion in 1999 (WMEAT 2003). While 12 percent below the post-cold war/pre-September 11th peak in 1997, this amount is still 19 percent above the 1994 low—demonstrating an upward shift in arms spending. Though fluctuating in actual amounts (in part due to the Asian financial crisis in 1998 and in part due to tracking issues), others estimate world arms trade to have reached as much as US$56 billion in 2005 (SIPRI 2008e).

The neo-liberal approach to understanding the global political economy assumed once the cold war ended, military spending priorities would be downgraded. The money left free from military spending at that time would convert into a peace dividend, i.e., a sustained nontrivial decrease in military spending with a possible focus on civilian issues whether seen as social spending on actual programs for people, or whether put to use in other areas such as deficit reduction (Clements, Gupta, and Schiff 1997). According to one study conducted by researchers at the International Monetary Fund (Clements, Gupta, and Schiff 1997), in the few years following the cold war when world military

\begin{footnotesize}
\begin{enumerate}
\item For historical perspective on arms trade, see Klare (1987).
\item I note the pre-September 11th spending data because following the attacks on the US in 2001, military spending quickly increased in all geographic regions with the United States in the lead. This increase an example of security needs being defined traditionally such that threat is answered with military spending regardless of the appropriateness of that response.
\item There are significant discrepancies between SIPRI and WMEAT data, so it is not possible to compare the two directly. SIPRI (2008d) provides a range of possible arms spending amounts. For 2005, these amounts range between US$39 billion and US$56 billion.
\end{enumerate}
\end{footnotesize}
expenditures did decrease, overall there was a slight peace dividend—marking a decline across all geographic regions though predominantly in transitioning economies and industrialized states. Overall, this decrease in militarized spending, though, did not tend to go toward other types of spending, but rather was actualized in the private sector through lowering deficits and, in some cases, taxes. It was presumed that without drops in military spending, other types of spending would have declined more than they did, otherwise private sector assistance via deficit reduction and tax cuts would not have happened. This observation illustrates that a continuation of heightened military spending has negated the possibility of a peace dividend.

Contending Theories
There are three main approaches utilized in political science and international relations to explain military spending levels: international politics; bureaucratic process; and the domestic political economy. Especially given that much of the existing research on military spending offers contradictory findings, it is important to consider what these approaches contribute as well as what factors they have excluded. My work seeks to fill in the gaps left by each of these theories while keeping in mind any possible overlaps where each theory might have something to offer. In particular, I examine identities and

7 The authors note “90 of the 130 countries included in the study trimmed the share of military outlays in GDP during the period [1990-1995], while only 40 maintained or increased them” (Clements, Gupta, and Schiff 1997, 17). However, this peace dividend was not a sustained, nontrivial savings. A simple decline in military spending is not considered a peace dividend as will be defined in this study.
8 The approaches touched on here are more fully developed in Chapter 3 where I review the literature that examines the relationship between military spending and international politics, bureaucratic process, and domestic political economy before offering my own approach to filling in the gaps left by the traditional approaches.
social constructs pertaining to militaries in society, especially in terms of the global political economy, to illuminate aspects of military spending not considered in most mainstream studies. I offer a deeper understanding of influences on military spending decisions regardless of international politics (via perceived and actual threat levels), bureaucratic process, and domestic political economy pressures. I argue identities and social constructs as interpreted by sociological institutionalism and world models provide a more comprehensive means for examining the connections between military spending and the global political economy a la the neo-liberal economic agenda and the national security exception that comprise the Washington consensus, allowing us to better understand why some countries are able to achieve peace dividends. First, I present the more traditional approaches.

The most common explanation is that military spending is a result of threat, such that “[t]he proposition that the end of the Cold War will or ought to result in reduced military expenditures is based on the assumption that external security considerations are the primary motivation for defense spending” (Chan 1995: 57). Historically, this explanation typically relies on the assumption that states are rational unitary actors that make spending decisions based on threat (e.g., Allison 1969). Whether focusing on military spending and states in terms of war, alliances and rivalries, power issues involving hegemonic leadership or degrees of polarity, or regional dynamics, how the various actors in the system respond to each other is seen as a matter of perceived and actual threat that can and does impact military spending levels.
However, threat works in a larger context. That is not to say the external security environment is unimportant, but rather that this external security environment aspect is “only one of several influences shaping a defense budget, and its effects are filtered or mediated by organizational protocols, institutional processes, a ruling coalition’s agenda, and the conditions of the domestic political economy” (Chan 1995: 57). Bureaucratic process, which is part of the larger environment, stipulates that past action motivates current action, therefore, military spending remains fairly constant with incremental increases unless a major event pushes up military spending dramatically (Allison 1969). This theory upholds that entrenched thinking is the largest motivation for explaining military spending, i.e., that $t-I$ is the best indicator for $t$ (Correa and Kim 1992) so that current allocations are essentially the same as prior allocations with possibly a small increase to account for economic factors such as inflation. According to Allison (1969) bureaucratic process is less about the decisions of political leaders and more about the outputs of government as a structure. Actors typically rely on standard operating procedures and incrementalism to determine budget requests and outcomes (Goldsmith 2003; Davis, Dempster, Wildavsky 1966).

Some view the domestic political economy as the single-most important determinant of military spending (e.g., see Goldsmith 2003). Military spending can be seen as an

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9 As stated above, the early 1990s did witness small decreases in world military spending with some regions experiencing more decreases than others. However, these decreases were not persistent.
outcome of bureaucratic politics or bargaining games rather than as organizational outcomes as with bureaucratic process (Allison 1969). In these games, people hold multiple roles simultaneously which can lead to internal conflict as well as conflict between people during the decision-making process. In addition, people have different backgrounds and different baggage, meaning outcomes are more complicated than how roles in a bureaucracy play out, as in the focus of bureaucratic process.

What My Study Offers
The conceptual lenses we employ are important because they impact what questions get asked and how they are asked (e.g., see Allison 1969; Feiner and Roberts 1990; Tooze and Murphy 1996). I argue that my conceptual lens allows me, and in some ways encourages me, to look at military spending differently than those who utilize the three main approaches. In my approach, identities are key to seeing why actors act the way they do—as more than mere constraints, identities shed light on who we are and who we think we are. They are ever evolving while simultaneously being reinforced. Because of how I view identities and the role they play in constructing our world, the questions I ask and the answers I expect to find address the gaps left by the three main approaches. Of course, threat impacts whether and how we prepare for war; if threat, whether perceived or real, were not a factor, why would we feel that we need to arm at all? Of course there is a certain amount of inertia; our bureaucratic institutions and processes and our expectations of them are designed as such. Of course, the domestic political economy is important; even with institutional constraints, each set of institutions varies by place and time, and, not everyone within these institutions will act the same way in similar
situations. However, a focus on identities explains why we see the military as we do to begin with and how identifying the key actors in the global political economy with the military allows us to justify such high levels of post-cold war military spending, more military spending than the other three theories can account for by themselves.

The end of the cold war did not dissolve international tensions. Rather, at the end of the cold war, many perceived and actual internal and external threats persisted and contributed to military spending (Landau 1993). However, these threats do not account for all of the return of heightened military spending in the mid- and late 1990s. First of all, many conflicts remained or developed in the beginning of the 1990s even as the Soviet Union fell, yet in that period overall military spending decreased while conflict continued. In addition, growing military ties between the West and the newly transitioning countries of Central and Eastern Europe can only explain part of the returned growth in military spending. While countries might join blocs for reasons of security and increase military spending to achieve compatibility with other member countries, there are other factors besides threat and security issues at work promoting these blocs, including the quest for business opportunities and profit. For instance, in addition to addressing possible security concerns, many see NATO expansion as prompted by US military industry businesspeople who wanted to return to cold war era budgets and profits for their companies (Gabelnick and Stohl 2003). \(^\text{10}\) Further, the

\(^{10}\) One clear connection between business and NATO expansion can be seen in Bruce Jackson. In the late mid- to late 1990s he pushed for larger military budgets both in his capacity as director of strategic planning for Lockheed Martin Corporation and as
international relations and threat approach cannot explain why virtually every country has a military that looks the same regardless of threat levels and historical circumstances. Lastly, a threat-based international politics approach cannot explain how countries such as the US experience high levels of military spending even though the other big spenders are allies, not foes (Oerlich 2006).

Bureaucratic process can be applied to understand how militaries work to maintain their funding. Militaries do fight to maintain spending, both in terms of military versus civilian agendas and as separate bureaucracies or services within the military. However, bureaucratic process is less illuminating when it comes to explaining the Washington consensus and its national security exception, i.e., how states, transnational corporations, and international financial institutions work in tandem to challenge peace dividends. Rather, sociological institutionalism can help us see how these three main actors share a view on what role the military plays in the identities of each of these actors, and therefore in the high levels of military spending that have persisted following the end of the cold war, by showing us how invested each actor’s identity is in the military being defined as generally good, natural, and necessary.

president of the US Committee to Expand NATO (see Gerth and Weiner 1997). More recently, in the defense-related segment of talks leading to the drafting of the EU constitution, the EU Convention’s working group invited leaders from the arms industry but none from civil society. In fact, defense industry leaders took out full-page newspaper advertisements urging EU member countries to increase military spending (see Slijper 2005).
Because bureaucratic process has difficulty explaining leadership roles and the policymaking process in a variety of situations as well as seems to arbitrarily determine which parts of which events fit this theory (Bernstein 1999), some scholars turn to the domestic political economy approach. This theory is better equipped to account for variation according to context. However, the domestic political economy approach cannot explain the isomorphism in the composition of militaries in virtually every country (regardless of perceived and actual threat); the near universal acceptance of the applicability of the national security exception; and the lack of substantial post-cold war declines in military spending even though many countries in the world experienced at least some shift in their domestic political economy situations when the east-west rivalry dissipated. A sociological institutionalist approach coupled with the world models view addresses these aspects missed by the domestic political economy approach.

As both the bureaucratic process and domestic political economy approaches show, military spending decisions result at least in part from institutional structures and the roles they prescribe for actors and in part from the interaction of the actors within states who make the spending decisions. These structures and actors filter threat rather than threat being an absolute, unambiguous given in calculating spending levels. At the same time, some of the factors covered under international tensions or threat overlap with bureaucratic process, including how alliances distribute military costs and how the bureaucracies created by alliances process decisions. Threat factors also tend to overlap
with domestic political economy, i.e., how the actors within a country perceive threat and react to it.

These overlaps are useful in the context of this study and in showing how my approach goes one step further than the more traditional approaches. As stated above, threat, bureaucracies, and domestic political economies do matter, but so do identities and a world model that has us not only accepting the military as good, natural, and necessary (which brings us the national security exception), but also has us accepting the Washington consensus as *the* way to conduct the global political economy. Military spending is in part based on perceived and actual threat, and military spending is allocated within bureaucratic institutions by people who have vested interests in remaining in their jobs (be they military or civilian). However, with sociological institutionalism and world models, we can address the interplay between the key actors in the global political economy and military spending. We can investigate why there is simultaneous variation between countries over time and isomorphism in how the key actors are defined in terms of militaries and the national security exception.

**The Fourth Approach**

This project examines the neo-liberal economic agenda and the national security exception as found in the Washington consensus, the guiding paradigm or policy framework supported by the key actors in the global political economy—states, transnational corporations, and international financial institutions. These actors are
connected by the functions they perform in the global political economy. States follow a competitive strategy by setting policies in order to improve the climate for business that is in the country’s competitive advantage to enhance (Palan and Abbott 1999). Different states can compete in the global political economy, but not all states can compete in all ways and some states are excluded from many if not most forms of competition. Oftentimes, states rely on their militaries for internal and external legitimacy, and arms trade and military aid become sources of strength for states in terms of this competition and legitimacy.\footnote{In one example, former Secretary of Defense William Cohen, prior to a speech at Microsoft Corporation, is reported to have told journalists “[T]he prosperity that companies like Microsoft now enjoy could not occur without having the strong military we have.” He then drew the conclusion that US troops overseas provide the stability necessary for the US to remain active in those markets (Smith 2000; see also Talbot 1999). In another example, the Emerging Markets Group of Chase-Manhattan Bank informed the Mexican government that the situation in Chiapas in the mid-1990s was not conducive to long-term investment in the region, even though these same bankers admitted that while there was no real threat from the worker uprising there was a perceived threat that made investors nervous. According to the bank’s analyst, the Mexican government needed to apply force to take care of this situation. As a result the Mexican government brought in its forces to settle the situation in favor of the bank (Donahue nd). States often comply in these situations because they are afraid of losing the investment; losing the investment means lowering their ability to compete. Since competition is now an integral part of state identity, losing competitiveness is a threat to that identity.}

Over the last few decades, transnational corporations (TNCs) have gained status in the global political economy, especially with the spread of 24/7 business practices and production (Peterson 2003; Tooze 1997; Underhill 1994). TNCs rely on states to maintain conducive business environments, not infrequently with the use of state militaries (Friedman 1999; Donahue nd; Reifer 2001). States, for example, are vital in
protecting shipping lanes. Further, military subsidies remain largely untouchable because of security clauses in trade agreements.\textsuperscript{12} Overall, the military industry has become more accountable to shareholders than to citizens, with arms deals as part of commercial policy.\textsuperscript{13}

International financial institutions (IFIs) rely on the neo-liberal economic agenda to support economies and to recommend criteria for change. IFIs might encourage military spending reductions but often bow to the security exception mentioned above. IFIs often do not penalize states for subsidizing their arms industries, e.g., by leaving in place tax relief programs. Overall, IFIs tend to impose conditions that most often are negotiated in secret, leaving many countries no option but to follow the neo-liberal economic agenda in order to receive the support they need to keep their economies from collapsing.

In this project, structure is viewed as more than a constraint. Structure also is generative in the sense that it is key in determining what the actors actually are. This view makes it possible to examine why states have such similar military spending objectives even though they have different perceived and actual threats and different political

\textsuperscript{12} Under the national security exception, trade agreements in general prioritize or set different standards for military industry business. For example, the EU Treaty and WTO more broadly allow for military subsidies (Slijper 2005; see also Feffer 2002).
\textsuperscript{13} Oscar Arias (2004), former president of Costa Rica and Nobel laureate, stated “[t]he global arms trade is no longer driven by the political demands of the East-West conflict, but largely by economic motives alone. Underground and independent dealers flourish in the absence of effective international arms control standards. In brief, since the end of the Cold War the arms trade has grown enormously, and now has a stronger presence in the developing world than ever before.” See also Gabelnick and Rich 2000.
economies. Codes of behavior that shape identities and actions are one type of institution; it is in this way the Washington consensus can be viewed as an institution (Feffer 2002). Over time, with the acceptance of the Washington consensus as the dominant institution in the global political economy, states, TNCs, and IFIs have defined their behaviors and interests in line with the Washington consensus, in turn reinforcing the Washington consensus, and so on.

Because of this view on structure, this project relies on sociological institutionalism to examine the relationship between globalization (in terms of states, TNCs, and IFIs) and militarization. Sociological institutionalism allows us to see how the social structure contributes to the making of the actors at the same time that these actors contribute to the overall structure (Leander 2000; Palan 2000). Sociological institutionalism helps researchers highlight aspects of social life that are normally taken for granted. In this sense I can denaturalize (or politicize) the Washington consensus and its neo-liberal economic agenda and national security exception in order to see how they work; how they might contribute to the path the key actors in the global political economy take; and how what each actor claims to do might actually overlook possible contributions to global militarization.

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14 For instance, this isomorphism of military policy can be seen when landlocked states have navies, or in states that have defense ministries but no external threat. Finnemore’s point is structure and norms interact to create a system that basically rewards countries for looking like their neighbors. States see “having a military with particular characteristics as being a necessary part of the trappings of modern statehood” (Finnemore 1996b, 337), i.e., as integral to their identities.
Much of the work on understanding militaries tends toward focusing on militaries as separate entities rather than considering the social embeddedness of militaries in a larger society. In addition, the peace dividend that was routinely assumed by much of the literature supporting the neo-liberal economic agenda and Washington consensus has not materialized in a substantial way for the long term. A sociological institutionalist perspective may help us better understand why this peace dividend only ‘materialized’ for a few years, if we can say it came about in any real amounts at all. Further, the more traditional approaches make it difficult to look at multiple levels simultaneously therefore making it difficult to see how the macro- and micro-economic levels interact. For example, while there have been some successes for the standard IMF response to crisis (e.g., the lowering of deficits), the traditional approaches fail to critique how many people are impacted negatively by these macro-level successes. Sociological institutionalism makes it possible to look at how multiple levels interact.

The Washington consensus has its roots set in an earlier period when the 1970s saw a shift in the extent to which the global political economy became a 24/7 endeavor and production practices spread out (Cox 1994). Further, the response to the debt crisis that started in Latin America in the 1970s (Williamson 2000) became the basis of the neo-liberal economic agenda of the 1980s, with structural adjustment programs and general state practices resting on the assumptions of privatization, deregulation, liberalization, and lowered social spending. By examining the Washington Consensus as the dominant
approach to economic globalization,\textsuperscript{15} this project will shed light on what institutional aspects might play a part in militarization in addition to, or in spite of, threat levels, bureaucratic process, and domestic political economy. The overall scope of the project covers from 1989 to 2004.\textsuperscript{16}

**Research Question and Project Significance**
Expanding beyond threat, bureaucratic process, and domestic political economy, I examine the possibility that the actual workings of the dominant institutional structure of the global political economy contribute to the militarization of spending. As the main components of the Washington consensus, do the priorities\textsuperscript{17} set out by the neo-liberal economic agenda in tension with the national security exception tend to lead to militarization via the interactions of the dominant global actors—states, transnational corporations (TNCs), and international financial institutions (IFIs)? Conversely, given this context of the Washington consensus, how do countries decrease military spending?

\textsuperscript{15} Some define globalization in terms similar to how I have outlined the Washington consensus and the neo-liberal economic agenda. For example, “[t]he last two decades have seen a number of important changes in economic policy adopted throughout much of the world, and especially in the low to middle-income countries. Many of these measures fall under the common definition of globalization: i.e., the removal of tariff and non-tariff barriers to trade, and capital account liberalization (the removal of restrictions on international investment flows)” (Weisbrot et al. 2001).

\textsuperscript{16} Not only does this period cover the post-cold war era and the period when the Washington consensus was already established as the dominant paradigm for the global political economy, data constraints on information available for earlier years prohibited a more comprehensive time period.

\textsuperscript{17} These priorities include deregulation, liberalization, privatization, and maximizing profit. I will discuss these priorities and their implications below.
Addressing these questions holds significance for international relations and global political economy research in a variety of ways. By examining militarized spending, I seek to learn whether the ruling paradigm of the global political economy explains what it claims to explain. That is, the Washington consensus, through the neo-liberal economic agenda, claims to assist countries and their people (because of “trickle down”) to reach a higher standard of living not only because of the components of this agenda but also because of the hypothesized post-cold war peace dividend. However, the higher military spending trend in the post-cold war era contradicts how the Washington consensus more generally is thought to work. It becomes imperative to examine the role the national security exception plays too. It is important to test empirically the assumptions built into the ruling globalization paradigm in order to see if and how elite claims play out.\textsuperscript{18} In addition, according to Chan (1995: 83) we have an overall lack of process knowledge in terms of “the basis on which budget allocations are made.” Analyzing how the neo-liberal economic agenda and national security exception work as part of an institution based on the social construct that business is about the neo-liberal economic agenda and that militaries are good, natural, and necessary expands our knowledge on how processes, in particular budget allocations, work. My findings can assist policy-makers and corporate and financial managers to better understand how their interactions might impact spending decisions, military or otherwise. Lastly, my work here will inform non-profit policy organizations, community groups, and individuals on how the rules might or might not

\textsuperscript{18} Globalization as used in this project will be explained below.
work. It is important to test those assumptions the ruling paradigm accepts as natural and
to see what else might be happening that this paradigm does not address.

In general, I expect this project to broaden our understanding of militarization. In so
many places, militaries are considered unquestioningly necessary, but little is understood
about how militarization actually works (Regan 1994). Because virtually all societies
invest in their militaries, regardless of non-military societal needs and levels of state
wealth, it is important to study how militaries obtain the scarce resources that might be
employed more effectively elsewhere. I am not using military spending here to measure
overall societal militarization per se, though some ideas on levels of societal
militarization may be extrapolated from the findings. A better understanding of
militarized spending cannot explain all of militarization, but such an understanding can
provide a much clearer view of how militarization works as a process. I am looking at the
militarization of spending priorities and what factors might contribute to this
militarization, especially in terms of the Washington consensus and the dominant actors
in the global political economy. If militarization as a process is about military priorities
and views making their way into civilian life (see e.g., Enloe 1989), then the maintenance
and/or increase of military spending means to a certain level that spending is militarized.
It is the militarization process in terms of spending that is of interest here.19

19 Militarization as used in this project will be defined in detail below. In general, those
authors that see militarization as a process often look at how societies acquire a
naturalized understanding or view of the role of militaries in society (see, e.g., Enloe
1989). This project takes the militarization as a process argument and applies it to
spending priorities to see how the process works in areas other than, for example, how
In another sense, it is important to look at the impact of macro-level policy on the micro-level. There is a basic assumption that militaries are there for protection and therefore are a social ‘good,’ not a social ‘bad.’ While most people do recognize that militaries are often used negatively, e.g., when they are used to repress dissension toward a tyrannical government, at the same time, most people see militaries as a natural part of social, economic, and political life (Regan 1994). If militaries are used to repress people and/or if the funds and other scarce resources allocated to the military take away from non-military needs such as social spending, then it is important to better understand what factors contribute to these militarized spending decisions. In this sense, it is possible the role the dominant actors in the GPE are playing becomes central to understanding how militaries get money instead of funds going to civilian issues, how what seems as a more macroeconomic perspective might deeply impact those on the micro-level. Rather than assuming militaries are necessary and natural parts of society and therefore spending priorities reflect actual needs, this project will put into context the common reasons typically used to justify military spending, e.g., threat issues, to see if militaries get more than they “need.”

and how much societies prepare for war on various levels such as how many professional and skilled laborers work for the military industry (e.g., see Regan 1994). Militarization, then, is a process that prioritizes the military over the civilian. This project will help to illuminate how this process works both more generally as a process and more specifically in terms of spending.
In addition, there is an overall connection between that which is local and that which is global (see e.g., Ikenberry 1996; Leander 2000). This project seeks to further our knowledge in terms of those linkages, if only by finding what is at work on the macro-level and the general impact this has on the micro-level. For example, while international financial institutions (IFIs) typically work on the national or regional levels, their programs touch people in the most basic ways. As with the International Monetary Fund, even as its policies possibly contribute to overall better government balance sheets, structural adjustment programs (SAPs) are not designed to change the actual structures that create and perpetuate poverty, with long- and short-term implications for all economic strata, from people to governments. Overall, positive changes in a country’s macroeconomic situation do not necessarily translate into positive changes for a country’s people (Welch 2000). Interestingly, one internal World Bank report looking at poverty and IFIs found poor people benefit less under SAPs when economies expand than when economies contract (Easterly 2000). While SAPs are supposedly designed to help economies grow and assist poor people, these findings suggest otherwise. Under SAPs, if economies expand, poor people suffer more. If economies contract, then the SAPs are not working as designed.

IFI preference for business over people links to militarization in at least two ways. First, because the military industry benefits from IFIs’ hands-off approach to business termed national security, IFIs at least indirectly contribute to militarized spending by not pressuring countries to cut military spending levels (see Mohammed 1999 regarding lack
of pressure to cut military spending in Africa). Similarly, some states justify military spending as a means of promoting domestic stability in the face of protests and riots that arise in response to the worsening conditions in part caused by SAPs, programs that ultimately benefit business more (Peace Movement of Aotearoa and the Women’s International League for Peace and Freedom nd).

The impact of macro-level policy on the micro-level plays out in a variety of ways particularly in terms of poverty-related issues. For example, when looking at commonly used indicators such as overall mortality rates and education, between 1980 and 2000 the situation for most of the world’s people actually worsened rather than improved or remained the same (Weisbrot et al. 2001). When broken down by sex category, the situation is much worse for women (and the children for whom they are deemed responsible), yet many of the world’s macro-level policies\(^\text{20}\) such as spending priorities lean towards spending that looks good on paper but takes little consideration in regards to the policies’ differential impact on women and children. This gendered difference in outcome is rarely questioned in the dominant paradigm because there is little room for such questions. In one author’s words:

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\(^{20}\) Weisbrot et al. (2001) broke countries into five groups for each indicator used (growth of income per person; life expectancy; infant, child, and adult mortality; literacy; and education). The groups were based on where the particular country stood at the beginning of two 20-year periods (1960-1980 and 1980-2000). Their study found overall, regardless of grouping, across the board the world’s situation worsened in the second period compared to the first. They did note variation within indicators, e.g., between 1980 and 2000, life expectancy did not decline for the group that had started with the highest level of life expectancy; it declined for the other four groups examined.
[A]lthough SAPs may improve government balance sheets, they often cause poverty and unemployment rates to increase. In restructuring economies, SAPs do not establish a base for increased per capita incomes or for sustainable and locally-driven economic development. To mitigate these harsh restructuring impacts, the IFIs have created social investment funds. These funds alleviate some hardship through temporary job and social service programs but leave the structural reasons for poverty untouched. In fact, SAPs can add to the structural causes of poverty by advancing reforms that deregulate labor, weaken environmental laws, reduce the state’s role in social programs, and promote rapid privatization of government enterprises, allowing well-connected elites to reap the monetary benefits. (Welch 2000)

Those macro-level decisions show a different impact when viewed outside of the assumptions of the Washington consensus.

In sum, this project will test the dominant paradigm21 that forms the base for current globalization (i.e., the Washington consensus and its neo-liberal economic agenda and national security exception) both in terms of its assumptions and according to more critical approaches that look at what is naturalized (or de-politicized) by these assumptions. For these reasons this project can be expected to contribute to international relations and global political economy research in general. In addition, this project will contribute to more specific research areas including spending, and militarization, as well as contribute to policy-making in related areas.

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21 Scholte (2000, 35) discusses neo-liberalism “as policy orthodoxy” in terms of globalization, that “…in the late twentieth century neoliberal ideas gained a widespread unquestioned acceptance as ‘commonsense’.”
Overview of Key Concepts

There are several concepts integral to addressing the questions outlined above: militarization; the peace dividend; globalization; the Washington consensus; and the national security exception. In this project, militarization is treated as a process in which a person or thing is gradually controlled by the military or becomes dependent for its well-being on militaristic ideas, and military needs are considered valuable and normal (Enloe 1989). It is a process through which states maintain or increase their general preparations for war (Regan 1994). Militarization, then, is a process based on deliberate decisions with both intended and unintended consequences. It is not simply a given; it does not just happen but occurs because of the actions and inactions of real people and their interaction with real institutions or structures. This project considers militarization as a process that ultimately prioritizes military needs (perceived and actual) over other needs in society, as can be seen in post-cold war anomalous military spending.

It is widely held the peace dividend is a shift from military spending to social spending or to other civilian areas such as overall deficit reduction or tax cuts (Clements, Gupta, and Schiff 1997), though some define the peace dividend as cuts in military spending resulting in “higher long-run levels of capacity output” (Knight, Loayza, and Villanueva 1996). Here, peace dividend refers to sustained, nontrivial savings from reductions in military spending (Chan 1995) without requiring a corresponding increase in social spending or some other shift in spending, for instance shifting spending priorities to reduce budget deficits. The main point is, if military spending has not been reduced in significant amounts following the cold war and if those reductions that did appear were
short-lived, then the expected peace dividend that was to come about after the fall of the Soviet Union never really appeared.

As for the global political economy and globalization, the Washington consensus is the dominant understanding of how globalization is run and should be run. The Washington consensus has different meanings for different people stemming from so-called neutral reforms to a more ideological understanding of what these reforms represent (see Williamson 2000). While the term was originally devised to explain a set of reforms or an agenda that belonged to a specific context, namely the debt crisis in Latin America in the 1980s, the Washington consensus has come to hold other meanings such as a general agreement on what tools are considered acceptable and which ones are excluded from the policy-making tool bag. It is important to remember that there is no real consensus on what actual steps to take, i.e., not every policymaker has the same view on which elements are to be implemented in any given country at any given time. However, there is a consensus among the dominant global actors that there is a general set of tools available, those that rest on the neo-liberal economic agenda and the national security exception. There is a basic agreement, for instance, among economists that a rational economic approach is best suited to achieving higher living standards in developing countries (Williamson 2000). I argue in this project that whether or not there is actual consensus on which specific steps should be taken when, there is a general consensus on which steps count as legitimate for helping states adjust their economies and which aspects of economies are relevant for that adjustment. There is also an assumption
regarding where these steps will lead and that ultimately most of society will benefit (see Forcese 2002 for background on these assumptions).

According to Williamson (2000), the originator of the Washington consensus concept, there are some basic objectives available to the international development community, especially for international financial institutions, which are often key in determining which avenue developing countries take. Namely these rational economic reforms are macroeconomic discipline, trade openness, and market-friendly microeconomic policies (Williamson 2000: 252). While proponents of the Washington consensus often disagree that there is a parallel between neo-liberalism and the Washington consensus, I argue that the mindset behind and key components of the Washington consensus are very much in line with neo-liberalism. In fact, many of the components on the neo-liberal economic agenda are the same as those called for by Williamson himself.22 Over time, the Washington consensus has changed from policy recommendation and who could impose these recommendations in terms of Latin America to being accepted as common wisdom

22 The key components of the neo-liberal economic agenda are privatization of public enterprises; the deregulation of barriers that can reduce profit (e.g., regulations regarding workplace safety and the environment); liberalization of markets and trade; and the cutting of social service expenditures. Others see the four most important elements of globalization under the neo-liberal mindset as: the globalization of finance; internationalization of production; the changing role of technology; and the policies of deregulation (see Palan and Abbott 1999: 20). I argue that these elements, worded differently but with the same meanings, come out in the neo-liberal economic agenda as covered in this project. I focus more on the actual policies states, transnational corporations, and international financial institutions look to when trying to better their positions in the global political economy. In any event, the general argument given by proponents of the Washington consensus is that these neo-liberal actions will ultimately result in a higher standard of living for people because countries will receive better macroeconomic results.
for how the global political economy is to be structured more generally. Overall, the neo-
liberal economic agenda as part of the Washington consensus has “generally prevailed as
the reigning policy framework in contemporary globalization” (Scholte 2000: 35).

The national security exception (NSE) is the other key component of the Washington
consensus. It is in tension with the neo-liberal economic agenda in that the NSE is
applied when the key actors invoke ‘national security’ as justification to conduct business
that otherwise would be questioned or sanctioned, such as subsidies to military-related
research and exports. That is, the NSE goes against the so-called free trade of the neo-
liberal economic agenda, yet the NSE is a key component of the Washington consensus
in that it is a part of business as usual. The exception is written into the World Trade
Organization’s governing documents as well as into other trade agreements and has been
accepted as the norm by the World Bank and International Monetary Fund and by
countries the world over (see e.g., Feffer 2001). Further, “[b]ecause the security
exception shields the war industry from challenges to the WTO, it works to spur military
spending by governments” (Staples and Pemberton 2000, np). States can spend on
militaries and protect military industries in ways not allowed for civilian industry.

According to Scholte (2000, 35), the neo-liberal economic agenda is promoted by most
governments (especially those in major states); multilateral institutions (such as the
International Monetary Fund, the World Trade Organization, and the Organization for
Economic Cooperation and Development); commercial circles (especially financial
markets and corporate elites); business associations (for example, the World Economic
Forum); business-oriented newspapers (including the Wall Street Journal and the
Financial Times); the academy (e.g., mainstream economists); and think tanks (such as
the Institute for International Economics). To reiterate, Scholte states the hold neo-
liberalism has on power centers has led to its acceptance as “commonsense.”
**Research Boundaries**

This project does not claim to attempt to find all causes of military spending and militarization more generally. Rather, I am looking at how key actors in the global political economy work in tandem either increasing or decreasing military spending and thus can contribute to militarization in terms of how globalization and the global political economy operate, i.e., when pursuing the neo-liberal economic agenda and the national security exception as key elements of the Washington consensus. It is not that military spending is the only way to see militarization. However, if people are going without because militaries are receiving funds that would otherwise go toward social spending or other non-military uses, then we can see important aspects of militarization via military spending as an outcome. Many studies on military commitment focus on military spending as an indicator of how committed a society is to its military, while others argue that military spending does not capture enough to be useful on its own in terms of understanding militarization (e.g., Regan 1994). In this project I look at the militarization of spending in particular, not as a simple measure of how militarized a society is, but as a means for seeing the ways in which spending priorities become militarized. As an indicator used in so many other ways in international relations and global political economy research, it is important to see what is involved in militarized spending priorities, especially in terms of the intentional and unintentional contribution key actors in the global political economy might be making to influence military spending decisions.
Research Design

I test my theory using fuzzy-set qualitative comparative analysis (fsQCA) that allows me to examine whether the linkages I posit exist in the real world. Typically, military spending studies are based on quantitative or qualitative methods, though some researchers employ triangulation. Rather than utilizing the traditional methods, I selected fsQCA because it fits better with the type of question I ask and the approach I take. This type of analysis allows me to look for conjunctural causation, or multiple paths, to the same end. Also, there most often are discrepancies in the findings between qualitative and quantitative methods when looking at other issues of militarization. For example, when looking at militarization and development, large-n inferential statistical studies tend to find militarization as a means for development, whereas case study research has found militarization depresses development (see Bowman 2002). If this type of variation is happening in other militarization work, then it seems fitting to apply a new type of methodology to the study of militarization here.

Chapter Overviews

The next chapter focuses on outlining in detail the overarching theoretical framework of this project. I provide an overview of rational-based approaches and other types of

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24 Charles Ragin developed fsQCA. For an in-depth presentation of this methodology, see Chapters 4 and 5 in the current study as well as the references cited therein (e.g., Ragin 1987; 2000; 2006; 2008a; and 2008b).

25 According to Bowman (2002: 9), triangulation is the “use of different methodologies and distinct sources and types of data to test a relationship.” Citing King, Keohane, and Verba (1994) as well as Tarrow (1995: 479), Bowman states that triangulation is defined as “using the best methodology to analyze ‘data collected at different places, sources, times, levels of analysis, or perspectives, data that might be quantitative, or might involve intensive interviews or thick historical description.’”
institutionalisms before detailing my approach based on sociological institutionalism and world models. This chapter also presents the Washington consensus (with its neo-liberal economic agenda and national security exception) as an institution and examines the role the key actors in the global political economy play in the Washington consensus as well as how the consensus impacts the identities, and therefore actions, of the key actors.

Chapter 3 contains a literature review on military spending, covering militarization, the peace dividend, and the three traditional approaches to military spending research (international politics, bureaucratic process, and domestic political economy). I show what has been accomplished in the literature and what is missing given the many and varied findings on the topic of military spending. I close this chapter by connecting the Washington consensus, the neo-liberal economic agenda, the national security exception, militarization, and the peace dividend.

Chapter 4 explains fuzzy-set qualitative comparative analysis (fsQCA) and sets out the research design for the study. I provide an overview of the qualitative and quantitative methodologies typically used in military spending studies; examine issues of causality; and outline fsQCA. This chapter also discusses issues pertaining to concepts, indicators, and measurement, and operationalizes the key concepts into an outcome variable and several causal and contextual conditions. Chapter 5 extends the discussion of fsQCA by describing the key components of this methodology and how I apply them in this study. I focus on explaining the linkages between post-cold war anomalous military spending and
the key actors in the global political economy by determining causal configurations that connect the former with the latter.

The concluding chapter provides a more integrated view of the findings. In addition, this chapter provides the generalizations that can be made from these findings and with discrepancies between this work and pre-existing studies on militarization and globalization. It also outlines what this study contributes to theory and policy and looks to future work.
CHAPTER 2: GLOBALIZATION AND MILITARY SPENDING—WHAT SOCIOLOGICAL INSTITUTIONALISM OFFERS OUR UNDERSTANDING

The new religious elites are the professionals, researchers, scientists, and intellectuals who write secularized and unconditionally universalistic versions of the salvation story, along with the managers, legislators, and policymakers who believe the story fervently and pursue it relentlessly. This belief is worldwide and structures the organization of social life almost everywhere. (Meyer et al. 1997: 174)

The key dimensions of the Washington consensus—the neo-liberal economic agenda and the national security exception—are logically in contradiction. On the one hand, the neo-liberal economic agenda directs the state and corporate business of the global political economy in such a way as to promote liberalization, deregulation, and privatization. At the same time, the national security exception privileges military concerns over civilian ones regardless of stepping on or over the prevailing business boundaries established by the neo-liberal economic agenda. In part because of what has become the national security exception adopted under the Washington consensus (even though the exception is at odds with many of the principles or assumptions of the consensus’ overarching principles of the neo-liberal economic agenda) militarization seems to continue apace as seen in the resulting spending decisions that maintain and/or heighten military spending in the post-cold war era. I argue this contradiction—the neo-liberal economic agenda at work simultaneously with the national security exception—is possible in large part because of the social constructs that have been accepted and institutionalized into the global political economy and promoted by the same actors both under this agenda and through the national security exception. The acceptance of these social constructs as
commonsense and the implications of this acceptance are the key element in how sociological institutionalism explains how the world works. The contrast between the neo-liberal economic agenda and its underpinnings and the national security exception and its underpinnings is a very telling example of the power of social constructs. This chapter discusses sociological institutionalism and how this tension is a powerful illustration of this approach.

Much of the research on militaries tends to treat militaries as separate entities, distinguishable from larger society rather than considering social reality and how militaries and society are interdependent (Galtung 1985). This project strives to understand how societies and militaries are interdependent by testing how the global political economy as an institution (a la the Washington consensus and its neo-liberal economic agenda and national security exception) impacts spending decisions, in particular the outcome to attain a peace dividend in the post-cold war era. Typically, militarization is seen as a wartime effort and therefore studied in the context of war. Here, militarization is defined as a process that also is at work in peacetime. Therefore, this study looks at the interactions and interdependence of militaries and societies and sees militarization in movement, something reinforced in peacetime situations.  

Do the priorities set out by the neo-liberal economic agenda and the national security exception under the Washington consensus tend to lead to militarization via the

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26 The next chapter defines militarization in detail and applies the theory presented in this chapter to spending priorities in particular.
interactions of the dominant global actors? More specifically, is military spending prioritized over spending cuts as a result of the actors following a neo-liberal version of globalization, a version that also incorporates the national security exception? Can challenging the neo-liberal version of globalization be sufficient to lower military spending? This chapter examines how this neo-liberal version of globalization embraces the national security exception even though this exception is contrary to the basic tenets of the neo-liberal economic agenda. In this way, following the Washington consensus actually can lead to militarized spending even if the liberalization, deregulation, and privatization prescriptions of the consensus are not inherently designed to promote militarization. Examining whether countries challenge or accommodate that tension provides a solid test of the power of social constructs, intersubjective meaning, and acceptance as commonsense as outlined by sociological institutionalism.

In order to better understand these concepts and their usage in this research, this chapter delves into the related globalization and sociological institutionalism literature and develops a theoretical approach. First, I briefly examine the traditional approaches to international relations and political economy; then I look more closely at new institutionalism and what sociological institutionalism has to offer to this study. Next, I frame the argument the Washington consensus is an institution and take a look at how the neo-liberal economic agenda carries out the most visible elements of the consensus; the acceptance of the Washington consensus and the neo-liberal economic agenda as commonsense; their key components; and why acceptance as commonsense matters.
Next, the chapter looks in detail at the role of states, transnational corporations, and international financial institutions in the global political economy; how these actors are linked to each other; and how the national security exception matters for each and in terms of the Washington consensus more broadly. I then explain what sociological institutionalism offers to better understanding the Washington consensus and the links between the key actors in the global political economy. Next, I define the national security exception, concluding with a look at the tensions created by the neo-liberal economic agenda and the national security exception, and how sociological institutionalism can help make sense of it all.

The Other Approaches First

As a sub-field of understanding international politics, relations, and economics, international political economy (or more recently, global political economy) sets out to address a variety of areas ranging from broadening the narrow focus of the more dominant classical economics approach to understanding foreign economic policy to why some states experience economic growth and others do not to the impact of international politics on domestic politics (Milner 1998). In general, there are four categories of explanatory factors used to address these areas: world power distribution; international institutions and their structures, functions, and impacts; the role of non-materialist elements such as ideas; and the impact of domestic politics (Milner 1998).
This project is essentially a political economy one, touching on each of the areas above but focusing on both international institutions and the role of ideas or social constructs. I use these explanatory factors to better understand how the dominant paradigm in the global political economy (the Washington consensus) could result in the militarization of spending priorities, even though the prioritizing of military spending *per se* is contradictory to the tenets of the neo-liberal economic agenda, the most visible component of the Washington consensus. Because of its focus and the explanatory factors on which it relies, this project rests on sociological institutionalism as the theoretical approach to explaining how institutions, key global actors, social constructs, and the political economy interact in perpetuating high levels of military spending in the post-cold war era. This section specifically examines alternative approaches to understanding the global political economy, including new institutionalism, before the next section offers a detailed explanation of sociological institutionalism and why it is suited to handling the questions posed in this project.

**Rational-based Approaches**
According to Wendt (1992), in general the rational-based approaches of neo-realism and neo-liberalism share several baseline assumptions including the idea that social reality is a constraint rather than a motivation for action. Preferences are assumed fixed as a result

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27 As with a growing body of literature, I agree that domestic politics can and does impact international relations in a variety of ways (see, for example, Milner 1998). However, the focus in this chapter is to tease out how shared global/international norms or social constructs impact the domestic level regardless of the needs, motivations, and histories involved in the local decision-making. The impact of the variation of domestic situations will be discussed in the chapters that test the overall general theory outlined here—the theory that global norms exist and deeply impact how actors identify themselves, each other, and what comprises appropriate actions.
of the overarching international structure of anarchy (e.g., Moravcsik 1998). These preferences result in a self-help world in which state actors struggle for survival. While processes and institutions do exist in this self-help structure, they can change behavior but not identities and interests. That is, institutions are treated as exogenous. There are also some areas where the approaches diverge. For example, each of these approaches focuses on gains as state motivation for action, though neo-realism focuses more on relative gains while neo-liberalism focuses on absolute gains. Another difference is with the issue of learning, where neo-realism sees learning as simple so that states can experience behavioral adaptation depending on circumstances while neo-liberalism sees learning as more complex because of its focus on process. However, each still embraces the notion institutions are exogenous, providing constraints, and therefore preferences, of the actors involved. Neither holds that identity and interest transformation as a process also transform structure because each takes institutions as given; institutions do not change identities and interests.\(^{28}\)

\(^{28}\) According to Thelen and Steinmo (1992), historical comparative institutionalists who are neo-liberals rather than neo-realists do see preferences as endogenous. Sociological institutionalists argue that structure also changes identities and interests and not just vice versa (Leander 2000) so that the view of endogenous preferences espoused by historical comparative institutionalists is more about constraints changing rather than identities changing. In that sense, some authors claim preferences are endogenous but in actuality treat them more as exogenous. For example, Bueno de Mesquita (2000) examines the power struggle between kings and popes and how the changing power position of each resulted in the building of the state system. He points to institutions as endogenous meaning the changing positions of the kings and pope led to changes in constraints on the kings and popes; however, his discussion remains focused on the constraints placed on the actors rather than discussing, for example, how these actors’ identities shifted because of institutional changes. Endogeneity encompasses more than institutional changes leading to changes in constraints and therefore in preferences.
There are several rational-based theories expanded on here to show the value of sociological institutionalism as an alternative approach to understanding the Washington consensus, militarization, and spending priorities. Beginning with Waltz (1979), the balance of power theory played a dominant role in international relations scholarship more generally (though less so with international political economy studies later on) and has had a lasting influence in the field. The balance of power theory predicts that quick changes in international power or status lead to counterbalancing measures so that the balancing process is the means for maintaining or creating stability, depending on what the system needs. Power is defined as material capabilities and the name of the game is survival of the fittest, though Waltz does contend that some states move beyond survival as motivation towards wanting to dominate. The preference for survival stems from the assumption the structure is anarchic, with power as the means of survival. The structure is important because it determines how states act, but the structure stays the same.

With hegemonic stability theory (e.g., Keohane 1980), stability in the system comes from the dominant actor setting and enforcing rules of interaction for other key members in the system. The dominant country determines the status quo (Lemke and Werner 1996) and when the hegemon or dominant power changes, so does the status quo. States can only be hegemonic if they have the (material) capabilities and will to enforce system rules and if other major states see system support as beneficial for all. Instability in the system arises when potential rivals become dissatisfied with the system’s rules, seeing them as unfair.
Essentially, states are treated as rational, unitary actors striving to survive in a world order based on anarchy.

Another explanation for state behavior rests on Modelski’s (1987) long-cycle leadership theory. This theory looks both at security (because the rules and norms of the world system deal with security) and at the economy (because the underlying problems in the world system stem from technology and economics). The system has global leaders and global challengers who, over the course of time, see the ebb and flow in the power each holds. Challengers work to strengthen themselves and become rivals to the dominant power and the system may change if the rivals have enough power or stay the same if the leader can maintain the status quo.

Power transition theory (e.g., Kugler and Organski 1989) is rational-based theory that predicts state behavior, focusing on war and alliance stability. International politics is a hierarchy comprising a dominant state, or one that has power resources; great powers to support the system but which can become rivals to the dominant power; middle powers that also help to maintain the system but on the regional level; and small powers which is all the others not in the previous categories. In addition to power parity, a challenger to the dominant state needs to be dissatisfied with the status quo. Preferences are based on whether there is satisfaction or dissatisfaction.
Each of these approaches in its own way closely examines state behavior, the role of hierarchy/power in the world system, and changes in stability and the possible impact on system leadership—all of which are important categories of interest when looking at the global political economy (GPE). Being rational-based, though, imposes restrictions on a deeper understanding of preferences/interests and how identities shape and are shaped by the environment in which states act and interact. Further, these theories have difficulty incorporating non-state actors as competitors to state power.  

Finally, none of these theories is really equipped to explain the tensions in the GPE the neo-liberal economic agenda is trumped in many ways by the national security exception—while both the agenda and the exception are powerful and enduring social constructs—except to fall back on the idea a hegemon or the system is imposing its will, or conversely providing incentives, for participation. While these may be happening, they can only explain part of the picture. In addition, this tension is about more than rational actors trying to survive and is more than about trying to gain material capabilities to threaten the hegemon out of power.

Institutions become powerful theoretical tools in understanding this tension. Further, the social constructs and commonsense acceptance of these institutions lend themselves to understanding behavior in ways that a more straightforward look at state power and system stability do not allow. In seeing the Washington consensus as an institution and examining related aspects from this perspective, institutions play an integral part in this

project’s approach to explaining spending priorities in the GPE. Overall, each of the traditional approaches touched on above might contain some space for institutions. However, this space is limited and for the most part their institutions are narrowly defined. For example, the rational-based approaches to varying extents rely on a cost/benefit analysis that assumes states participate in institutions because they receive more benefit than cost. In materialist terms, though, the actual benefit of participating in institutions is not as apparent as the theories put forth. Further, by participating in the Washington consensus, there are many countries who see their economies worsen but yet they do not withdraw from or default on the conditional lending the International Monetary Fund offers; this compliance cannot simply be explained by saying the cost of quitting participation is higher than the cost of continuing participation since many of those most hurt in the GPE are living in such poor conditions as a result of the rules of the GPE. There has to be a deeper explanation for this continued participation than the benefits received from going further into debt. Neo-liberal explanations in general have broadened to discuss institutions as being built on existing norms such as the policies found at the domestic level. However, as with the neo-realist approaches, there is little room in these explanations for how international norms and practices impact how the domestic setup looks. Sociological institutionalism and world models account for

30 Some might argue that the elites in these countries are the ones benefiting from continued participation while the have-nots in these countries can say or do very little to change the situation. I argue that if only an elite explanation is offered, then the rational-based approaches need to be able to more fully account for the international system impacting domestic politics and institutions. For more information on the lack of benefits many countries experience as a result of following international financial institution policies, see various footnotes throughout this chapter. Also see Thomas (1999) and Brown (1999).
identities, interests, and isomorphism in the global political economy in ways the other approaches cannot. The discussion now turns to new institutionalism more generally and then to what sociological institutionalism is and how it can shed light on the Washington consensus and the national security exception.

**Institutionalisms**

In trying to understand the Washington consensus as an institution, given the shortcomings of the theories as explained above, it stands to reason one of the institutional approaches would work best. There are three main types of institutionalism: rational choice, historical comparative, and sociological (political economy’s cousin to international relation’s social constructivism). The following discussion covers the basic elements of the three institutionalisms, exposing some similarities and differences between them, before delving into what sociological institutionalism has to offer political economy research.

New institutionalism in general began as a rational-based approach and developed as a means for looking at cross-national differences (Thelen and Steinmo 1992; see also, Krasner 1988). Since then, new institutionalism has been described as seeking to explain “how institutions emerge, which functions they perform, and how institutions impose particular constraints and opportunities on individual behaviours within those institutions” (Spruyt 2000: 130). In addition, new institutionalism shares some characteristics with its predecessor, neo-classical economics. For example, both are based on methodological individualism such that institutions, structures, and macro-economic
processes are reduced to individuals’ calculations and behaviors, with institutions being created to serve individuals’ interests (Spruyt 2000). New institutionalists of the historical comparative variety, though, do tend to question how straightforward this rationality is since they argue actors tend to ‘satisfice’ rather than actually work to maximize their utility, resulting in less than optimal collective outcomes (Spruyt 2000).\(^\text{31}\)

The two basic types of new institutionalism are rational choice and historical comparative. Rational choice institutionalism is based on the ideas that preferences are exogenous because institutions simply provide constraints; institutional change is unimportant except that constraints may change too; and institutional bias is unimportant if not nonexistent (Thelen and Steinmo 1992). In contrast, historical comparative institutionalism moves toward endogenous preference formation because institutions are seen as impacting preference formation rather than just constraining preferences; institutions evolve rather than remain static; and institutional bias does privilege some actors over others (Thelen and Steinmo 1992). Sociological institutionalism, stemming from new institutionalism but moving beyond its basic tenets, lines up with historical comparative institutionalism on these counts, though it differs from the latter in terms of seeing institutions as more than social constructs—they argue institutions also are intersubjectively constructed (Leander 2000). This view that institutions are socially and intersubjectively constructed means more emphasis on shared meanings and practices and

\(^{31}\) Thelen and Steinmo (1992) also discuss actors as ‘satisficers’ rather than rational maximizers, meaning actors often follow societal guidelines even if these guidelines are not directly in line with their interests.
how these impact action, so the focus is more specifically on commonsense understandings and how these understandings influence behavior, and vice versa (Leander 2000).

In terms of international relations (and possibly international political economy), the rational choice branch of new institutionalism generally follows hegemonic stability theory (HST), such as “treating states as rational, calculating, individual entities” (Spruyt 2000: 135). Further, rational choice institutionalism rests on institutions as being rationally chosen by the actors who create them (Rousseau and Lipson nd), which does not account for the idea that institutions can be and are accepted for less than rational reasons. Instead, rational choice institutionalists tend to see institutions as the efficient means through which various actors can maximize their gain. For example, scholars such as Bueno de Mesquita et al. (1999) uphold that states as institutions are rational institutions. That is, these institutions are created by rational individuals in order to maintain the power of those in charge; the state institution merely changes what constraints the leaders face when determining what actions to take.

However, historical comparative institutionalists diverge from HST claiming it is ill-suited, for example, in explaining institutional persistence in the face of US hegemonic decline beginning in the 1970s. Keohane (1984) expands on the HST to explain institutions as enduring entities that can maintain stability even in the absence of a hegemon, making Keohane’s scholarship one of the first major pieces expounding neo-
liberal, or historical comparative, institutionalism. For Keohane, cooperation is based on more than power because cooperation in international regimes or institutions provides benefits for states such as lowering information and transaction costs (Milner 1998). At the same time, while neo-liberal or historical institutionalism more generally does not deny that there are broad systemic-level trends in trade and financial liberalization, it does emphasize the importance of domestic institutions, such that “[d]omestic institutions affect whether political rulers have incentives to adopt liberalization programs, and they affect the degree to which certain countries can credibly commit to international agreements” (Spruyt 2000: 139). Domestic institutions can and do influence international politics and institution building. Keohane’s post-hegemony work does incorporate the view that ideas are a key element in explaining policy choices, and therefore the creation and maintenance of institutions, to the point that dominant ideas define actions and coordinate behavior, but he does not see institutions as defining actor identity (Milner 1998), something that goes beyond providing constraints.

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32 Bueno de Mesquita et al. (1999) state that leaders actions are constrained by the type of domestic institutions within which they have to work, but leave out discussion of the intersubjective nature of actor identity and institutions. Ikenberry (1996; 2001) discusses lead state pressure on secondary states as resulting in the development of international institutions such that domestic structures are impacted. Both perspectives are valuable in that they show how the two levels of national and international are linked. However, as with Keohane, each perspective excludes an explanation of how preferences shape identities and vice versa, an exclusion which misses how an institution such as the Washington consensus can achieve such widespread acceptance and how this acceptance really impacts how actors in the global political economy identify themselves and what actions they might take, thereby reinforcing the Washington consensus.
Sociological institutionalism, by focusing on shared understandings and commonsense acceptance of certain ideas does emphasize systemic-level trends as more than the interplay of domestic institutions. Sociological institutionalism begins with Karl Polanyi’s basic proposition that economic relations and markets are not natural but rather a product of social context; therefore, this type of institutionalism expands on new institutionalism as described above by examining social context in terms of shared understandings and commonsense acceptance (Leander 2000). Understanding identities and how institutions impact them is a strong feature of sociological institutionalism. Critics of rational choice and historical comparative institutionalisms might turn to sociological institutionalism because, for example, it acknowledges that institutions “…may also spread on grounds of appropriateness. Existing norms and rules of behavior will dictate which institutions will survive. Individuals and groups will create certain institutions simply because doing so identifies oneself as a member of a particular club, with all commensurate benefits and obligations” (Spruyt 2000: 141). Sociological institutionalism offers a view that can accommodate how preferences become established to the point of predetermining preferences so that certain solutions are naturalized and alternatives are ignored; however, “[i]n this sense, preferences can thus not be deduced a priori, but are socially contingent and must thus be inductively derived” (Spruyt 2000: 141), something that is a starting point of understanding for sociological institutionalism whereas it is not for the other two approaches that focus on institutions.

33 The isomorphism of state structures in spite of actual functional need is one example discussed in more detail below.
**Sociological Institutionalism**

In general, sociological institutionalism examines how institutions shape and are shaped by social spheres, asking questions about the development and transformation of institutions and how institutions shape such things as “identities, interests, behaviour, firms’ strategies, systems of production, states and politics” (Leander 2000: 185-186). Sociological institutionalists see institutions and social reality as providing reasons for actions rather than simply constraining action, such that social reality defines identities and therefore actors. Social reality is seen as “logically empirically prior to behaviour” (Leander 2000: 186). In terms of the global political economy (GPE), sociological institutionalism examines the social embeddedness of the GPE and questions many of the assumptions taken for granted by materialist approaches that overlook the role of social embeddedness (Leander 2000).

One way to define an institution is as “a relatively stable set or ‘structure’ of identities and interests” so that “[s]uch structures are often codified in formal rules and norms” (Wendt 1992: 399; also see Wendt 1987). These structures take on real value based on the socialization of the actors involved, i.e., they are only important and enduring if the actors see and act toward them as such. Institutions cannot exist separate from how actors see them and they cannot exist separate from collective knowledge, making actors and institutions mutually constitutive (Wendt 1992). In terms of sociological institutionalism, institutions include “world-views, cognitive maps, codes of behaviour, discourses, symbols and mental frames” (Leander 2000: 185; see also Kratchowil and Ruggie 1986; Ruggie 1998).
One key aspect of sociological institutionalism is viewing reality as socially and intersubjectively constructed. According to this type of institutionalism, social, political, and economic orders are created rather than given, both prescribing and proscribing behavior (Palan and Abbott 1999). It is social structures that create actors (Checkel 1997; Finnemore 1996; Finnemore and Sikkink 2001). Because identities and interests, then, are not exogenous givens, people act toward objects and other actors according to what meanings those objects and actors have for them such that “collective meanings… constitute the structure which organizes our actions” (Wendt 1992: 397). Participating in these collective meanings contributes to actors’ identities—how they understand themselves and what their expectations of self are with identities forming the basis of interests and interests as embedded in social context (Wendt 1992). The behavior, identities, and interests that emerge from shared understandings (Leander 2000) and the related meanings stem from interaction; the mechanism at work here is reinforcement such that “…interaction rewards actors for holding certain ideas about each other and discourages them from holding others” (Wendt 1992: 405). In this way, institutions are not only socially constructed but also intersubjectively constructed (Leander 2000).

Meyer et al. (1997) apply the notion of social and intersubjective construction to a world model. They contend there are world cultural rules and norms in place and these constitute actors with a culture that is not simply a product of local histories and circumstances. There are, instead, universalistic or world models—a considerable
consensus on which values are legitimate—for all sorts of areas including the socioeconomic development realm. These models rest on the assumptions they are universally applicable around the world; alternative models lack legitimacy; and they are accepted based on commonsense, even if the models do not necessarily jive with practical experience. Nation-states routinely rely on these models to organize and legitimate themselves with these norms shaping practices the world over. Because of the reliance on these universally accepted models, isomorphism in structure and politics is seen across states regardless of differences between states, making change quite uniform even if actual outcomes are not (see also Finnemore 1996). For example, local resources and organizational capacities do vary by state, resulting in variation of the impact the worldwide process has on different countries, though on paper states tend to support the world culture (Meyer et al. 1997). However, different actors do act similarly because global cultural norms set out what actions and behavior are considered legitimate (Finnemore 1996). One example of this isomorphism is in the military arena because a state’s security apparatus tends to look like any other even if no real external threat exists; even to the point of virtually all states having a tripartite structure of army, air force, and navy; and even purchasing weapons because of the symbolism involved rather than need (Finnemore 1996).35

34 Even landlocked countries have navies (Finnemore 1996). While many of these navies may closely resemble a coast guard or patrol unit, they are nevertheless classified by their countries as navies, and treated as such in terms of rhetoric and budget.
35 Meyer et al. (1997) cite a variety of situations in which accepted world practice has led to isomorphism in state approaches, if not to homogeneity in outcome. For example, constitutional forms, fairly standard school curricula in mass schooling, women’s rights and status in formalized rules are all instances in which regardless of actual need or
The world models widely accepted as legitimate are based on Western culture, making it the dominant culture in the world system (Meyer et al. 1997). Valuing rationality and taking it as both good and natural, Western culture defines justice as equality and progress as the accumulation of wealth; domination of this perception has led to world cultural rules and norms that define the actors as well as what are legitimate and desirable goals for them. The result is organizational and behavioral similarities around the world (Meyer et al. 1997). These social structures in creating actors create states, corporations, organizations, and individuals such that structure is cultural, i.e., a social construct rather than something natural (Finnemore 1996). Research focusing on intersubjective meaning problematizes or denaturalizes these commonsense or shared understandings to see how they impact or create actors and what impact actors have on these understandings in return (Leander 2000). Globalization, then, must be theorized in terms of institutions or societal structures (Palan and Abbott 1999). Understanding institutions as comprising identities, interests, behaviors, and so on and as shaping meanings and expectations assists in better understanding how the Washington consensus as an institution functions and how the tensions between the key components of the Washington consensus contribute to militarized spending.

cultural restrictions, similar forms were adopted according to the contemporary reigning worldview of how these systems should look. They write “[n]ation-state ‘choices’ are thus less likely to conflict with world-cultural prescriptions than realist … theories anticipate because both nation-state choices and world pressures derive from the same overarching institutions” (Meyer et al. 1997: 160).
The Washington Consensus

Globalization is not easy to define and there is an ongoing debate in the literature as to whether and to what extent it exists. In this project, globalization is represented by the Washington consensus and the dominant role it plays in the global political economy. The Washington consensus is a continuing and evolving process that nevertheless promotes the neo-liberal economic agenda at the same time as the national security exception and, over the last two to three decades, has become the dominant paradigm for conducting the world’s business. As Palan and Abbott (1999: 19) state, globalization is not a “quantitative change denoting the global integration of markets” but rather a “qualitative change which implies an intensification and extension of capitalist relationships.” The intensification of these relationships has happened under the Washington consensus.

The Washington Consensus and Commonsense

While there are differing views on what the Washington consensus is—from neutral reforms to an ideological understanding of what these reforms mean (Williamson 2000)—overall there is widespread agreement that the Washington consensus is the dominant form of how the global political economy works (Palan and Abbott 1999).

Further, other worldviews such as fundamentalism, fascism, and communism currently do not threaten the neo-liberal dominance of the Washington consensus (Brown 1999). Several global conferences, such as the United Nations Conference on Environment and Development (UNCED), have legitimated the Washington consensus, which is implemented through a variety of structures including the International Monetary Fund,
the World Bank, and the World Trade Organization (Thomas 1999). The Washington consensus also is implemented via state action and by transnational corporations operating in domestic and global markets.

The term ‘Washington consensus’ refers to a set of reforms or an agenda that was devised specifically to deal with the Latin America debt crisis in the 1980s. The reforms set out by the consensus have since devolved into a list of options available to, and at times imposed on, countries needing economic assistance. Overall, the Washington consensus is a set of tools deemed acceptable to the large international financial institutions dominated by Western interests; by definition, it also is about those tools not deemed acceptable and thereby excluded.

Further, there has long been ambivalence between how we treat states and markets in the global political economy (Palan and Abbott 1999). Under Fordism, Bretton Woods, the United Nations, and the General Agreement on Tariffs and Trade/World Trade Organization, to name a few, the guiding notion was to take care of the nation-state while thinking about responsibilities to the international community. The 1970s saw a shift toward reconciling these opposing pulls while at the same time attempting to extend transnational capitalism and deal with the breakdown of Bretton Woods. During this time, the nature of the state changed when domestic economic control shifted from demand-side to supply-side economic policies. It is this shift that ushered in the conditions that established the Washington consensus as the dominant paradigm of the
global political economy. These conditions set the stage for the corporate push to 'go
global': “to cut costs; to finance expensive R&D programmes; to be seen to be physically
present in important markets; to take advantage of economies of scale and scope; and
[because of] political imperatives” (Palan and Abbott 1999: 25). In this way, markets and
especially transnational corporations play a key role in the implementation of the
Washington consensus via promoting the neo-liberal economic agenda and, as we will
see, via the national security exception.

In addition to reform packages put together to manage a downturn in a country’s
economic situation, the Washington consensus focuses on creating favorable
environments for corporations. The “specific economic ideologies and orthodoxy in
monetary and fiscal policy” are based on creating this competitive environment resulting
in a shift of the “central focus of intervention from macro-economic demand management
to ensuring that government provides the general economic conditions that optimize
economic (and primarily private) activity” (Palan and Abbott 1999: viii, emphasis in
original). Each state has choices in seeking this competitiveness and different states have
different opportunities so that while competitiveness is the end goal, the means vary
(Palan and Abbott 1999). Currently, though, it is the prescriptions allowed by the
Washington consensus that ultimately constrain states’ choices.

Policy-makers have accepted the Washington consensus as the legitimate path for
conducting the world’s political economy. Krugman (1995) states in spite of possible and
actual negative outcomes, governments have been eager to adopt the programs outlined by the leaders of the Washington consensus at the same time markets have been busy dumping money into reforming economies for two main reasons. The first is the speculative bubble in the financial markets. The second has more to do with sociological rather than economic perceptions in that the seemingly endless number of meetings, negotiations, and press releases concerning financial and related markets converged into a commonsense understanding of economic opinion. In addition, governments adopted the prescribed programs because markets were rewarding those who adopted these programs at the same time markets rewarded those who embraced these programs because they anticipated market reforms—more self-reinforcement. According to Krugman (1995: np), “[p]eople believe certain stories because everyone important tells them, and people tell those stories because everyone important believes them. Indeed, when a conventional wisdom is at its fullest strength, one’s agreement with that conventional wisdom becomes almost a litmus test of one’s suitability to be taken seriously.” It becomes difficult to question or stand against, and easier to support, this common wisdom, thus further reinforcing it. Hence, the Washington consensus has been embraced even if its program results have had devastating effects on some countries.36

36 “The general pace of globalization in the 1980s and 1990s, and the particular trajectory of capitalist expansion, have in addition increased risks for a broader group of countries, and for a wider band of humanity. Interstate and intrastate inequality have deepened… While acknowledging differentiation within this inclusive Third World grouping, in broad terms these states remain economically weak, politically powerless and socially marginalized” (Thomas 1999: 227). These are the same countries that tend to adopt the reform programs imposed by the Washington consensus (see also Brown 1999).
As discussed above, institutions are defined as somewhat stable structures of identities and interests, and these structures are valued according to how actors are socialized to value them. Collective meanings constitute these structures that then organize actions. Through reinforcement actors are rewarded for behaving in ways that are upheld by a considerable consensus that legitimizes the accepted values. All in all, the Washington consensus is a stable structure of identities and interests that legitimize the actions and decisions of the key actors when they behave according to the tenets of the Washington consensus. This legitimization works to reinforce the Washington consensus as the world model or generally accepted way of conducting the global political economy.

**The Neo-Liberal Economic Agenda**
While there is no real consensus on which tool will work in which situation at any particular time, there is a general consensus on what counts as a legitimate economic tool and what does not; those tools that are available tend to rest on the neo-liberal economic agenda which relies on a rational economic approach (Thomas 1999; Williamson 2000). As the founder of the Washington consensus concept, Williamson (2000: 252) provides a set of these rational economic reforms: macroeconomic discipline; trade openness; and, market-friendly microeconomic policies. With neo-liberalism as the “reigning policy framework in contemporary globalization” (Scholte 2000: 35) and generally accepted as commonsense, the tools that comprise this neo-liberal economic agenda include “liberalization of cross-border transactions; deregulation of market dynamics; and privatization of both asset ownership and the provision of social services” (Scholte 2000: 284; see also Palley 2004). Liberalization, deregulation, and privatization are a large part
of the push for a neo-liberal economic agenda by its proponents to get “official authorities [to] create an enabling environment for markets and then let the private sector supply the social good with (according to the theory) maximum efficiency” (Scholte 2000: 285; see also Krugman 1995).\footnote{“Neoliberalism is the story that fewer restrictions on the trade of goods and services and the disposition of wealth and productive assets in the world economy always yield global efficiency gains, and therefore a larger global income pie for all to enjoy” (Hahnel 2000: np; see also Palan and Abbott 1999: viii).}

The underlying politics of the neo-liberal economic agenda is ‘liberal internationalism’ which came about early in the 20th Century. Liberal internationalism “envisages a world of democratic states committed to the principles of national self determination and free trade between nations, the rule of law internationally and membership of global institutions” (Brown 1999: 46).\footnote{Evans (1997: 64) discusses this idea in term of “the untrammeled hegemony of Anglo-American ideological premises” as “one of the most salient forces shaping the specific character of the current global economy…”} The political and economic approaches to governing the global political economy converge in such a way that the Washington consensus works to support corporate interests by promoting relaxation or negation of international trade and investment barriers deemed as unnecessary or threatening to these corporate interests. The result is workers and governments end up competing for corporate business. This competition results in decreased worker and environmental protections so that corporations can profit more; this drive for profit leads corporations to locate in countries that produce the environment most conducive to corporate interests, thus continuing the cycle (Hahnel 2000). States, relying on liberal internationalism, help create situations that
support the overall neo-liberal economic agenda, which means a furthering of those economic reforms (liberalization, deregulation, and privatization) touted by the Washington consensus and accepted as commonsense.

**The Key Global Actors**
The main actors in the global political economy of the post-cold war era are states, transnational corporations (TNCs), and international financial institutions (IFIs). States provide the environment that supports the Washington consensus by largely promoting or following the neo-liberal economic agenda on which transnational corporations thrive and therefore push for themselves. The IFIs, mostly under the control of the dominant Western powers, act to support and fulfill the state and TNC goals. This section delineates the roles these actors play in the global political economy and how these roles stem from and, in turn, perpetuate the Washington consensus.

**States:**
The state as a political and governing form is nearly universal, with a few non-state actors accepted in politics (e.g., the Vatican) (Holsti 1996). Rather than a variety of political forms as in ages past, the current world system relies on accepted legitimacy of the state to the virtual exclusion of other forms (Holsti 1996; Finnemore 1996). States are: responsible for treaties that fall under international law; the only members of the United Nations (though there are non-state missions assigned to the UN); the only entities with
legitimate armies;\textsuperscript{39} and the only legitimate issuers of passports which allow for interstate travel (Holsti 1996).

Within the heated debate over whether state power is declining, many now find overall state power has changed over the last few decades as opposed to outright diminished (Meyer et al. 1997; Brown 1999; Palan and Abbott 1999; Weiss 1999; Leander 2000; Ripsman and Paul 2005). Rather than look at state power in zero-sum terms (Weiss 1999), it is necessary to consider how power has shifted to areas in which states previously may have had a more hands-off approach. Change does not necessarily mean decline since states can and often do adjust to their environments (Palan and Abbott 1999). By working with other actors, states may “actually extend [their] penetrative capacities via international reciprocity, negotiation, and power sharing” (Weiss 1999: 70). In addition, because states have to follow rules or risk becoming economic pariahs, there is a need to balance states’ unique political status with the economic, and therefore political, power of transnational corporations (Evans 1997).

Rather than argue states and markets are in opposition, then, it is possible to argue that the state system supports and extends markets (Palan and Abbott 1999). This support and extension can be and often is accomplished through non-market institutions that, in turn, maintain state strength in their own way. An overall shift from demand-side economic

\textsuperscript{39} Singer (2001/2002) discusses the rise of privatized military firms (PMFs) and the pressure they are putting on states and the market system. However, even with private actors providing military services, states still hold legitimacy claims to actual armies. PMFs will be discussed in more detail in the section on markets and transnational corporations.
policy to supply-side policies has accommodated the growing competition in the global political economy that is felt by both states and markets (Palan and Abbott 1999). Because states and transnational corporations are unwilling and/or unable to simply deal with market forces, state intervention in the name of competition and markets is happening in the system, even if it manifests differently in different situations (Palan and Abbott 1999). For example, OECD countries finance half of research and development costs and provide subsidies and infrastructure support; at the same time, TNCs’ goals and actions impact state policies and actions (Palan and Abbott 1999). In this way, markets do not just happen.

Competition is a key factor in how states conduct their business with the state becoming a source of competitive advantage. While states cannot actually dictate the global production structure, which has moved from within states to production networks that cross state borders and are arranged globally, they can implement policies to attract capital (Evans 1997). This competition state understands national competitiveness as the best (and possibly only) way to achieve economic growth and higher living standards, and marks the shift from demand-side policies to supply-side ones (Palan and Abbott 1999). This push for state competitiveness is part of the new orthodoxy that states are expected to provide “political stability, financial stability, infrastructure, [an] educated workforce, [and a] favorable tax system so there is a stable environment for accumulation” (Palan and Abbott 1999: 39). Within this competition for business, states provide stable and predictable structures that facilitate business (Evans 1997). At the
same time, politicians can use this new orthodoxy and globalization in general as justification for unpopular decisions, thereby taking some pressure from resisters off of the state when states opt for downward mobility as their competitive option. “National competitiveness has become, in other words, a central ideological defence for far-reaching socio-economic restructuring” (Palan and Abbott 1999: 4).

While the homogeneity of the state form has overtaken the world system, states in and of themselves are each different. Individual state’s social agencies and institutions bargain, resulting in unique outcomes which further reinforce the uniqueness of each state; states do not respond uniformly to the changing global environment and different states can exercise more than one strategy at a time (Palan and Abbott 1999). In addition, the impact of these decisions differs by state (Ripsman and Paul 2005) at least in part because of varying domestic situations (Weiss 1999). It is important to keep in mind, though, that even as states are unique, they are very similar structurally in many unexpected ways and often change in similar ways (Meyer et al. 1997). They also hold the commonsense acceptance of what they should look like and what tools are legitimate for their use.

Within the structure of the global political economy, different states have different options available to them in the quest for the competitive positioning that is part of the orthodoxy. Regardless of the global constraints, states (and transnational corporations)

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40 Finnemore (1996) also discusses the overwhelming similarity between state structures.
have more than one option including the option to do nothing, whatever the repercussions. States have various options available to encourage the inflow and maintenance of capital inside their borders so they use policy to enhance what they have to offer often relying on the idea the free market is the best way for states to maximize their resources (Palan and Abbott 1999). However, who pursues a strategy is as important as what strategy is pursued (Palan and Abbott 1999). For example, weak or failed states are becoming worse off under globalization; stable regions seem to accommodate globalization better than states in regions with enduring rivalries; and, overall, great powers only change according to globalization when it suits their own strategic goals (Ripsman and Paul 2005). These situations have to do with which states choose which strategy. With Third world states lacking any “meaningful influence in global governance institutions” they still have to deal with the impact of external factors in the global political economy (Thomas 1999: 227). At the same time, by impacting currency values to decline and restricting access to capital, private financial actors can punish states when they deem state policies unwise (Evans 1997). In terms of military issues, powerful countries such as the US still cannot control how other countries use weapons, e.g., other countries can choose to re-export the weapons or use them to make internal or external threats (Gabelnick and Rich 2000).

Transnational Corporations:
As covered earlier, the Washington consensus has been accepted as commonsense, as the dominant paradigm guiding how the global political economy should and does function. Transnational corporations, through markets, are key to making the Washington
consensus work, as we saw in the discussion on the changing nature of the state and the growing influence of TNCs. Since the private sector is assumed to be the most efficient means for providing social goods, proponents of the neo-liberal economic agenda push for liberalization, deregulation, and privatization to maximize this efficiency (Krugman 1995; Scholte 2000). Ultimately, the Washington consensus works to relax or negate trade and investment barriers seen as threatening to corporate interests and to set environments in their favor in terms of improving corporate competitive advantage. Corporations support lifting trade and investment barriers; one result is states then compete for corporate business to locate in their territories, therefore supporting the neo-liberal economic agenda by moving toward liberalization, deregulation, and privatization.

In the 1980s and 1990s, the development model pushed under the Washington consensus focused on export-led growth that was based on free capital mobility, favoring TNCs (Thomas 1999). According to Anderson (1998) there were three major trends in international financial flows in the 1990s: 1) dominance of private capital; 2) a tremendous increase in short-term portfolio flows; and 3) highly concentrated investment. The increase in capital mobility resulting from these trends led to corporations having more power over workers and communities prompting capital outflow in many developing markets. This outflow led to an increased push to open markets further, with states responding to TNC pressure by trying to provide a more competitive business environment to retain corporations in territory. Domestic institutions and goals are important to how the global political economy works. However, while states can and do limit how much liberalization, deregulation, and privatization occur (Weiss 1999), in
general TNCs in their quest for greater market share push in favor of their own interests. In the end, though, “global networks depend on national networks of interaction in order to function” (Weiss 1999: 83) so that TNCs rely on states, too, and are not really independent actors.

During the same period, mergers and acquisitions (M&A) became an increasing proportion of foreign direct investment (FDI), reaching 85 percent of FDI by 1997 and 65 percent of the total FDI going to developing countries (Thomas 1999). Not only do M&As typically result in overall job losses, the push for liberalization to make doing business cheaper means corporations look for the cheapest places exerting pressure on states to follow the neo-liberal economic agenda.41 Not only do countries struggle to be more competitive than each other, regions and states within countries become rivals. For example, when one state in Brazil began renegotiating its Ford contract, other states in Brazil began to try to outbid the first one leading to within-country regional competition for providing the cheapest business environment (Thomas 1999). Through FDI and M&As, in particular, corporations can make stronger cases to states to further support corporate requests.

41 The changes promoted by the TNCs as a key part of the Washington consensus and the neo-liberal economic agenda are undermining people’s ability to be self-sufficient. In the case of privatization, for instance, Mexico redrafted its constitution to accommodate the North American Free Trade Agreement (NAFTA) (Thomas 1999). This liberal restructuring stopped the redistribution of previously communal land to the landless, facilitating privatization of these lands. The ensuing Chiapas uprising was put down by the Mexican government in the name of providing an environment conducive to TNC business. The Mexican government used hundreds of millions of dollars in aid and training from the US when responding to the Chiapas resistance.
One effect of the global economic crisis in the 1990s is that Western corporations and banks have been purchasing Third world assets at fire sale prices (Hahnel 1999). International investors dump currency bonds and stocks when they lose confidence in developing markets. The International Monetary Fund (IMF) insists on, and states’ central banks comply with, tightening the money supply with the idea of boosting domestic interest rates to stem the outflow of capital. As a result, domestic companies go bankrupt because loans have become unaffordable or out of reach altogether. These businesses then go up for sale followed by the IMF providing conditional loans that stipulate the lifting of foreign ownership restrictions on corporate banks and land. This process makes it possible for TNCs and Western banks to purchase cheap assets in previously restricted markets. This process is an example of the differentiation in which people and which states can take advantage of globalization as set out under the Washington consensus, because the “dynamics of this differentiation process are defined by a global architecture” (Thomas 1999: 232). The Washington consensus decides who participates and how.

Using export processing zones (EPZs) as an example of the Washington consensus’ liberalization and deregulation elements for producing environments conducive to TNC interests, Palan and Abbott (1999) stipulate that while not all EPZs look the same, the liberalization and deregulation that occurs in these zones is basically the same: they seek to legislate trade unions; the environment; health and safety; and taxes, including tax
exemptions that cover a wide range of areas from import duties to corporation tax. In addition, EPZs do not always enforce the regulations that are in place. These steps are taken deliberately to “affect industrial location decisions” (Palan and Abbott 1999: xv) because otherwise TNCs can relocate to another state.

Also important are the globalization of finance and the related politics of deregulation (Palan and Abbott 1999). As financial markets are basically the instruments used to transfer savings into investment, with the globalization of the financial markets, we have seen the creation of a “globally integrated financial market in which corporations, cities, localities and states are both competing for, as well as investing, funds” (Palan and Abbott 1999: 22). Two issues concerning the growing competitiveness of states stand out when looking at the globalization of finance along with financial deregulation: 1) financial orthodoxy is more and more pertinent in that financial market criteria are more and more how states measure their performance; and 2) with designating some states ‘emerging,’ these states that otherwise might not be able to now can compete in wholesale markets (Palan and Abbott 1999).
International Financial Institutions:
International financial institutions (IFIs) promote the Washington consensus via loan conditions and other means. There are several IFIs that hold very prominent positions in the global political economy. This section discusses how these IFIs support, and are supported by, the Washington consensus (Thomas 1999).42

The International Monetary Fund (IMF) was originally in the business of providing short-term loans for countries in crisis, particularly to rectify short-term external imbalances; it was not actually designed to be a development agency (Welch 2001). In the 1980s and 1990s, the IMF began to shift toward structural adjustment, coordinating with the World Bank to “promote fundamental structural and institutional reforms of national economies world-wide to better reflect the dominant vision of market-led rather than state-led development” (Thomas 1999: 233). The Structural Adjustment Programs (SAPs)43 and

42 Much of the following discussion focuses on the IMF, though the World Bank works with the IMF, and the World Trade Organization mediates between parties in accordance with the neo-liberal economic agenda. Because of the active role the IMF assumes in providing conditional loans (basically setting neo-liberal-based economic reform criteria on bail-out loans), much of the literature directs its attention towards the IMF. However, there are connections between different IFIs in the promotion of the reigning paradigm. James Wolfensohn, former head of the World Bank and a former businessman and banker, stated that the IMF and World Bank need to support the World Trade Organization (WTO) because the WTO is so critical to trade and to future IMF and World Bank clients (Thomas 1999). This inter-institutional support is indicative of the Washington consensus and works to perpetuate the current global political economy structure.

43 Over time, the name of Structural Adjustment Programs (SAPs) changed to Enhanced Structural Adjustment Facilities (ESAF) with a more recent name change to Poverty Reduction and Growth Facility (PRGF) (MacEwan 2002; Welch 2001). For the purposes of this dissertation, I refer to these programs as SAPs—a term generally recognized even if ESAF and PRGF are not. Overall, the basic purpose and criteria of these programs have not changed even as the names have. The newer PRGF do have a prerequisite...
other conditions imposed by these institutions have advanced the role of the market, resulting in a redesign of the state to promote environments conducive to the private sector and corporate interests. Key components of the neo-liberal economic agenda have been included in IMF and World Bank packages with the expectation that income generated by export-led growth would maintain debt repayments. The standard blueprint was adopted because of the debt crisis in Latin America in the 1980s, but then was applied around the world in varying situations, e.g., following the East Asian financial crisis in the late 1990s (Thomas 1999).  Even as public lending decreases, private actors have been increasing their lending, with private lenders taking advantage of the opportunities presented by Third world governments as they follow the policies promoted by the IMF and G-7 countries which head the international financial institutions (Anderson 1998; Thomas 1999). For example, as seen above with East Asian bankruptcies, there is a process that connects the IMF, private lenders, and corporations and their cheap purchasing of businesses in the developing world.

Loan conditions are important to maintaining the current paradigm for the global political economy. According to IMF policy and following the neo-liberal economic agenda, developing countries need to liberalize and deregulate their economies; yet countries that

Poverty Reduction Strategy Paper (PRSP) though many civil society actors, e.g., trade unions, are excluded from input into the papers. Civil society groups do discuss the PRSP but while the “SAP is being negotiated in a secret and parallel process that [has] excluded civil society” (Welch 2001: 2). In addition, because the PRSPs need to be approved by the IMF and World Bank boards, they are driven by ideological principles rather than specific economic situations (Welch 2001).

This crisis was in part precipitated by pressure from the US Department of Treasury on East Asian countries to further liberalize their financial and capital markets even though these countries did not need to do so (Stiglitz 2000).
historically have had successful economic growth have had the ability to extensively regulate foreign commerce (MacEwan 2002). This type of discrepancy exhibits the difference in state positioning in the system since it is primarily more established, wealthier, industrialized countries successful in pushing for the liberalization and deregulation they want. The loan conditions placed on states that borrow from the IMF and other institutions are formulated by the industrialized countries that fund the loans distributed by the IFIs (Welch 2001). The 1990s saw increases in World Bank conditional lending yet these loans were not subject to World Bank environmental and social assessment policies, most often leading to improved government balance sheets while unemployment and poverty rates increased (Welch 2001).45

Different states have different input in the IFIs, with Third world states having little or no input even though the decisions being made by the IFIs profoundly affect these countries (Thomas 1999). And when developing countries do experience increases in economic power, their positions in the IFIs do not change. A growing group of states share those characteristics that make states vulnerable to the global political economy and they all lack meaningful input into the institutions of global governance. Inequality between people and between states is apparent, so that intrastate polarization, not just interstate polarization, is growing. Ultimately, the position held by the IFIs is challenging state power, impacting the nature of the state in ways similar to the impact TNCs are having. All in all, the SAPs and other conditions put forth by the IFIs tend to help out elites as

45 Another aspect of these conditional loans that negatively impact workers is the SAPs also look to freeze wages (Reifer 2001).
well as TNCs; these conditions can promote political instability when people respond to worsening economic situations such as price increases (Welch 2001). One argument is the IMF and other IFIs at least in part continue their policies because “those policies serve important and powerful interests in the US and world economies” (MacEwan 2002: 3). As mentioned, Third world countries do not control the IMF and have no formally equal voice as in the United Nations’ agencies; the high-income countries fund the IMF and control it. This control means a handful of countries, in particular the US, can use the IMF as a means for promoting their foreign policy which means serving corporate interests of which Europe, Japan, and other industrialized nations benefit, prompting more support of the IFIs (MacEwan 2002).

**Sociological Institutionalism and the Washington Consensus**
States and markets change over time, and the context of time and place is important in understanding what these changes are and in understanding that the system itself is dependent on decisions rather than simply happening. That is, states, markets, and even capitalism are not themselves inherently invariable (Palan and Abbott 1999). At the same time, acceptance of a dominant culture, specifically the Western culture (as put forth by the world models argument above), has led to many similarities in otherwise different countries, similarities can be seen in how we have structured state and corporate organization more generally. For instance, bureaucracies typically are seen as spreading because they are the most efficient means for conducting business, state or otherwise. However, bureaucracies have spread faster than the markets and technology for which they were supposed to have been created. A large part of this spread can be attributed to
the perception that bureaucratic structures are a social good and the broader environment supports and legitimates the view that bureaucracies are a social good (Meyer et al. 1997).46

Perception plays a key role in globalization, the development and legitimization of world models, and the widespread acceptance of the Washington consensus as commonsense. It is possible the main cause for changing behavior is the perception of the environment so that when perceptions change, the environment changes, then through reinforcement the changes become accepted as the norm. When states and firms change themselves because of how they perceive their environment, the perception of the environment is intensified (Palan and Abbott 1999). As stated earlier, institutions are stable structures of identities and interests and become important and enduring when people are socialized as such. The Washington consensus as an institution has become important (the dominant paradigm for the GPE) and enduring (the legitimate way to conduct state and corporate business for the last few decades) because the shared understanding is the Washington consensus is the way to conduct the GPE. As with the assumptions of the world model in general, the Washington consensus is assumed to be universally applicable; is considered the legitimate business form; and has been accepted as commonsense.

46 Finnemore (1996) discusses how international networks have been deemed as the appropriate means for conducting international state business, therefore the growth of multilateralism being more than simply the Pareto optimal solution.
Under the world culture view, states, TNCs, and international financial institutions are linked. Separately, states look as if they are rationally pursuing their interests in an autonomous, sovereign fashion, yet when looking at the “larger culture in which states are embedded… the policies look more like enactments of conventionalized scripts” (Meyer et al. 1997: 159). States might seem to be acting on their own in their own self-interest, and they may have agency to exercise the choice to participate in the system as it has developed or to opt out; however, ultimately their choices really allow them to pursue the purposes set out by the model. Further, while world culture has lifted the state to the “sole legitimate form of political organization” (Meyer et al. 1997: 332), sovereignty norms are not given and natural but have been established over time through practice and reinforcement (Wendt 1992). The state also has been largely impacted by world institutional development since World War II (Meyer et al. 1997). As discussed above, there is a high degree of isomorphism in how states look and act, e.g., militaries are seen as important legitimators of the modern state (Finnemore 1996). According to Evans (1997: 70), “[I]n any international regime, norms, formal rules, and shared assumptions are as important in shaping the role of the state as the flows of goods and capital.” This study particularly examines these norms, formal rules, and shared assumptions as the Washington consensus.47

TNCs, too, are social constructions of identities and behavior; there are links between firms as institutions and the environment in which they are embedded. Corporations are

47 The national security exception component is discussed below.
key in “determining crucial political questions concerning jobs, income redistribution, taxes, welfare provisions, research and development, or environmental policies” (Leander 2000: 193). Therefore, corporations can be considered social institutions. Corporate actions in turn impact the environment in which the corporations act, contributing to ongoing restructuring of the environment to accommodate corporate interests. States contribute by providing the structural organization necessary to accommodate these corporate demands, thereby institutionalizing globalization in the state system itself (Palan and Abbott 1999). Adapting is not a one-way street since both states and corporations have to adjust to each other and to their changing environments (Weiss 1999). In addition, their environments determine their identities, making states and TNCs inseparable from the larger institutions in which they act.

International financial institutions often are available to help states with their pursuits, in such a way that these international organizations in general have been globally organized and legitimated starting with the United Nations, the General Agreement on Tariffs and Trade/World Trade Organization, International Monetary Fund, the World Bank, and so on (Meyer et al. 1997). Once these institutions have been established, they “take on a life of their own” (Weiss 1999: 70), becoming actors in and of themselves with identities and interests that at once need support from states and TNCs while supporting states and TNCs in their endeavors.
Via the connection between world culture and actors, the global and the local link together when states pursue their interests as legitimated by the world culture, a pursuit that creates domestic agencies and programs, which in turn are legitimated (Meyer et al. 1997). The different levels (e.g., global/transnational, state, and regional) influence each other while maintaining some independence so that the impact is not uniform and not unidirectional and varies by country, sector, and so on (Leander 2000). Overall, however, the linkages between states, TNCs, and IFIs, while varying because of time and place or because of position in the system, still follow the guidelines or rules and norms established and legitimated by the overarching world culture. In this way, the Washington consensus, as the dominant paradigm in the conduct of the global political economy and as a key manifestation of the dominant Western culture itself, sets out what is acceptable and what is not, who can play and how. In the end, the Washington consensus, when viewed as an institution, helps us see the role identities and behaviors play in shaping the GPE, and how the GPE, in turn, shapes identities and interests.

The National Security Exception in Action
National security and the related resources spent in the name of national security are considered a pure public good—something the government is required to provide (Davoodi et al. 2001). The assumptions societies generally have about national security virtually eliminate questioning how national security is perceived and how it is defended—national security is assumed to be the job of the military. These perceptions not only allow, but also encourage special privileges to actors and items deemed to be in the interest of national security. A national security exception in trade agreements, for
example, “protects countries’ subsidies for military production from international trade rules” (Feffer 2002: 1). In this way, the national security exception is militarization at work—the privileging of the military over the civilian. It also is an example of the world model at work in that virtually everywhere the national security exception is considered the legitimate tool for conducting national security policy. In the following paragraphs, I examine the national security exception, how it is interlinked with states, transnational corporations, and international financial institutions, and its implications as part of the Washington consensus.

Claiming the national security exception, countries intervene in the global market to enhance themselves and the competitiveness of their military industries at the same time international financial institutions (IFIs) help sustain the environment that allows the military industrial complex to thrive by enabling governments to “globalize their military production while largely bypassing the fierce competitive forces of globalization” (Feffer 2002: 1). In addition to following the neo-liberal economic agenda to increase corporate competitiveness and therefore state competitiveness, states employ the national security exception to ensure their military-related businesses maintain and even increase their shares in the global political economy. This combination of the neo-liberal economic agenda and the national security exception reinforces the role of financial gain and competition in the global political economy while skirting the liberalized trade premise of the neo-liberal economic agenda as it is imposed on civilian industry. One result is large corporations in the military industry are branching more and more into the world market
(Gabelnick and Rich 2000). And, while there are norms in place to prohibit and/or restrict the trade of weapons of mass destruction, most military hardware falls under the national security exception; military training and military aid more generally are treated in the same manner as military hardware.

Cooperation is one aspect of the military industry driving competition. In recent decades there has been a shift toward cooperation via training exercises, alliances, compatible weaponry, and spare part supplies with the majority of weapons sales as part of transnational alliances. Further, transnational mergers of military contractors are fueling the weapons co-production trend (Feffer 2002). In addition to alliances between states and mergers between companies, public/private cooperative efforts are on the rise (Weiss 1999). For example, Sematech, a $600 million cooperative arrangement between the US Department of Defense, leading chipmakers, and research universities to develop next generation semiconductor technology, was so successful that more public/private research programs are being started. Foreign firms are excluded from this project but foreign firms that partner with US firms in the project do benefit (Weiss 1999). In another example of cooperation, the US sends peace missions to areas such as Pakistan and India when tensions increase. These peace missions often are followed by an arms sale (Parrish with Shiva 2002). The arms trade is indicative of the structural ways in which globalization encourages militarization. As states take resources from people and give the rights of these resources to corporations, states then defend corporate rights (Parrish with Shiva 2002) and IFIs align with this support.
Subsidies to military production and research are not targeted by the loan conditions imposed by the IFIs, even when IFIs feel compelled to recommend such cuts; the national security exception in trade agreements is similar to the ones in the SAPs (Feffer 2002; Parrish with Shiva 2002). Overall, military subsidies are treated differently than other subsidies are by the General Agreement on Tariffs and Trade and other agreements that contain national security exceptions. Ultimately, however, alliances between states, mergers and acquisitions between companies, and public/private cooperative partnerships benefit from the national security exception in ways other types of cooperation do not.

Government subsidies to the military industry translate into cheaper weapons in the marketplace (Feffer 2002). Further, there is little to no actual control over where conventional weapons go and how they are used including the re-exporting of weapons to third countries (Gabelnick and Rich 2000). In another example, under the Letter of Intent/Framework Agreement, six members of the European Union have secretly agreed to a list of third countries that can receive EU weapons though the larger EU community may have made moves to exclude those countries. Yet new negotiations during the drafting of the EU constitution allowed for this secret list of countries to be incorporated into the European Defence Agency even though the rest of the EU has not voted on the

48 States have been known to switch to military subsidies when government support of civilian industry is criticized and threatened with sanctions. Canada and South Africa are two examples in which each chose to shift subsidies to their military industries when faced with international resistance to the subsidizing of similar products in the commercial sector (Feffer 2002).
list. At the same time, EU defense industry recommendations that €3.5 billion be allotted to security and space were approved, making EU security funding higher, for example, than its environmental funding (Slijper 2005). The combination of large increases in security funding along with potential inclusion of secret lists of third countries excluded from weapons restrictions, lists approved only by a few, is making weapons available more cheaply and to more states. These subsidies and exclusions are justified by the national security exception which has been accepted as commonsense the world over.

Lobbying and military industry political clout are very related to weapons funding and possibly state-sanctioned broadened distribution of weapons. Lobbying often is conducted by the same people and firms that are providing the networking opportunities for government officials to learn about new weapons systems and that are promoting an understanding of the world as needing more military and weapons funding to counter continued and increasing threat. In the drafting of the EU constitution, policy-makers were very much swayed by the pleas from the military industry to include more security measures and to increase military budgets, especially for R&D, as well as create new financial instruments\textsuperscript{49} to manage related R&D costs; there was almost no input from the civilian sectors in the constitution’s negotiations while the military industry made public pleas for support via print media in the EU (Slijper 2005).

\textsuperscript{49} Ferguson (2001) argues it is possible that historically military spending is the largest cause for the development of new financial instruments, which shows how large a role the military plays in more than national security.
At the same time, one connection between overlooking the development and importation of weapons technology from potentially dangerous states is due to the influence of business. In an interview, one expert\(^{50}\) stated that for economic reasons the EU provided a non-unified response to Iran’s possible development of weapons of mass destruction in the 1990s: it was not because the business between Iran and Germany generated much in terms of Germany’s economy, but because business with Iran generated much in terms of Siemens’ bottom line. Siemens is a large player in Germany’s domestic politics with political clout that allowed it to push for the German government to consider its business profits and therefore Germany’s competitive situation (Horowitz 2004). Similarly, in the US the Pentagon is gaining in its position in terms of US industrial policy. The Pentagon supports industry claims that more military spending is necessary in order to keep up with the globalized economy; in turn, the Pentagon has taken on the Department of Commerce’s job by promoting US military industry interests overseas (Gabelnick and Rich 2000). Further, with the increase in deregulation and the reduction in government oversight, the military industry more generally is becoming more accountable to shareholders than to states (Gabelnick and Rich 2000). Similarly, one intention of the European Defence Agency, should it go into effect, is to work on and implement programs meant to strengthen the EU arms industry, which has claimed it needs more

\(^{50}\) Kenneth Pollack was a CIA analyst and served as director of Persian Gulf affairs on Bill Clinton’s National Security Council. When asked why he thought in general the Europeans basically ignored Iran’s nuclear program in the 1990s, he responded “[t]he answer isn’t as easy as people think, but I believe it comes down to economics. Germany's trade with Iran is $5 billion, and that's not a lot of money in the context of the German economy, but the money is very concentrated in a few very big German firms that have a great deal of political clout. And while $5 billion may not be a lot of money to Germany, it is a lot of money to Siemens” (Horowitz 2004).
funding in order to keep up with the US (Slijper 2005). The military industry in general has been successful in lobbying for more privatization and harmonization (Slijper 2005) and for offset agreements (Gabelnick and Rich 2000), areas beneficial to the military industry if not to workers and the environment. While the push by the military industry to broaden its reach is in line with the push civilian industry is making, the military industry often acts under the national security exception too. On the one hand, it seems to act within the neo-liberal economic agenda, while on the other hand there are apparent tensions as the military industry can and does invoke a national security exception that the civilian industry cannot.

Similar to the privatization push in the civilian sector is the rapidly increasing number and role of privatized military firms (PMF) (Singer 2001/2002). These firms often are subsidiaries of large corporations that are already part of the military industry and want to add to their profitability or are part of companies looking to expand into the military industry. They can aid in self-perpetuating conflicts when warlords become involved in criminal business activity to finance fighting and thereby create continual competition to hold local resources. Privatization of the military means military resources are available on the open market. Privatization also means state leaders can skirt the legislature and public opinion limits by not directly involving its own military while providing

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51 Offset agreements provide for shared production with the importing country. These agreements cause increases in the number of weapons producers. They also benefit the companies while undercutting the exporting country’s domestic workforce by shipping their jobs overseas, which ultimately is a challenge to the argument offset agreements benefit the exporting country’s economy if workers and not just corporate profit are considered as elements of a healthy economy (Gabelnick and Rich 2000).
themselves with added plausible deniability. Weaker states often sell off their resources in order to fund the PMFs, even though PMFs are cheaper than building up and sustaining a state military. Because PMFs are cheaper, there is a real danger in lowering the cost of war; because of this ability to transform money into force, economic power is becoming as much a threat as military power.\(^52\) Much of this privatization is done in the name of strengthening national security (by bolstering military industry capacity) or by providing national security services that otherwise would not be available.

Profit, political clout and lobbying, subsidies (whether direct or through tax relief and export guarantees), and privatization (e.g., PMFs) together have great implications for the state, TNCs, and IFIs in the global political economy. While state militaries are gaining in domestic influence, as seen in the exclusion of civil society from the EU constitution draft negotiations to military establishments promoting military industries elsewhere, military industry profit motives under the guise of the national security exception are taking precedent to other foreign policy goals that promote, for example, human rights and democracy (Gabelnick and Rich 2000). Privatization of the military may be shifting state power in that states are seeing their monopoly on the source of force being challenged if not eroded (Singer 2001/2002). Further, there are growing links between US national security managers, the private sector, and heads of IFIs (Reifer 2001) making

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52 Singer (2001/2002) contends there is a shift in state power as patron since those with money, including individuals, can go to the private sector for weapons. It is private firms deciding who gets what. Human rights are not much of an issue plus the lack of oversight means little transparency in finances because of offshore accounts, and little oversight in terms of employees, who is hired, to whom they are accountable, how equipment is used, and so on.
each of the areas more tied to the next and narrowing who can play and the rules of the game. Military aid is increasing to the point where in some areas it competes with economic and humanitarian aid levels. For example, in Latin America, these aid levels from the US are nearly the same now while during the cold war military aid was well below economic and humanitarian aid. This increase in military aid in Latin America means the US military is now better funded in the region than the US Departments of State, Agriculture, Commerce, and Treasury, and the office of the Secretary of Defense, combined. The result is the military has taken the lead in interpreting regional affairs and influences how others in the government perceive the region, thereby militarizing the US foreign policy perspective in the region (Isacson, Olson, and Haugaard 2004; Lobe 2004). In East Asia, the US government has claimed the presence of the US military has allowed East Asian economic success, making a direct link between the military and economic growth (US Consulate, Naha, Japan, nd; Reifer 2001) an argument similar to the one made that the US military is necessary to the well-being of the US economy and its global business (US Space Command 1997; Friedman 1999).

53 Emphasizing that “[h]istorically, military forces have evolved to protect national interests and investments—both military and economic” (US Space Command 1997: np), the space sector of US military forces, at least, sees the military as necessary to establishing dominance in technology before allowing the private sector to take over—the most recent area of technology being space. In the same presentation, the US military establishment reassured the audience that the military is necessary to secure the world as the growing gap between rich and poor, as caused by globalization, continues to widen. Donahue (nd) commented on this notion stating that the military sees itself in a position of having to respond to this growing gap even if not directly by using actual force, then indirectly by providing arms sales and military aid to other governments and militaries so they can destroy any perceived or actual threat to the foreign investment of TNCs that political and economic uprisings might cause. For example, in addition to the $362 million in weapons and training the US gave to Mexico between 1993 and 1997 that was
The roles of profits in policy-making and lobbying, subsidies, and the privatization of power via PMFs work to maintain the Washington consensus and the neo-liberal economic agenda. In terms of the PMFs alone, the success of “privatization programs and outsourcing strategies have given the market-based solution not only the stamp of legitimacy, but also the push to privatize any function that can be handled outside the government” (Singer 2001/2002: np). Yet at the same time, the national security exception provides an opportunity for different rules for the military industry than for the civilian industry. When the rules of the Washington consensus get in the way of promoting the social ‘good’ of national security, these widely held rules are pushed aside. It is the tension between the acceptance of the neo-liberal economic agenda as commonsense and the national security exception as commonsense that is of particular interest here.

**Tensions and Social Constructs**

As shown throughout this chapter, states, transnational corporations, and international financial institutions are linked under the Washington consensus as they implement the neo-liberal economic agenda. Widely accepted as the commonsense way to conduct the global political economy, the Washington consensus also supports militarization by incorporating the national security exception even though this exception contradicts the basic tenet of the neo-liberal economic agenda—hands-off government except in terms of policies for liberalization, deregulation, and privatization. By pressuring states to open

used to quell the Chiapas uprising, the US also provides weapons, training, and military advisors to Columbia in order to secure Columbia’s oil pipeline.
their economies, transnational corporations (TNC) strive to benefit by earning more profit. States in part comply with TNC requests because open economies and the strength of TNCs located in territory are seen as contributing to the competitiveness of the state. International financial institutions (IFIs) support these actions by pressing open market economic reforms on countries that want to borrow money. At the same time, the national security exception allows the military industry to work outside of the constraints otherwise placed on supposedly free trade.

I argue that the overwhelming consensus by the key global actors that the neo-liberal economic agenda is the way to do business is in tension with the views that uphold the national security exception and the prioritizing of militaries over civilian interests. As such, both the neo-liberal economic agenda and the national security exception are universally accepted, are considered the only legitimate models, and have been accepted as commonsense and therefore difficult to dispute. Via sociological institutionalism we can see how the key global actors’ identities and interests are determined by the dominant paradigm of the global political economy (the Washington consensus); their interests are simultaneously molded by the neo-liberal economic agenda and the national security exception. It is the tension between these two widely accepted aspects of the dominant institution that show the power of social constructs and intersubjective meaning. That is, actors participate in collective meanings that then contribute to identities, i.e., how actors understand themselves and what their expectations are of themselves and others. The expectations under the neo-liberal economic agenda and the national security exception
are not necessarily the same. The militarization of spending is at least partly explained by
the tension between the two. It is also a very telling example of the power of social
constructs and the role of commonsense in the construction of identities. The next chapter
provides a detailed description of militarization, a summary of the literature on military
spending and the peace dividend, and how these relate to the two main components of the
Washington consensus (the neo-liberal economic agenda and the national security
exception) and the key actors in the global political economy.
CHAPTER 3: THE LITERATURE REVIEW

Parrish says: “[t]here seem to be real structural ways in which the institutions of globalization have been encouraging militarization…through the arms trade, through some economic policies…” To which Shiva responds “[i]t’s even deeper than the arms trade. The globalization of the arms trade is [just] the obvious part we see…” (Parrish with Shiva 2002: np)

Much of the research on militaries tends to treat militaries as separate entities that are independent from larger society as opposed to seeing social reality more holistically in terms of how militaries and civil society are interdependent (Galtung 1985). There also is little consideration of how identities and acceptance of these identities as commonsense impact how we view and study militaries. This project strives to understand how societies and militaries are interdependent by testing how socially constructed global political economy institutions (i.e., the Washington consensus and its the neo-liberal economic agenda and national security exception) impact spending, in particular decisions leading to anomalous military spending in the post-cold war era. In general, militarization is treated as a wartime effort and therefore studied in the context of war. Militarization, seen in the interaction between militaries and civil society, is defined as a process that also is at work in peacetime.

In order to better understand the main concepts related to military spending and their usage in this research, this chapter summarizes and analyzes the related literature, first developing militarization as a process and defining the peace dividend. I next look at what the literature adds to our understanding of military spending before offering a short
critique of what the literature fails to cover: identities and social constructs. Then I outline the Washington consensus and how it can be connected to militarized spending, before moving to an explanation of the general approach and application of sociological institutionalism to these concepts.

**Militarization**

Many scholars rely on a more simple view of militarization, basing their definitions on how much money is spent on militaries, on the percentage of a country’s population in its military, and/or state regime type (Bowman 2002). In more complex explanations, militarization is seen as what societies do to prepare for war even when war is not imminent (e.g., see Enloe 1989; Regan 1994; Bowman 2002), going beyond basic indicators to examine the process of militarization. In this case, militarization is more about how societies prioritize or privilege their militaries resulting in how many resources (people and otherwise) are devoted to militaries.

One way to describe militarization is not that there is “the formal dominance of the military or the triumph of a particular ideology” but instead by “the contradictory and tense social process in which civil society organizes itself for the production of violence” (Gillis 1989: 1). In this sense, militarization is more than the military and more than war or conflict, while at the same time including both these typical views of what comprises militarization. Moving beyond the more standard definition of militarization as the “expansion or relative size of some integral part, scope, or mission of the armed forces” (Bowman 2002: 19) (usually observed through budgets, number of soldiers, and so on) to
one in which the role of the military as a part of societal institutions helps us see militarization as a process rather than simply as an outcome. According to Enloe (2000), militarization is about deliberate decisions rather than something that just happens. However, militarization is not just about those directly involved in the military and in military production, but also about those who more generally participate in bolstering the view the military is an unquestioned, necessary, and (usually) positive part of society. The common conception remains, though, that military spending happens because it is supposed to happen and not because people choose to fund their militaries and could have chosen otherwise, as is the real case.

One reason that militarization occurs is because societies are generally socialized to see the military as a necessary actor, such that researchers need to identify how and to what extent the military has penetrated society (Regan 1994). While how each society views the military will vary due to historical circumstances, even with this variation nearly every country accepts the military as a necessary public good. In most countries the military has a better rating than the national governments and the military has a higher rating than religious leaders in most of Europe and Asia, and in heavily Islamic nations, especially in Turkey; the military does receive a lower rating in Africa and Latin America, most notably in Guatemala, Argentina, and Peru, though other countries in Latin America, especially Mexico, Honduras, and Venezuela, rate their militaries highly (Pew 2002: 37). By ranking militaries so highly and assuming militaries are necessary for
societies in general, it is possible to write special rules into our institutions that prioritize military ‘needs’ including military spending.

Militaries are big business, too. In post-cold war United States, Canada, Russia, and the United Kingdom, there were layoffs in the military industry as well as lowered military sales due to the Asian economic crisis in the late 1990s, yet “military weapons contracts remain[ed] the objects of intense corporate competition and fierce international trade rivalries” (Enloe 2000: 9). One reason for heightened interest in military spending is because of post-cold war expansion of regimes such as the North Atlantic Treaty Organization (NATO) and the assumed necessary conversion it would take to make systems compatible amongst members. One way to accomplish higher levels of military spending is to deem such spending an issue of national security (Enloe 2000). It is possible, then, to keep actual spending levels and projects in secrecy and to convince people spending on the military is not only a good action or goal but a necessary one.

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54 For example, a business dinner between corporate executives and then Secretary of State Madeleine Albright, when Albright claimed expanding NATO to Eastern Europe would increase stability and peace, was organized by the US Committee to Expand NATO—a group with many military industry executives as members (Gerth and Weiner 1997). Further, even as technological advances have lessened the role of the regular soldier, high levels of human capital remain necessary with direct and indirect involvement of civilian actors increasing over the course of the 20th century (Regan 1994); claims of decreases in the number of military personnel can be misleading if/when military personnel are replaced by civilian contractors and business. Therefore, militarization does not necessarily decrease when forces are reduced and societies that decrease the size of their militaries can still remain highly militarized.

55 Article 3 of the North Atlantic Treaty does not actually state countries have to partake in organization-wide compatibility and interoperability of weapons systems and so on (NATO 1949). Rather, this push for compatibility as meaning overall sameness can be seen as a benefit for the business community.
In this project, militarization is considered a process through which militaries are prioritized over civilian areas because the former are seen as generally good, natural, and necessary. In these terms, the usual definitions of militarization (e.g., military spending and percentage of population in the military) are outcomes of the militarization process but are not militarization itself. Rather, militarization is about the steps taken that prioritize the military over the civilian. In this study, militarization happens when the key actors in the global political economy afford preferential treatment to the military via the national security exception such that military spending remains high regardless of threat levels, the power of bureaucratic process, or situations in domestic political economies. I argue invoking the national security exception when conducting global business results in the prioritization of military spending over civilian concerns, a process based on the deliberate decisions of the key global actors.56

**Peace Dividend**

The peace dividend generally is defined as a shift away from military spending either toward social spending or toward overall economic programs such as deficit reduction, tax cuts, or higher capacity output in the long term (Clements, Gupta, and Schiff 1997; Knight, Loayza, and Villanueva 1996). Shifting to a peace dividend would go against the

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56 The national security exception is written into the General Agreement on Tariffs and Trade/World Trade Organization as well as into other types of trade agreements. The national security exception protects countries’ decisions to spend on their militaries in ways they are not allowed to spend on their civilian industries by exempting from challenge “activities in the military sphere—including massive government research and export subsidies” (Staples and Pemberton 2000: np).
process of militarization. More specifically, the peace dividend can be broken into a three-stage process with three types of dividends (Chan 1995; BICC nd.). The first stage involves cutting military expenditures “to generate nontrivial savings” (Chan 1995: 54) resulting in a resource dividend. The second step is the application of that dividend to promoting more efficiency in production, which is then a product dividend. A third stage is possible with a welfare dividend that “results either directly from the transfer of defense savings to increase public funding for social programs, or indirectly from the trickle-down effects of a healthier economy” (Chan 1995: 54). In broad terms, these stages and dividend types correspond to the general definition of the peace dividend as outlined above. In any event Chan (1995) warns us that the peace dividend in any of these three forms is not guaranteed. This project looks to explain at least part of the reason why there has been no peace dividend in the post-cold war era, regardless of which type of peace dividend is desired.

As touched on in Chapter 1, post-cold war military expenditure figures show an overall lack of a resource dividend—the first type of peace dividend described above and the one that is necessary for the other two types to occur.57 That is, according to various data sources, there have not been sustained “nontrivial savings” generated from cuts in

57 Commenting on the years immediately following the end of the cold war, BICC (nd) states “[t]he decline in global military expenditures during the last seven years was often the result of budgetary constraints rather than a concerted disarmament agenda or arms control. The prospects for the continuation of the disarmament process and for a peace dividend are clouded by political incentives and economic interests that oppose or retard significant retrenchment.” This comment addresses the institutional concerns outlined later in this project in that the lack of a post-cold war peace dividend is at least in part because of structure and how we define identities and interests.
military budgets during the post-cold war era. Indeed, world military spending has been on the increase since at least 1998 and possibly since 1996 (WMEAT 2003). In 2005, world military expenditures are estimated to have surpassed the trillion US dollar mark, in real terms just 4 percent below the cold war peak in 1987-88 (SIPRI 2006b). While there have been regional variations in military spending with some areas (e.g., Central America) seeing overall increases at much lower rates than others (e.g., South Asia), the world in general has moved from a possible peace/resource dividend in the early 1990s to near-cold war peak spending by the end of the 1990s and early 2000s (SIPRI 2005). This study strives to explain at least part of the reason why no real, sustained peace dividend emerged following the end of the cold war.

While an overall 4 percent decrease seems to be significant especially in light of international politics, the bureaucratic process, and varying situations in domestic political economies, some estimate a minimum of 3 percent annual decrease in military spending would actualize a peace dividend (Pronk and Haq 1992: 19, my emphasis), others see 5 percent annual decrease as resulting in a more significant peace dividend (Wulf 1991). With world averages at 4 percent of cold war peaks—which does not account for cold war averages but only peak spending—world military spending really has not resulted in a sustained post-cold war peace dividend.

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58 The United States is largely responsible for the post-11 September 2001 increase, spending more in supplementary military appropriations in 2003-2005 than the entire developing world spent in 2004 alone (SIPRI 2005).
59 Wulf (1991) suggested an annual 5 percent decrease in military spending would result in total savings of more than $2 trillion for the 1990s alone, with annual savings of $50 billion in 1991 to more than $350 billion in 2000.
Military Spending

In order to examine reasons for continuing high levels of military spending (i.e., the overall lack of a peace dividend) and how peace dividends are achieved, it is necessary first to look at how military spending has been treated elsewhere in the literature.\textsuperscript{60} Goldsmith (2003) groups the literature into three groups: domestic (economic and political); interstate; and systemic. Correa and Kim (1992) split military spending studies into inertia; domestic economic and political conditions; and East-West or international relations. Chan (1995) looks at military spending studies in three ways too: domestic political economy as the main determinant of military spending; military spending as having opportunity costs in terms of macroeconomic conditions or alternative public programs; and the past and future of military retrenchment in light of alternative policies. Overall, regardless of how the military spending literature is broken down, there is a general lack of consensus within the literature on what we know, what role military spending plays in our political and economic lives, and what the possibilities are for a post-cold war peace dividend. This section discusses the state of affairs in the military

\textsuperscript{60} There are several ways to measure how many resources are allotted to the military. The most common manner is to measure actual military expenditures or outlays (Correa and Kim 1992). This approach is loaded with issues because “[g]overnments are basically free to define military expenditures according to their own wishes and purposes” (Brzoska 1995: 48). The problems introduced by this kind of comparison are exacerbated by issues such as currency conversion and inflation. Another method uses military burden, which measures military spending as a proportion of national product making cross-sectional comparisons more possible (Goldsmith 2003: 552-53). Further, Goldsmith says military spending is usually used as an independent variable so findings really are more peripheral than direct. For now, military spending and military burden will be treated as similar enough to use those terms interchangeably. Issues concerning military spending data are covered more thoroughly in Chapter 4.
spending literature by looking at international politics (especially how actors respond to perceived and actual threat); bureaucratic process; and domestic political economy. I cover what each branch of this literature explains and what each overlooks before addressing the Washington consensus and its national security exception and militarization in terms of sociological institutionalism and world models.

Goldsmith (2003) delineates six areas of international politics that can play a role in contributing to military spending decisions: interstate war; alliances; enduring rivalries; major powers; hegemonic states; and, regional dynamics. In terms of the influence of external war, Dunne and Perlo-Freeman (2000) remark that war has been important to military spending decisions, however more so during the cold war than in the post-cold war period. They do state the significant drop in external wars and move toward internal wars in the post-cold war period may be a large part of why external war is seen as less significant now than before. Mintz and Ward (1989) find that while Israel’s military budget is split between security concerns and domestic political economy issues, levels of war casualties do positively and significantly impact post-war military spending. Further, Cothren (2002) claims military spending in conflict situations lowers economic growth overall. However, external threat including actual war, does not account for all of

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61 Oerlich also reminds us that the majority of major military spenders are US allies, yet the US has such very high levels of military spending, an interesting point given the US is driving post-11 September 2001 military spending increases (SIPRI 2006c). In this case we can see that military spending does not imply a function of perceived and actual threat. Further, Goldsmith (2003) observes studies on the causes of military spending rarely include a variable on external war, that in addition to other interstate factors, studies need to control for interstate war.
heightened military spending (Landau 1993). In fact, Chan (1995: 58) reminds us the external security environment “is only one of several influences shaping a defense budget” with its effects mediated by other factors, such as domestic issues.

As elsewhere, the literature is divided on what effect alliances have on military spending levels, with defense economists questioning whether military burden is shared equally by alliance members (Goldsmith 2003). Morrow (1993) argues that the internal and external ramifications of alliance building and military spending imply neither can be examined without considering the other; countries rely on a combination of alliance building and military spending to ensure security, depending on international conditions and domestic political costs. In general, alliance formation is based on the assumption that members will contribute to increasing security among members (net producers) rather than act as free-riders (net consumers) (Lis and Selden 2000).62 For example, during North Atlantic Treaty Organization (NATO) expansion, in terms of equipment, rank leadership, and even language, new members agreed to make their militaries compatible with other alliance members.63 During the most recent NATO expansion, Poland outspent Hungary and the Czech Republic; at the same time, the United States committed hundreds of

62 One example of measuring contributions to alliances is the annual assessment made by the US Department of Defense. “National contributions are generally assessed relative to ability to contribute by measuring each nation's share of total allied contributions relative to its corresponding share of total allied Gross Domestic Product (GDP) or labor force. A nation is considered to be doing its fair share in a particular category if its share of total contributions is in balance with its share of total GDP or labor force” (US Department of Defense 2003, emphasis in original).
63 English is the functional language of NATO and training military personnel in English is required (Lis and Selden 2000).
millions of dollars to assist these countries in the transition, as NATO itself pledged funds and other forms of assistance too (Lis and Selden 2000).\(^6^4\) The cost of NATO expansion, then, is not necessarily shared equally among members and potential members, an example of how alliance contribution may be lopsided.\(^6^5\) On the other hand, rather than seeing alliances as offering opportunity for free-riding, some research shows alliances reduce the military burden for all members because of the efficiency introduced by alliances (Morrow 1993). For example, during the cold war, Lake (2001) describes the Soviet Union’s choice of a hierarchical institution of governing its East European alliance as making a major contribution to the level of threat felt in the West, one result being higher military spending than otherwise would have occurred in the bipolar system. However, while Europe can be seen as free-riding to a degree, overall, the US was able to lower its own military burden because Europe and the US did separate out and specialize in different military areas. Chan (1995) argues it is possible following the cold war that military spending could increase due to a weakening of cold war institutions and alliances that helped keep spending in check; conversely, he posits military spending could

\(^{64}\) Gerth and Weiner 1997 and Slijper 2005 discuss the role the military industry plays in promoting alliance expansion. While many see alliances expanding as a means of broadening and deepening security, these authors point out corporations see corporate profit as at least a motivation to growing alliances.

\(^{65}\) In another example, in October 2005, current and former NATO commanders issued statements calling for increased military budgets in Europe so that Europe’s contribution to NATO would come into line with the US contribution (Walker 2005). NATO may begin consulting industry on its needs to protect commerce via NATO rather than privately, and “[b]ringing the corporate sector into NATO’s councils, if only in a consulting or advisory capacity, could put extra pressure on cash-strapped European governments to increase defense spending in the name of industrial security” (Walker 2005: np). If this is so, then alliances and bureaucratic inertia as discussed below may interact in such as way as to promote military spending.
decrease as US and USSR sponsorship decreases and previous client states cannot afford to make up the difference between their cold war and post-cold war spending.

Enduring rivalry is another interstate factor concerning military spending. Military spending seems to increase the more entrenched a rivalry becomes (Hensel 1999), but at the same time there is much disagreement in the literature about whether or not arms races themselves exist (Goldsmith 2003). In terms of perceived threat from rivals, Thies (2001) found a ‘protection racket’ in the relationship between Chile and Argentina, that the populations of each country were systematically convinced by their respective military establishments of the other’s bellicose nature, thus shoring up and increasing military spending. Enduring rivalries also impact third party countries. For instance, Taiwan’s military expenditures are positively affected by the level of tension between the US and China, while these expenditures are negatively impacted when the US-China relationship is particularly volatile (Yu 2002). Finally, proximity is important in determining whether rivalries become enduring ones, and for existing enduring rivalries, proximity plays a key role in conditioning these rivalries (Tir and Diehl 2000). If so, proximity indirectly impacts military spending because of its influence in conflict and enduring rivalries.

In terms of great powers in particular and hegemonic states in general, one view purports these states have a higher military burden due to leadership maintenance costs and the free-riding of other states on the security provided by the hegemon (Goldsmith 2003;
Eloranta 2005). At the same time, studies directly testing the influence of great power status on military spending are rare (Goldsmith 2003).

The last interstate factor considered here is regional dynamics. According to Goldsmith (2003), regional variations in military spending stem from a range of factors, including perceived and actual threat/security dilemma dynamics, or lack thereof, and regional hegemons as footing the bill. Dunne and Perlo-Freeman (2000) find that regional dynamics contribute to military spending levels in that military burdens increase when neighboring countries’ military spending increases, especially in the case of increases in hostile or potential enemy countries’ increases. Chan (1995) states other possible linkages between military spending and regional dynamics. For example, in the post-cold war era, the removal of the US and USSR as basic system monitors means a possible increase in ethnic and regional tensions with more conflict leading to higher military expenditures. He also suggests that for some countries military spending in the post-cold war era will increase because rising national economies means these states can now afford the more expensive weapons systems, while for other states the removal of economies of scale means they cannot afford what they want, leading to decreased military spending.

Finally, it is possible a systemic factor influences military spending: hegemonic stability. According to Goldsmith (2003), not only do hegemons pick up a larger part of the tab, as

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66 While Solingen (1998) offers an interesting perspective on regions, her argument is covered in the domestic political economy section below because the domestic composition of a country is key to how she explains regional composition.
discussed above, but there also are implications for other states within the system whether that system is global or regional. For instance, if other states are free-riders, then their military burdens decrease when the system experiences hegemonic dominance (Chan 1995; Goldsmith 2003). Another implication is the neorealist assumed stability of bipolar over multipolar systems meaning higher military spending levels in the latter circumstance (Goldsmith 2003) so that some regions of the world that had been most impacted by cold war military spending by the two superpowers might experience higher levels of military spending in the post-cold war era.

Bureaucratic process is another factor that might influence military spending priorities. Bureaucratic, or budgetary, process falls under the organizational process model. The organizational process model “depicts the state as a set of bureaucracies over which decision-makers preside” whereby these decision-makers frequently utilize a set of decision rules (standard operating procedures, or SOPs) in order to manage the amount of demands placed on them as decision-makers (Lucier 1979: 20). In sum, decision-makers delegate to the bureaucracies the responsibility to implement these SOPs. Inertia posits change that is incremental due to bureaucracies competing to maintain their own position in the face of limited resources (Dunne, Pashardes, and Smith 1984). The assumption derived from bureaucratic process is, the stakeholders or those with interests in

67 In Correa and Kim (1992: 162), stakeholders are described as “including, in the USA, the President, Congress, the Armed Forces and relevant industries, and similarly for the USSR.” I argue that these stakeholders also include industries not directly contributing to the military as well as the mechanisms through which the Washington consensus is maintained and directed, including the World Bank, the International Monetary Fund, the
maintaining military spending are largely accountable for military spending levels by controlling the implementation of SOPs and by watching out for themselves (Correa and Kim 1992; also see Regan 1994 and Chan 1995). More generally Davis, Dempster, and Wildavsky (1966) find government agencies look after their own agendas rather than looking to the state as a whole, which leads to bureaucracies perpetuating themselves whether or not that is the best action available; this perpetuation leads to bureaucratic inertia in budgeting such that agencies fight to retain previously budgeted levels or to secure increases.

In terms of military spending and/or military burden, the main assumptions of the organizational process model are that inertia levels are high due to: entrenched bureaucracies contributing to high levels of inertia as they work to protect themselves and their standing within the larger organization (e.g., resource competition within departments as well as across departments); using past spending levels as guidelines for current spending levels; and having military programs that span over years (Schneider 1999). In addition, while there are rivalries among the branches of the military to maintain their own spending, the military will stick together to maintain overall funding levels if threatened by civilian segments of the government (Regan 1994). Similarly, the

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World Trade Organization, and other groups interested in providing a certain business environment.

68 One example of entrenched bureaucracy is keeping weapons systems but redefining their use, even if the redefinition seems illogical. Oerlich (2006: np) points to the Virginia-class submarine “that, at 2 billion dollars each, is now being promoted in part as a way to intercept phone calls,” attributing this redefinition to inertia in the bureaucratic process thereby continuing cold war projects in the post-cold war era.
implication of bureaucratic inertia in the organizational process model is that any given year’s level of military spending or military burden is proportional to the previous year (e.g., Lucier 1979), resulting in incremental budgeting. In this way, existing funding levels continue meaning significant reductions (or increases) are not experienced even when the threat level changes (Goldsmith 2003). Unless faced with a catastrophic failure, agencies continue to do what they were doing in the past, leading to slow change when there is change (Allison 1969). As with other studies of other factors of military spending, some produce findings contradictory to those posited by bureaucratic process proponents, with findings that suggest new democracies in Latin America have made radical shifts in budgeting thereby defying arguments made by incremental change proponents (Lebovic 2001).

The ratchet effect also is believed to contribute to higher levels of military spending. In this case, post-war military and social spending rarely return to pre-war spending levels, especially following global wars (e.g., Rasler and Thompson 1985; Thies 2005). According to Chan (1995) and Rattinger (1975), military spending may have such momentum and size carrying it forward that reversing spending trends may be difficult. Further, military spending can experience a ratchet effect such that spending levels

69 In another example, Castillo et al. (2001: 47) find “[f]or most countries, the strongest predictor of current military expenditures is military expenditures of the immediate past, whether these expenditures are measured in levels or as shares of output.” Incrementalism means each program in the budget is valued as compared to itself and previous allocations rather than in terms of the other programs in the budget (Goldsmith 2003; Davis, Dempster, and Wildavsky 1966), such that previous decisions or actions provide the context for the current situation.
following a conflict do not return to pre-conflict levels. For example, even with a
decrease in US military spending in the first five years following the cold war, Chan
(1995) argues that US military spending still was at average post-WWII levels.

The domestic political economy factors most often of focus include: wealth of the state
and economic growth; regime type, including electoral politics and public opinion; and
domestic stability (Goldsmith 2003: 554-557; see also Chan 1995). Depending on the
focus, this literature has different findings on whether the domestic political economy
impacts military spending, vice versa, or neither. For example, the literature is
inconclusive on direction of causality between military spending and economic factors
(e.g., Castillo et al. 2001); whether it is important to look at sub-national systems rather
than the usual look at the aggregate level; and whether the economy and military
spending are directly or indirectly linked (e.g., Chan 1995; Goldsmith 2003).

In the literature on wealth, scholars are divided as to whether a state’s economic size
impacts military spending levels, and if so, in which direction. Baffes and Shah (1998)
suggest level of development can be a mitigating factor in how military spending and
wealth are interrelated, showing that investment in military capital has a positive
economic impact in Europe and the Middle East but not so in sub-Saharan Africa and
Latin America. In contrast, others argue military spending has a crowding-out effect in
terms of private investment, thereby lowering investment and ultimately negatively
impacting economic performance; though the counter argument here is that any negative
impact military spending has more generally has to do with decreasing private consumption rather than investment (Chan 1995). Others suggest wealth is important because it determines how many resources a state has immediate command over for military use (e.g., Castillo et al. 2001).

Similarly, scholars are split over the impact of economic growth/decline on military spending, and vice versa (e.g., see Knight, Loayza, and Villanueva 1996). For example, methodological choice can play a role: Bowman (2002) finds the statistical large-N literature on military spending and development tends toward showing a positive correlation between the two, whereas the small-N, case study approach tends to find military spending as having a negative impact on a country’s economic performance. On the one hand, some argue military spending promotes economic growth depending on a country’s economic structure, political institutions and culture, and incentives for officials, so that domestic political economy helps determine spending priorities (e.g., Chan 1995). Others say military spending is ultimately a drain on economic growth and is an inefficient means for stimulating economic growth (e.g., Ward and Davis 1992;

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70 Chan (1995) argues capital availability is a necessary but not sufficient condition for economic growth meaning economic growth does not necessarily follow from capital formation. If countries do have capital available for civilian and/or military investment, there has to be some mechanism for capital formation to result in economic growth.

71 There is “no consensus in the literature about the nature, size, direction, or even the presence of a causal relationship between defense spending and economic growth—sometimes for the same country and period” (Chan 1995: 63).

72 Chan (1995: 68) does propose that the “direct and indirect effects of defense spending on economic performance tend to vary substantially across different countries, thus defying any universal claims of a positive or negative impact of the former on the latter.”
Regan 1994; Mintz and Stevenson 1995; Antonakis 1999).\textsuperscript{73} As an example of testing the division in the literature, one study that looks at whether economic growth causes military spending to increase or whether military spending spurs economic growth, finds that, if anything, economic growth impacts military spending not vice versa (Eloranta 2001). Elsewhere, level of savings is used as an indicator for the presence or lack of economic growth, showing that investment in the military leads to lower national savings and lower savings rates, resulting in lower economic growth than if the money had been spent in the civilian sector or on deficit reduction (Seiglie 1998). Conversely, economic decline has been linked to increasing military expenditures (Russett 1990).

Finally, there is a part of economic growth literature devoted to understanding possible causal factors between industrialization or development and military spending; its proponents hold up the military as providing financial benefits as well as targeting key ‘national security’ industries for more resources and support and for teaching people to be a part of the system, to be disciplined and in a way that is compatible with continued spending on militaries (see e.g., Galtung 1985; Regan 1994; Chan 1995; Bowman 2002). Similarly, there is no consensus on whether technological innovation leads to economic growth, with one side arguing shifting scientists to the military sector from the civilian sector leaves the civilian sector without enough brain power to support growth; this argument relates to the one regarding military spending drawing the best talent out of the larger economy, especially that talent involved in exports, which are key to maintaining a

\textsuperscript{73} Manning and Knack (2000) discuss the inappropriateness of using military spending as a means for measuring good governance.
vibrant economy (see Chan 1995). According to Smith and Georgiou (1983: 15—cited in Chan 1995: 68), “…if there can be any single conclusion about the effects of military expenditure on the economy, it must be that it depends on the nature of expenditure, the prevailing circumstances, and the current government policies.”

In addition to the role of the economy in military spending decisions, one of the most important controversies in this body of literature revolves around regime type, which may matter for a variety of reasons, though there is no agreement in the literature over the impact democracy versus authoritarian rule have on budget priorities (Lebovic 2001). Some posit democracies tend to have lower military spending in part due to pressure constituents place on politicians to maintain social spending versus military spending (e.g., Goldsmith 2003; Rasler and Thompson 1992). For example, democracies have larger winning coalitions to satisfy and therefore have lower military spending because spending is committed elsewhere; autocracies spend more on militaries in order to please...

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74 Chan (1995) argues that lack of consensus in findings concerning military spending is in part due to relying on aggregate data delineated annually. Instead, there would be more progress if researchers considered sub-national data as well as data broken into sectors and examined in terms of possible differential impact on various demographics. He also states it is possible to see a positive long-term indirect economic impact but a negative short-term direct one so that the relationship between military spending cuts and economic (including technological) improvement may be nonlinear.

75 Gleditsch, Christiansen, and Hegre (2004) contend a ratchet effect in democracies meaning once a democracy, there is less probability a country will become a semi-democracy or an authoritarian state. In addition, they posit there is a curvilinear relationship between amount of conflict in the world and level of democracy so that as the world democratizes there may be more conflict at first until there are more democracies. Overall, a high amount of democracies will lend itself to world stability, thereby lowering conflict once enough democracies are in place. If this logic plays out, and democracies do spend less on their militaries, then if the world continues to democratize we can expect there ultimately would be lowered military spending.
or appease a smaller group of people necessary to maintain power (Bueno de Mesquita et al. 2004). One assumption is in electoral politics, constituents demand politicians maintain social services; in a world of limited resources and in situations where pluralism may lead to increased demand, politicians move to spend on social services which can mean a reduction in military spending compared to authoritarian regimes (Rasler and Thompson 1985). However, some argue election cycle spending may lead to an increase in military spending as a means of garnering votes for incumbents (Mintz and Ward 1989).  

Lebovic (2001) shows in Latin America that shifts from authoritarian to democratic government result in overall shifts in priorities from military spending to social spending. Further, authoritarian governments are posited as spending more on their militaries because of legitimacy concerns, for example, using expansionist foreign policy to increase legitimacy leads to higher military spending (Castillo et al. 2001). However, Bowman (1996) shows in his study of Latin America that causality points in one direction: high levels of militarization (measured more simply by level of military spending and proportion of population in the military) decrease levels of democracy over time whereas low levels of democracy do not lead to increases in militarization. In terms of authoritarian rule, Mirilovic (2004) posits rightwing dictatorships are more likely to

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76 It is possible, however, that more about election cycles and military spending would be understood if military spending were looked at in terms of contracts/procurement, which is an area more easily politically manipulated than the entire military budget with the possibility of having more of a positive impact on incumbents in an election year (Mayer 1992).
promote military spending than leftwing ones. In contrast, Caverley (2006) argues that income distribution is key, not regime type, such that democracies with higher income inequalities and highly capitalized militaries are more aggressive and spend more on their militaries than other types of democracies.

Solingen (1998) finds that regime worldview is more important than regime type. She stipulates that coalitions that are pro-economic liberalization (or, internationalist) tend toward higher cooperation and therefore have lower military spending due to lower conflict, whether or not these coalitions have democratic or autocratic members or a mix of both. However, she also states that “countries with a military-industrial complex are more subject to pressures for increased defense expenditures, often financed through external debt” (Solingen 1998: 27, fn 29), and that in spite of their economic policies internationalist regimes do invest in their militaries as insurance against aggressive regimes and in times of “generalized uncertainty of the kind unleashed, for instance, by the end of the Cold War” (Solingen 998: 27). In these instances, regime worldview seems to be mitigated by business practices and by threat perception.

Also related to regime type is the issue of centralization (Castillo et al. 2001). While centralization is not considered a proxy for regime type (democratized states can also be

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77 The idea here is rightwing authoritarian regimes cater more to the landed or capitalist class releasing more funds to militaries than social issues that focus on the populace. Since left-leaning authoritarian governments rest on labor, military spending is thought to depress wages, so that supporting military spending means the labor base is jeopardized. 78 This view calls into question a key assumption about democratic exceptionalism, specifically that democracies more evenly distribute costs. See Caverley 2006.
centralized, for example, Britain in the late 1800s), the logic of centralization can contribute to a better understanding of the factors involved in military spending. As Castillo et al. (2001: 98) purport: “The concept of centralization captures the notion that states with powerful central governments are better able to translate economic wealth into military power.” On the other hand, the more decentralized a liberal state, the more likely public opinion influences politicians’ spending decisions, which, as shown above, tends toward more social spending (Chan 1995).

The last factor covered under domestic issues that may impact military spending levels has to do with domestic stability. At least some military spending in many countries is tied to actual and perceived internal threat; in some cases a large portion of military spending is directed to managing this internal threat. This being the case, some scholars argue for including a civil war variable as a measure of internal instability (Looney and Frederikson 2000). In addition to civil war, some scholars include other types of internal strife including repression (Blanton 1999). Others see military spending as contributing to internal strife and not just the other way around (e.g., see Mohammed 1999).79

What’s Missing?
As the literature review above has shown, there are many discrepancies as to what contributes to military spending and how. This section addresses how the role of

79 Military expenditures can contribute to internal repression in a variety of ways including the lowering of social spending that creates tension among those who have-not and press for more (Mohammed 1999) or the purchasing of weapons that then “contribute to repression by making violent political acts more feasible” (Blanton 1999: 233).
identities and social constructs fits into the debates on military spending and what we can hope to learn. While international politics, bureaucratic process, and domestic political economy each contribute to better understanding military spending, each begins without considering the assumptions being made about identities and behaviors. Even if identities and related factors do not seem directly relevant to the arguments posed, they are relevant at least indirectly. How we have defined who can participate in the system and how they can participate colors the types of questions asked and the answers sought. Sociological institutionalism illuminates where identities come from and how these identities impact action. Without examining identities, many approaches to understanding military spending fall short of explaining why there has not been a peace dividend. For example, the research connecting economic factors and military spending development is based on a country’s bottom line—whether or not areas such as deficits are reduced. However, as stated in the introductory chapter, there are many negative impacts on women and children when countries adjust their budgets yet so-called improvements rarely address the feminization of poverty to which balancing budgets contribute.\(^8^0\) An examination of identities helps us understand why certain budget lines are emphasized while others are ignored or downplayed.

Further, while each approach attempts to incorporate variation, none of the approaches outlined above really confronts the amount of isomorphism in the global system. While

\(^{80}\) As Chan points out (1995) we need to look at more units of analysis than the national level and at more than annual data. These data would illuminate who is impacted and how.
outcomes may vary, what actions are taken in the different situations stem from the same list of what counts and does not count—actions that reinforce the identities of the key actors and reinforce a world model that is dominated by the Washington consensus and its neo-liberal economic agenda and national security exception. Military spending in the post-cold war era has remained high and continues to grow. Variation among countries does not negate this finding. This study can help illuminate when isomorphism in the context of countries that share similar conditions can contribute to a peace dividend. Isomorphism also can help explain how it is possible that such different countries, regions, histories, and so on have reached the same end of maintaining heightened military spending. The social constructs that form the base of the Washington consensus and the linkages between the key global actors in the perpetuation of this institution can illuminate aspects of military spending missed by the more mainstream approaches described here. The world model of looking at the Washington consensus shows it is universally accepted, considered the legitimate form, and accepted as commonsense and therefore difficult to dispute. The following section relies on these tenets to tie together the militarization of spending with the Washington consensus.

**The Washington Consensus and Militarization**

As covered in the previous chapter, while there are differing views on what the Washington consensus is—from neutral reforms to an ideological understanding of what these reforms mean (Williamson 2000)—overall there is general agreement that the Washington consensus is the dominant understanding of how the global political economy works, if not agreement that the Washington consensus is how the global
political economy should work. Typically, the “Washington consensus” refers to a set of reforms or an agenda that was devised specifically to deal with the Latin American debt crisis in the 1980s. The reforms set out by the consensus have since devolved into a list of options or tools available to, and at times imposed on, countries needing economic assistance as well as self-imposed by states without need of international assistance.\footnote{The isomorphism of the Washington consensus as a world model means the Washington consensus does not need to be enforced or imposed for states to support the neo-liberal economic agenda of liberalization, deregulation, and privatization, and the national security exception.}

While there is no real consensus on which tool will work in which situation, as stated, there is general consensus on what counts as a legitimate economic tool and what does not; those tools that are available tend to rest on the neo-liberal economic agenda which, in turn, tends to rely on a rational economic approach (Williamson 2000). As the founder of the Washington consensus concept, Williamson (2000: 252) provides a set of these tools, i.e., the rational economic reforms: macroeconomic discipline; trade openness; and market-friendly microeconomic policies. With neoliberalism as the “reigning policy framework in contemporary globalization” and generally accepted as commonsense (Scholte 2000: 35), the tools that comprise this neo-liberal economic agenda include “liberalization of cross-border transactions; deregulation of market dynamics; and privatization of both asset ownership and the provision of social services” (Scholte 2000: 284). Liberalization, deregulation, and privatization are a large part of the push for a neo-liberal economic agenda by its proponents to get “official authorities [to] create an
enabling environment for markets and then let the private sector supply the social good with (according to the theory) maximum efficiency” (Scholte 2000: 285).

In terms of the militarization of spending, in general military corporations act as civilian corporations do, playing by the general rules established by the neo-liberal economic agenda under the Washington consensus—unless and until the neo-liberal economic agenda stifles them. Then states and the military industry rely on the national security exception; states not only support military corporations because they are corporations and are seen as key to competitiveness, but also because state identity is tied to national security as defined in terms of the military and because the military is defined as generally good, natural, and necessary. The fact that virtually all states have militaries and that these militaries look the same ensures that military “needs” are prioritized. Maintaining and increasing military spending is considered one such need. With specialized treatment in the World Trade Organization and trade agreements, special subsidies for military-related corporations, preferential lobbying and political access during the policy-making process, and a hands-off approach by international financial institutions, militaries and the related industries enjoy a special place in the global political economy whether or not this special treatment is at odds with the neo-liberal economic agenda.

This treatment of military corporations shows the power of the social constructs of the Washington consensus; how its two main components are at once in tension with and
complement each other; and how militarization works such that the key actors in the
global political economy encourage military spending whether under the neo-liberal
economic agenda or more specifically under the national security exception. The
Washington consensus is universally accepted, considered the only legitimate model, and
has been accepted as commonsense. While the national security exception is in tension
with the basic tenets of the neo-liberal economic agenda of the Washington consensus
and works to supercede it, the key global actors and the linkages between them work in
very similar ways to promote a global political economy that functions on the identities
and behaviors of state competition, the promotion of corporate interests, and the
macroeconomic policy that supports the Washington consensus overall. As Gillis (1989:
8) said: “…if we look beyond the usual indicators of militarism, it is not change but
continuity that reveals itself. Rhetoric may have been demilitarized, but the economy has
not.” The militarization of spending through the Washington consensus is either directly
achieved by applying the national security exception for the benefit of the military and
the military industry, or at times indirectly through applying the tenets of the neo-liberal
economic agenda by promoting a military-based sense of identity and competition.
Whether primarily in tension or at times complementary, the key components of the
Washington consensus at the minimum are not geared to decrease military spending.
States, TNCs, and IFIs have identities and therefore actions rooted in the Washington
consensus and the relationships, prescriptions, and expectations promoted by the
consensus.
CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

I have never yet found a contractor who, if not watched, would not leave government holding the bag. (Senator Harry S Truman)

The previous two chapters set out the connections between states, transnational corporations, and international financial institutions. One major connection is competitiveness in the global political economy. The central aspect of competitiveness to the workings of the global political economy link these actors in ways that privilege society’s views of the military and military industry, especially when it comes to business and profit. This chapter sets out the methodology I use to test these theoretical linkages. To do so, this study relies on Charles Ragin’s fuzzy-set qualitative comparative analysis (fsQCA) and its use of conjunctural causality. Rather than performing more traditional quantitative tests and qualitative case studies and triangulating from these, I employ Ragin’s set-theoretic approach because it is the most suitable approach for the questions I ask. A detailed explanation of the various reasons supporting this method as the most appropriate for this study are expanded on in this chapter.

The key concepts (peace dividend, neo-liberal economic agenda and two versions of the national security exception, strong and weak) have been calibrated into fuzzy set causal conditions or indicators that test whether the stipulated causal combinations result in the outcome being studied. Here, the outcome is anomalous military spending in the post-cold war era, specifically 1989 to 2004. I also include three contextual conditions: GDP/capita, polity, and conflict. The details of fuzzy sets and the practical application
applied in this study should be of interest to many whether because it is an innovative way of testing causes of military spending or because it is a relatively unexplored method in political science and international relations.

In this chapter I first present the Design section, which includes: an overview of methodological approaches typically used in military spending studies; a look at issues concerning causality; an introduction to qualitative comparative analysis; some background on fuzzy sets; and an explanation of calibration methods. Following that are the hypotheses drawn from the theoretical implications presented in earlier chapters. Next, in the Data and Measurements section I examine how the concepts were operationalized including how the causal and contextual conditions were measured, what data are available, and how the conditions were calibrated into fuzzy sets. The final section of the chapter orients readers to the next steps in which I describe the process of using fsQCA.

**The Design**
This section describes the overall research design of this study. I first look at the main methodological approaches utilized in political science. I then discuss fuzzy sets and qualitative comparative analysis and the potential contribution they can make to this project. Lastly, I provide an explanation of fuzzy set calibrations of the outcome and causal conditions used in this study.
Methodological Approaches
In the social sciences, two basic methods of analyzing theory are usually juxtaposed (though in practice neither is typically carried out in its pure form). Each methodological approach has value, each working better in different situations and according to the questions being asked. The two main methodological approaches are qualitative (case-oriented) and quantitative (variable-oriented). More recently a third approach has been introduced—fuzzy-set qualitative comparative analysis (fsQCA)—that combines elements of the two traditional methodologies. Working through what both qualitative and quantitative approaches have to offer and where each method is weak will help us better understand how bridging the two approaches is the best option for this project and can illuminate the theory that the Washington consensus, through the neo-liberal economic agenda and the national security exception, contributes to the militarization of spending priorities.82

This section first addresses causality and its role in theory and testing followed by a more in-depth analysis of qualitative and quantitative approaches showing the contributions and weaknesses of each. I then expand on the set-theoretic approach in terms of fsQCA and explain fuzzy sets in social sciences. I consider the merits of using this alternative approach for this study and what is added to it that the two standard approaches, for all they have to offer, would miss. It is possible a fuzzy set approach helps to illuminate

82 The following discussion on different types of methodological approaches and why a set-theoretic approach and fuzzy sets serve this project best is based on several of Ragin’s writings on the set-theoretic approach and fuzzy set analysis (see Ragin 1987; 2000; 2006; 2008a; and 2008b). Unless where otherwise noted in the text, this section is a summary of Ragin’s writings along with my thoughts on its appropriateness to this study.
those facets of military spending that are often overlooked or remain hidden due to the inappropriateness of applying the traditional methodological approaches. I then explain calibration methods used to compile fuzzy sets and calibrate the outcome and causal conditions.

Causality
Causal complexity plays a role in many comparative studies such as those examining institutions and processes, e.g., here, the Washington consensus and militarization. This type of complexity comprises combinations of conditions (rather than individual causes) that lead to the effect (outcome) under investigation. 83 Further, “[w]hen a causal argument cites a combination of conditions, it is concerned with their intersection” (Ragin 1987: 25). It is possible to have one type of outcome result from various combinations of causes so that “social causation is often both multiple and conjunctural [which is] consistent with commonsense notions about how the world works” (Ragin 1987: 25). It is difficult to unravel causal complexity because social phenomena rarely have a single cause; causes rarely operate in isolation; and context is key because different situations may result in different outcomes (Ragin 1987: 27).

In this study, I examine military spending levels in terms of different causal conditions and causal combinations. As explained in Chapter 2, it is possible the neo-liberal economic agenda works with the national security exception to maintain high levels of post-cold war military spending, that countries with conditions that defy the Washington

83 In his later work, Ragin defines complex causality as “a situation where an outcome may follow from several different causal ‘recipes’” (Ragin 2008a: 17).
consensus might actualize a peace dividend. There are varying levels of each of these conditions and with a set-theoretic approach on which fsQCA is based, I can test whether these different levels combine in different ways to demote or promote military spending. More on the application of this approach to my study follows below. First, it is important to present the traditional approaches, look more closely at the general contributions to the social sciences that fuzzy set analysis offers, and then compare these contributions to those of the standard qualitative and quantitative approaches. Doing so will help to illuminate the benefits of utilizing fsQCA for this project.

Qualitative, Quantitative, and Synthesis of the Two
Each of the two main overarching methodological approaches to social science handles causal complexity differently. The case-oriented method sees causation as conjunctural with the possibility of several combinations of conditions leading to a certain outcome, combinations which depend on context. This qualitative approach “attempts to account for specific historical outcomes or sets of comparable outcomes or processes chosen for study because of their significance for current institutional arrangements or for social life in general” (Ragin 1987: 3). Comparing macrosocial units, comparativists apply their methods to theories. They work with limited numbers of cases. Because qualitative measurement is knowledge based and case centered, it is typically more grounded in empirical evidence and generally more iterative. It focuses more on kinds of cases instead of on variation as the quantitative approach does. With a case-oriented view, identified members of a set can be studied individually. While qualitative approaches are more
amenable to external standards, in comparison to quantitative approaches, the former can look less than precise.84

The case-oriented approach relies on Mill’s method of agreement and method of indirect difference. The method of agreement states that if two or more cases of an event (process, etc.) have only one of several possible causes in common, then whenever there is this agreement and the outcome is the same, then this is the cause. With this method the investigator is looking for patterns of invariance. There are a few problems with relying on just this method. First, as Mill points out, this method does not “establish any necessary link between cause and effect” (Ragin 1987: 37). Further, this method cannot handle multiple causation. Because of these issues, Mill suggests using the method of difference, or the indirect method of difference, which uses nonexperimental data but an experimental design. The latter design relies on cases in agreement but also on cases that are absent both cause and effect. The cross-tabulation of these cases then results in a third step in which pairs that do not match on cause and effect are discarded. This approach, however, has difficulty with multiple causation as well as conjunctural causation in that some causes can be erroneously discarded. However, these methods are useful in helping the investigator identify invariant relationships while keeping a running dialogue between the theory and the analysis. Context plays a key role in reexamining the theory and the approach.

84 See Chapter 4 of Ragin (2008a) for the related explanation.
On the other hand, variable-oriented approaches generalize about relationships among variables rather than focus on specific historical outcomes. This type of approach is theory oriented and prioritizes generality over complexity. It focuses less on specific outcomes and more on relationships that span across societies and their connection to “broad theoretically based images of macrosocial phenomena” (Ragin 1987: 53).

Parsimony is written into variable-oriented approaches while at the same time studying many cases as opposed to a few (as with the case-oriented approach). With the variable-oriented approach, investigators are more cautious when formulating empirical generalizations, and because all cases do not have to be accounted for, this approach does not look for particularistic explanations for deviating cases. For this reason, this method can rely on statistical control techniques rather than experimental control techniques.

The main requirement of a variable-oriented approach is that the indicator “must vary across cases, ordering them in a way that is consistent with the underlying concept” (Ragin 2008a: 66). However, this approach is based on unexplained variation which is generally sample specific by definition and construction because the cases are defined relative to each other and variation is defined relative to observed distribution scores. In addition, the typical scaling standards in a variable-oriented approach vary from sample to sample and are based on induction. By basing so much of case rankings relative to other cases, all variation is “considered equally relevant” (Ragin 2008a: 68), emphasis in original). Instead, the calibration used in fuzzy sets relies on external standards as its context for interpretation so issues such as variation are not seen as equally relevant.
Essentially, statistical control is about measuring the effect of an independent variable on the dependent variable when holding the other independent variables constant. “In most statistical analyses, the effect of a control variable is its average effect on the dependent variable, across all cases, net of the effects of other variables” (Ragin 1987: 59). Context is less important in that a change in a variable is assumed to apply regardless of the case, i.e., regardless of the values of the other independent variables. Particular cases are compared relative to a general pattern rather than comparing cases directly to one another. In this way, it is possible to run tests without having all the data on all the logically possible combinations, as is necessary with case-oriented approaches.

In order to use a variable-oriented approach, the investigator has to be interested in population parameters, or the average effect that a cause has on some “theoretically defined set of observations” (Ragin 1987: 63). Using additive multivariate statistical techniques does not allow for testing for multiple conjunctural causation, though proponents of variable-oriented methods would then argue for interaction models rather than additive ones. Critics of interaction models posit that in order for these models to work well, the investigator needs to be able to hypothesize in advance all empirically plausible interactions; there need to be few interactions; the interactions cannot be excessively collinear with each other; a simple additive model has to be “an empirically plausible representation of other causes of the phenomenon”; and the number of cases has to be large (Ragin 1987: 65). The difficult part is meeting these criteria to run the
interaction tests thereby jeopardizing the possibility of finding complex and conjunctural
causation in these studies.

Case-oriented and variable-oriented strategies are ultimately complementary to each
other. It is possible to synthesize the strengths of each in order to look at more cases
while considering causal conjunctural complexity and to gain a fuller explanation of the
question at hand. It is the middle road “emphasizing relationships among variables and
structural explanations, on the one hand, and emphasizing the chronological
particularities of cases and human agency, on the other” (Ragin 1987: 71). A synthetic
strategy should: 1) be able to address a large number of cases; 2) incorporate or
accommodate different combinations of conditions; 3) be able to formulate parsimonious
explanations; 4) be analytic (i.e., be able to break wholes into parts); and, 5) have the
ability to consider alternative explanations (Ragin 1987: 82-84). Ultimately, “the key to a
proper synthetic strategy is the idea of qualitative comparative analysis—the notion of
comparing wholes as configurations of parts” (Ragin 1987: 84).

In response to the shortcomings of qualitative and quantitative methods as presented
above, Ragin developed a middle path: fuzzy-set qualitative comparative analysis
(fsQCA). This middle path rests on calibrating variables. This calibration offers both the
precision sought after by quantitative approaches while relying on substantive knowledge
so central to qualitative approaches. Uncalibrated measures show “positions of cases
relative to each other” (Ragin 2008a: 27) meaning it is possible, for example, to know if
one country has fewer economic restrictions than another but not whether that country is itself more or less globalized in terms of liberalization under the neo-liberal economic agenda.

One way to accomplish a synthetic strategy is to rely on Boolean logic. This method uses binary data. Cases are placed in tables based on whether or not a cause is present and whether the outcome is present. These cases are then scored accordingly and comparisons can be made on which causes are present and absent and in what kinds of combinations. For example, it might be such that the presence of A and absence of B are only causes if in conjunction with one another. A synthetic method can show this complex causality. In this way, a Boolean approach is “an ideal instrument for identifying patterns of multiple conjunctural causation” because of its holistic orientation that views causes in combination with each other (Ragin 1987: 101). This approach is quite useful for this study since I am examining whether the conditions I have outlined work in conjunction with (or without) one another to contribute to anomalous military spending in the post-cold war era.

This set-theoretic approach fits well with the project at hand. It bridges the best from the case-oriented and variable-oriented methodologies more generally in the area of military spending. In particular, it is a means of testing the complex conjunctural causality in my

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85 Ragin’s more recent work expands to include ‘fuzzy sets’ or variables with categories that contain gradated scoring rather than binary. However, covering the basics of Boolean logic with binary data facilitates a better understanding of fuzzy sets (see Ragin 2000). Ultimately this project relies on the fuzzy set version.
theory; managing the very imprecise nature of military spending data that so perplexes quantitative approaches; and examining a larger number of cases than a case study approach would permit.

My theory posits the Washington consensus as an institution has established the types of actions states, transnational corporations, and international financial institutions can take in the global political economy. In addition, these actions work together under the contradiction of the national security exception to promote the prioritization of military spending, i.e., the militarization of spending priorities, which prohibits peace dividends. The possibility of the presence or absence of some degree of any of the conditions may work in combination to produce militarized spending or, conversely, to produce a peace dividend. Finally, the context of different countries over the post-cold war period can impact whether or not these conditions (or lack thereof) have any real bearing on spending priorities.

**Fuzzy Sets**
Following on the binary notion that cases can be grouped in sets, Ragin developed a fuzzy set-based approach that incorporates the varying level of membership cases have in the different causal conditions.\(^{86}\) According to Ragin (2008a: 71), it is possible to have the best of both worlds (of qualitative and quantitative) because fuzzy sets incorporate “the precision that is prized by quantitative researchers and the use of substantive

\(^{86}\) Fuzzy set applications are used in a variety of social science situations. For examples, see Harris, Stoddard, and Bezdek (1993); Jackson (2005); Schneider and Wagemann (2006); and Vis (2005).
knowledge to calibrate measures that is central to qualitative research.” In terms of matching with quantitative aspirations, fuzzy sets focus on precision because of the external assessment used in determining the degree of membership each case has in a set as well as allowing for deep variation across cases. Fuzzy sets fit with the qualitative program too because they rest on substantive knowledge by using external criteria in the calibration of the measures and are case-oriented because of the focus on sets and set membership. All in all, fuzzy sets deal with determining the degree of membership in a given set and the external standards necessary to calibrate cases within these degrees.

As discussed above, Ragin’s methodological approach is set-theoretic; it works with cases and groups of cases as sets. There are two basic ways to break cases into sets: crisp and fuzzy. Crisp sets are full membership in the set (a score of 1.0) and full non-membership in the set (a score of 0.0)—the binary classifications discussed above. With fuzzy sets it is possible to calibrate partial membership in sets so that there are degrees of membership ranging from full membership to full nonmembership. In the middle, the cross-over point (or the point of maximum ambiguity) that designates when a case is more in or more out of the set, is the score of 0.5. Because of how fuzzy sets are calibrated, they are more than an ordinal scale that lists rank order. That is, a fuzzy set “can be seen as a continuous variable that has been purposefully calibrated to indicate degree of membership in a well defined and specified set” (Ragin 2008a: 26, emphasis in original). Each of these scores is derived through the substantive knowledge the researcher has regarding the cases and the data. There has to be a rationale for deciding
on the breakpoints, and the external criteria or standards used in calibration should be clearly stated, systematic, and transparent.

Fuzzy set variables need a target set in order to calibrate because the target set structures the calibration and connects theory and empirical analysis.\textsuperscript{87} Otherwise, the variables remain generic variables and cannot be calibrated. Changing the target set results in changes in the calibrations. Researchers often organize their work around target sets such as “developed countries” rather than generic variables such as “level of economic development.” If there is a shift in the target set but the underlying index variable remains the same, then the membership scores change. For example, the researcher might be looking at arms exports but changes the target set from high arms export dependency membership to a moderate level. What is considered as full membership and non-membership, as well as all the degrees in between, would change accordingly.

The substantive knowledge used to determine the breakpoints makes it “possible to distinguish between relevant and irrelevant variation” (Ragin 2008a: 27). Within the various levels of a calibrated variable, there is not meaningful variation between cases. For example, when considering wealth and developed countries, there is not meaningful variation between those countries that are in the “very wealthy” category since it has already been determined which countries qualify for full membership in the very wealthy

\textsuperscript{87} Target sets are the “full membership” category such that calibrations less than one are the degree to which cases represent the overall classification. For example, if the target set is “countries dependent on arms exports,” then the calibration would reflect the degree to which the cases in this study show dependency on arms exports.
category. Further, it is important to truncate irrelevant variation, too, so that membership scores actually reflect the target set already stipulated. For example, in this study when measuring for which countries have decreased military spending of at least 3 percent annually, variation past this point is irrelevant such that countries with higher than a 3 percent annual decrease already are coded as full membership in that peace dividend target set. It is not possible to be more than a full member of a set.

Calibrated measures are useful in evaluating theory that is based on set relations, which happens to be a lot of social science theory. First, calibrations can take different kinds of cases into account whereas the typical correlational approach is about relationships between variables. Secondly, because set-theoretic arguments are virtually always asymmetric, they “do not challenge a set theoretic claim or weaken its consistency” when cases have causes differing from those predicted (Ragin 2008a: 84). In addition, because correlations are not sensitive to calibrations, they are unsuitable for examining set relations and cannot be used in assessing sufficient or necessary causes. Lastly, probably the most important aspects of fuzzy set analysis and calibration to keep in mind are that target sets must be clearly identified and must correspond to the theory’s central concepts, and external criteria are necessary components to calibrating set membership.

**Calibration Methods**
This section discusses the basic tenets of fuzzy sets. The following section shows the actual calibration steps used in this project. As mentioned above, fuzzy set variables need a target set in order to calibrate. Otherwise, there is dissonance between theory and
empirical analysis. In addition, fuzzy sets rely on external standards to guide calibration.
There are two basic ways to implement the external standards: 1) directly (by designating
the three breakpoint anchors of full membership, cross-over point, and full
nonmembership based on values of an interval-level scale); and 2) indirectly (by looking
at the target set and assessing the degree to which cases are members of that set, then
rescaling the original measure to reflect the benchmarks based on those degrees of
membership). The direct method uses estimates of the log odds of full membership.
These odds are calculated using:

\[ \text{odds of membership} = \frac{\text{degree of membership}}{1 - \text{degree of membership}} \]

This metric centers on 0.0 and lacks floor and ceiling effects (i.e., stretches to negative
and positive infinities). The log odds rescales the data to a measurement of 0 to 1;
however, because the log of the odds of membership cannot by definition generate either
a 0 or a 1 because of their reference to negative and positive infinity, 0.95 and 0.05 are
interpreted as marking full membership and nonmembership in a target set,
respectively.\(^88\)

There also is the indirect method of calibration. In this method, the researcher first groups
cases by degrees of target set membership; these groupings are broad and act as an initial
sorting that is then refined using interval-level data. Again the sorting of cases is based on

\(^{88}\) An explanation of and the formulas for the overall degrees of membership calculation
are presented in Appendix A.
substantive knowledge. The next step is to predict the qualitative coding for each case.\textsuperscript{89} Ragin suggests that while there are differences between the results of the two methods (primarily because the indirect method relies on regression), in the situation where there are no external criteria for the direct method, he sees the indirect method as still generating useful scores for set membership.

In fuzzy sets it is important to truncate irrelevant variation, too, otherwise the “resulting membership scores [will not] faithfully reflect the target set’s label” (Ragin 2008a: 72). For example, in this study I examine what degree countries fit in the target set of countries with very high levels of economic integration. The variation among the countries in this category is irrelevant because they are all considered to be full members.

**Hypotheses**

There are three main hypotheses in my theory of the connections between the Washington consensus, global actors, and military spending. In particular, these hypotheses attempt to explain the links between states, transnational corporations, and international financial institutions that employ the neo-liberal economic agenda and the national security exception (NSE) in terms of maintaining or increasing global competitiveness and the related implications for a peace dividend.

\textsuperscript{89} Ragin suggests a fractional logit model and footnotes a procedure in STATA that performs that function. See Ragin (2008a: 80).
H₁: The absence of active displays of a national security exception (strong NSE) promotes a peace dividend.

H₂: The absence of a latent version of the national security exception (weak NSE) contributes to a peace dividend.

H₃: The absence of participation in the reform programs implemented by international financial institutions encourages a peace dividend.

Essentially, a strong NSE (sNSE) as a concept is based on states’ actual policies that privilege the military industry in the name of national security and to the end of gaining competitive advantage in the global political economy. These policies include tax loopholes, export assistance, research and development funding, and guarantees. These policies variously challenge liberalization, deregulation, and privatization (the main elements of the neo-liberal economy agenda), possibly negating a peace dividend. The lack of such policies is posited to lead to lower military spending because those countries are not actively supporting a military industry that relies on the state for subsidies and purchases.

At the same time, a weak NSE (wNSE) that is present in trade agreements or sectoral restrictions also may contribute by providing an ever-present reason or excuse for member countries to privilege their military industries. If countries do not sign onto these agreements, there is less implied consent to employ an NSE. On the other hand are trade agreements that do not have an NSE; as another form of a wNSE, these are posited to contribute to peace dividends since there is no implicit permission to employ a national security exception.
Last but not least, international financial institutions promote both the neo-liberal economic agenda and the national security exception in their loans and restructuring programs. If these programs are low or nonexistent, then countries do not have the large institutional support for higher military spending. In this study, anomalous military spending is based on the presence of a nontrivial amount of savings in military expenditures, i.e., the presence of a post-cold war peace dividend, because those countries that have achieved and maintained a peace dividend have done so partly in spite of pressures from the global political economy.

Data and Measurements
This section discusses the measures used in this study, i.e., how the concepts were operationalized. Each indicator also has an explanation as to what data were used and how each measure was calibrated.

The Outcome: Anomalous Post-Cold War Military Spending
The purpose of this study is to look at post-cold war military spending that has remained higher than expected in many countries over the past decade and a half since the end of the cold war. Yet, even as global spending has remained high, there are some countries that have achieved a peace dividend. The outcome of focus, then, is whether or not there has been a peace dividend in the years since the end of the cold war and what the underlying causes of the presence of a peace dividend might be.
As mentioned in the previous chapter, the literature has few examples of what an actual peace dividend looks like. For example, according to Chan (1995), in order to attain a peace dividend it is first necessary to cut military spending enough to result in nontrivial savings, but nontrivial savings remains undefined. There is one estimate that at least a 3 percent annual decrease would suffice (Pronk and Haq 1992), while another example is set at a 5 percent annual decrease (Wulf 1991: 3). In the mid-1970s, one report suggested that a 10 percent decrease in military spending by the permanent members of the United Nations Security Council was necessary for development assistance, one type of peace dividend (Brzoska, Kingma, and Wulf 1995).

Before being able to determine whether or not a quantifiable peace dividend was present or absent for each country in this study, it is important to define military spending and what precisely is being examined. In general, there are two accepted ways to quantify military expenditures. One is the standard examination of actual outlays—directly calculating as much of a country’s military spending as possible (Correa and Kim 1992). The other is to determine how much of a country’s resources are dedicated to the military, thereby calculating the military burden. The former is as direct a tallying of money allocated to the military as possible given the nature of the difficulties in

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90 Oscar Arias also recommended all countries cut their military budgets by at least 3 percent annually over five years, and reinvest those funds in the conversion of developing countries’ military spending to civilian spending (UNDP 1994: 59). He argued for the development of a Global Demobilization Fund in which countries would decrease military spending and donate a portion of those savings to development programs. Developing countries would donate a smaller portion of those savings. Countries that do not decrease their military spending should contribute as if they had. Arias is most noted for being a Nobel Peace Prize Laureate and former president of Costa Rica.
compiling military spending data (e.g., lack of transparency in reporting and inconsistency in defining what comprises military spending).\textsuperscript{91} The latter is taking military spending as a percentage of gross domestic product (GDP) or central government expenditures (CGE) to see how much of a country’s resources are given over to military costs. Brzoska, Kingma, and Wulf (1995) look at both indicators preferring the military burden to better reflect more macroeconomic issues and more accurately describe savings potential, i.e., the peace dividend. Goldsmith (2003) relies on the military burden measure as a more stable time and space comparison of military spending.\textsuperscript{92} I calculated annual percent change for military spending as a percent of GDP.\textsuperscript{93} In addition to opening

\textsuperscript{91} Issues concerning military spending data and using these data in estimate calculations are discussed in Appendix B.
\textsuperscript{92} It is important to note that the data on military spending are rife with a variety of problems including lack of transparency by reporting governments, lack of a standard available for governments and for the international bodies compiling this information, and issues involving currency conversions, among others. I argue that broadly speaking military spending data are some of the least reliable data in the social sciences, the study of the determinants of military spending (which also is one of the largest elements of continued militarization) is important enough to work with these discrepancies as long as they are kept in mind when the time comes to interpret findings.
\textsuperscript{93} Unfortunately data availability for military spending as a proportion of CGE is very limited. I would have lost almost half the countries in the sample. It is important to note that Brzoska (1995) sees measuring military expenditures as a percent of gross domestic product (GDP) as justifiable in measuring the military’s burden on an economy but not as the best way to take into account how governments prioritize decision-making in terms of available resources. Instead, he argues “[i]f the purpose is to establish national political priorities, it makes more sense to use government expenditures as the denominator rather than full national income” because no government has full command of all national income (Brzoska 1995: 58). Changes in military spending as a proportion of central government expenditures is another way of measuring the peace dividend because decrease in this proportion would mean more government expenditures are going somewhere besides the military; whether it is to social spending, deficit reduction, or something else, decreases in military spending in terms of what governments spend overall translates into a peace dividend. This indicator also provides a way to see if overall peace dividends are tied to globalization processes. When data collection is more
up the possibility of a fourth explanation for the determinants of military expenditures, I believe this exercise is a useful step in furthering our understanding of how military expenditure data work.

As stated above, one way to measure a peace dividend is to measure the annual change in military spending. In order to test for both levels of possible reduction that would qualify as a peace dividend, I calculated whether countries experienced a 3 or a 5 percent annual reduction in military spending and ran each calculation separately as the outcome variable. Many countries experience large fluctuations in their military spending levels. It is common these fluctuations are typically one-offs due to the purchase of large weapons systems, costs accrued to conforming to structural compatibility, changes in political economic situations, and so on. In order to account for these fluctuations and smooth the data, I calculated five-year moving averages based on the annual percent change calculations. To calibrate these change averages, anything over a decrease of 3 or 5 percent, depending on the particular measurement, was considered a full member of states that achieved a peace-dividend level of decrease in military spending. A full nonmember of that target set is any state that achieved no decrease or saw an increase in military spending. When full membership is based on at least a 3 percent decrease, the cross-over point is a decrease of 1.5 percent because it is halfway to the threshold for full membership in countries that experienced a peace dividend. When the peace dividend is reliable and more widespread, future work would do well to consider CGE in global studies of military spending.
defined as at least a 5 percent decrease, then the cross-over point is a decrease of 2.5 percent. Nonmembership for both measures is set at 0.

The military spending data are drawn from the Stockholm International Peace Research Institute (SIPRI all dates). The SIPRI data are based on official data from national governments first of all, and on secondary sources such as international statistics from organizations including the IMF. As a second secondary source, SIPRI looks to specialized journals and newspapers. The original data in the study covered 1988-2005. The final peace dividend dataset comprises annual changes in military spending as a percent of GDP for the years 1989-2004, which match the years of data availability for the other indicators in the study.

Causal Conditions
Because of the almost complete lack of data for directly measuring any of the elements of the neo-liberal economic agenda (NEA), the strong national security exception (sNSE), the weak national security exception (wNSE), and international financial institutions (IFI), I have to rely on proxy measures to capture these concepts. Here I describe the

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94 As suggested in the literature (e.g., see Lebovic 1999), I had wanted to run my tests on multiple datasets and compare the results. However, due to severe limitations on the data available for the military spending indicator (more comprehensive data compiled for earlier years) and what is available for my key causal conditions, especially for the neo-liberal economic agenda (with data compiled for more recent years), I chose one data source for more years rather than multiple datasets for only a handful of years.

95 For example, there has been no systematic compilation of tax loopholes across countries and across time. Given the time constraints placed on gathering data for a dissertation, drawing together just that one measure of the strong national security exception would not have been possible. There are several other elements of the sNSE, as well as the other indicators, that have no data available so I rely on proxies in this study.
measures I developed, why they capture what I think they do, and how they were

calibrated for this study.

Neo-Liberal Economic Agenda (NEA):
The basic argument for the linkage between the neo-liberal economic agenda (NEA) and
an overall peace dividend (or lack thereof) is that states seek competitive advantage in the
global political economy and do so in large part via transnational corporations (TNCs). In
order to foster an environment in which TNCs can be competitive, and thereby help the
state itself to be so, states employ tactics to comply with the NEA. That is, at varying
levels, states tend to lean towards liberalization, deregulation, and privatization as a
means to foster competitive advantage. I argue below that this variable interacts with the
strong national security exception (sNSE) in such a way that the neo-liberal economic
agenda is tempered by this exception. When it comes to the military industry, the NEA’s
seemingly hands-off approach to the global political economy may tend to increase
military spending when military-related business benefits from privileges under the NEA
because of the sNSE that civilian businesses cannot access.96

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96 In chapter 3 I reviewed the argument Solingen (1998) makes regarding regime
worldview as being more important than regime type. She comments on how regimes that
are pro-economic liberalization tend to have lower military spending; however, regimes
with military-industrial complexes are pressured to increase military spending in spite of
their pro-liberalization policies. This argument is noted in the analysis in chapter 6.
The Swiss Institute for Business Cycle Research compiles the Index of Globalization.\textsuperscript{97} The index measures three dimensions of globalization: economic, social, and political. Of interest here is the economic component, which measures economic integration into the global political economy.\textsuperscript{98} The economic sub-index consists of a variety of indicators on actual flows and on restrictions. The actual flows portion contains percentage of gross domestic product (GDP) data on trade, foreign direct investment, and portfolio investments as well as income payments to foreign nationals and capital employed; this portion of the economic sub-index acts as a proxy for how much a country “employs foreign people and capital in its production processes” (Dreher 2006: 1093). The portion that measures the level of state restriction on trade and capital consists of hidden import barriers; mean tariff rate; taxes on international trade; and capital account restrictions (Dreher 2006). I rely on the economic sub-index as a whole because it measures the level of overall economic integration and in part due to data constraints involving the economic restrictions data portion. The economic sub-index serves as a proxy for whether states implement policies that lessen restrictions more generally in order to be seen as improving the competitive environment for TNCs, and thus for themselves.\textsuperscript{99}

\textsuperscript{97} As the principle for this index, Dreher (2006: 1092) describes globalization as “the process of creating networks of connections among actors at multicontinental distances, mediated through a variety of flows including people, information and ideas, capital, and goods.”

\textsuperscript{98} Economic integration is one way to consider the degree to which the neo-liberal economic agenda is championed.

\textsuperscript{99} I had wanted to use only the economic restrictions portion because I feel overall it is a better representation of the NEA concept used here in that by only providing restrictions it only covers policy input and not policy output. However, narrowing the focus of the data led to a sharp decrease in the number of countries in the study.
According to Dreher (2006) the sub-index is converted to a scale of one to 100 (one is the minimum and 100 the maximum). Higher ratings translate as higher levels of economic globalization. For periods of missing data, Dreher substitutes the latest data available for the border of the period missing. In addition, he adjusts the weights for data missing over an entire sample period. If more than one-third of the underlying data are missing, then that observation is reported as missing. The data were obtained from KOF’s Website for 1988-2004 (Dreher 2006).\(^{100}\)

In order to use this index in fsQCA, I calibrated it into a fuzzy set with scores ranging form 0 to one, with one representing full membership in the states with high levels of economic integration, i.e., states that have implemented the neo-liberal economic agenda according to the theory of liberalization, deregulation, and privatization—the main ways to eliminate economic barriers to business. Before doing that step, though, I had to determine the full membership and nonmembership thresholds and the cross-over point. I first considered the thresholds used by the Heritage Foundation and Wall Street Journal’s Index of Economic Freedom (IEF) (Kane, Holmes, and O’Grady 2007).\(^{101}\) The IEF is broken into the following categories:

\(^{100}\) Appendix C lists the countries for which these data are available.

\(^{101}\) The IEF is based on calculating the economic freedom individuals have. The individual categories that are then integrated into the overall index are geared to measuring how open the business, trade, and financial sectors are, e.g., for entrepreneurs. While it is impossible to simply aggregate from the individual level to the state level, it is possible to draw similar conclusions regarding cut-off points to examine which countries have more open economic systems and why they are more open. I rely in loose terms on the categories created by the scaling of this index and make no claims about an automatic translation between the individual and state levels of analysis. While the groupings may
1. Free (80-100)
2. Mostly Free (70-79.9)
3. Moderately Free (60-69.9)
4. Mostly Unfree (50-59.9)
5. Repressed (0-49.9)\(^2\)

I modified these categories a bit to accommodate a ‘moderately unfree’ category (in this project, a ‘moderately low level of economic integration’ category) in order to capture more variation in country strategies. I also included a cross-over point. The scale became the following (with full membership in the target set listed first):

1. Very High Economic Integration (85-100)
2. High Economic Integration (70-84.9)
3. Moderately High Economic Integration (60-69.9)
4. Moderately Low Economic Integration (50-59.9)
5. Low Economic Integration (40.1-49.9)
6. Very Low Economic Integration (0-40)

The calibration is based on a full membership threshold of 85; a full nonmembership threshold of 40; and a cross-over point of 60. I argue that the ideal-type NEA looks for

\(^2\) In previous editions of this Index, the categories were based on a 1 to 5 ordinal scale. When this scale was converted to a scale of 100, the result was the five categories listed here (Kim 2007).
countries to reach a score of 100 in terms of having a completely open market. While IEF stipulates 80 as the threshold for membership in the free economy category, I use a higher criterion with a threshold of 85 because the ultimate goal is presumably 100 for each country individually, rather than a relative comparison between countries, which is the IEF measure’s base. In addition, I have not converted my scores from an ordinal scale of 1 to 5, so I have more flexibility in making my threshold higher. The threshold of 40 for full nonmembership reflects countries that have not yet made the halfway mark to the ideal goal of 100. The cross-over point of 60 demarcates countries that have solidly made it past the halfway mark to the ideal goal; countries above 60 are closer to attaining full membership in the group of countries that have high levels of economic integration than countries that fall below the 60 mark.

It is important to note that much of the work done on the neo-liberal economic agenda and its key components has been based on relative measures in terms of comparing countries at a given point in time relative to each other. These relative measurements can be seen, for instance, when one scholar states “in an international context the goal posts are in fact moving” (Noorbakhsh 1998: 552) such that when countries are compared, others claim “if on average the world is quickly becoming more globalized, a country whose integration is below the world as a whole has been left behind” (Martens and Zywietz 2006: 335). I argue, however, that proponents of the NEA might look at the world relatively but there is also a very compelling motivation for countries to think they need to reach a ‘totally’ free market system regardless of what other states are doing.
Comparing countries within the current system does tell us which country has lower economic restrictions and so on. However, it does not tell us how close the countries are to reaching the ideal-type open economy in the global marketplace. That is the key reason to compile a fuzzy set using external standards.

To illustrate the index, most countries showed a general increase in their rankings in terms of level of economic integration. Some countries changed categorical ranking (e.g., China moved from “low” economic integration in 1989 to “moderately high” in 2004; similarly, Poland moved from “low” to “high” in the same period). Other countries became more economically integrated but remained in the same category over the period of the study (e.g., Rwanda became more integrated but not enough to move out of the “very low” category; Mexico remained in the same category over the period, “moderately low”). Of all the countries on the index, eight showed a decrease from 1989 to 2004: Fiji, Kuwait, Malawi, and Namibia decreased enough to move to lower categories while Norway, Oman, Mauritius, and Switzerland decreased in level of economic integration but not enough to change categories. In any given year, Luxembourg ranked as the most economically integrated with Bangladesh the lowest ranked except for the last year of the study when Iran becomes lowest ranked. The scores on the index reflect an overall increase in global economic integration with some countries making jumps, others making hops, and others remaining about the same with a handful becoming less integrated over time.
Strong National Security Exception (sNSE):
Overall, the national security exception in this project is about states providing protection for business in ways that privilege military industry over civilian industry.\textsuperscript{103} I am not trying to measure when this exception is applied in other aspects or segments of society but rather when it is applied specifically to further business interests and a state’s competitive position in the global political economy.\textsuperscript{104} In particular, the strong national security exception (sNSE) occurs when governments take action to privilege military industry over civilian industry in the name of national security. Staples and Pemberton (2000) argue that nearly all countries rely on the NSE in general to provide direct assistance to their own military industries, though countries do not usually claim the NSE as a basis for this support, and when they do they most often are not prosecuted for providing subsidies or imposing tariffs and non-tariff barriers.\textsuperscript{105}

One of the primary ways the military industry generates revenue and profit is though the arms trade.\textsuperscript{106} For this project, I rely on an export ratio developed by the World Military

\textsuperscript{103} Military industry is not a set group of companies or products but rather a “loosely defined group of companies in a variety of industrial sectors” (Surry 2006: 16).
\textsuperscript{104} There are other types of applications of the national security exception than just those involving military industry. For example, the NSE can be invoked in courts of law to force or inhibit witness testimony. See ACLU (2007) for insight into the national security exception and limitations to journalists and free speech.
\textsuperscript{105} For example, there have only been four cases challenging the NSE brought to the World Trade Organization (and formerly, the General Agreement on Tariffs and Trade) for formal dispute settlement since the late 1940s (Staples and Pemberton 2000).
\textsuperscript{106} While there are no systematic data available to measure most sectors that produce for the military (e.g., production in tents, food, boots, etc.), there are data available on arms trade for the period of my study (World Bank 2007). Though focusing on only the arms trade might seem narrow, if anything, the arms trade underestimates the application of the sNSE by excluding a broader range of sectors that include military products and services.
Expenditures and Arms Transfers (WMEAT). This measure comprises arms exports as a percent of total exports and illustrates what emphasis states put on their arms industry as a part of their overall export policy (US Department of State 2003a).\textsuperscript{107} Exports are an important way to gain competitive advantage in the global political economy. If countries are emphasizing arms exports as a part of their larger export policy, then the arms industry gets special attention, meaning there is likely to be a privileging of the military industry over civilian industry for a few reasons. First of all, countries can privilege their military industries because the NSE by definition allows countries to provide direct and indirect subsidies to military industries that are not allowed to civilian industries. Secondly, the NSE is largely seen as untouchable, self-defined, and normal such that countries want to provide special privileges to their military industries and can themselves determine what this provision means and what it covers. For these reasons, I measure a country’s arms exports as a proportion of its total exports to indicate how important the arms industry is to a country’s overall export policy, and therefore to its

\textsuperscript{107} There has been no systematic data collection on any of the components that comprise the strong version of the national security exception (sNSE) in my theory (tax loopholes, export assistance, R&D, and guarantees) as well as on other ways of seeing the sNSE in action such as via limits on bidding. The only country that has released to the public some of the information for at least part of the period covered by my study is the US, though this information has yet to be compiled in a dataset. There is some information on the United Kingdom and some but even less on a handful of other countries, mostly advanced industrialized countries. Further, because of the broad definition of the NSE in general and because of the assumption of self-judging what the NSE means to each country, it is difficult to measure the NSE precisely (Waldrop 2004).
overall economic policy of gaining a competitive advantage in the global political economy.\textsuperscript{108}

The higher the percentage of arms exports in terms of total exports, the more important the arms industry is to a country’s economic policy and the more a country relies on the NSE to forward this policy.\textsuperscript{109} For example, in looking at Brazil and Russia, we can assume both countries have some level of protection for their own military industries. In 2004 Brazil’s arms exports were 0.08 percent of its total exports. In the same year, Russia’s were 5.13 percent. I argue that because Russia relies more on its arms exports, it likely has a larger amount of state support in terms of the sNSE and direct and indirect subsidies to its military industry. In general, a trend of increasing or decreasing arms exports as a percent of overall exports can illustrate how much emphasis a country puts on its arms exports policy at a given time. This emphasis translates into subsidy supports for military industry.

There is a key hurdle with relying on arms exports as a proxy for measuring subsidies to military industry. Not all countries that have high arms exports necessarily have a

\textsuperscript{108} Mansfield and Pevehouse (2000) argue that a common gauge for commercial dependence between countries is the ratio of bilateral trade to GDP. It is similar logic to consider one part of trade (arms exports) as a proportion of its whole (total exports) to measure dependence on that particular sector. The ratio I use is referred to as the export performance ratio and measures the extent to which countries value a particular industry as part of their overall export strategy (Balassa 1965). The higher the export performance ratio for arms, the more subsidies are in play.

\textsuperscript{109} For an interesting case study on China’s arms industry as partly about assisting China’s global political economy position, see INSS (1995).
military industry to speak of.\textsuperscript{110} While these countries might manufacture military-
support items such as tents and boots for soldiers, and the like, it is possible their arms
export performance ratio significantly outpaces their military-support industry. For
example, in 1994 and 1997 Moldova had ratios of 9 percent and 38 percent, respectively.
Yet, Moldova does not have a manufacturing capability for the large weapons systems
that would be necessary in order to reach the arms export performance ratios it did. In
order to account for discrepancies between high ratios and known capability (or lack
thereof), I manually recorded whether a country exported new or modernized equipment
or exported used or second-hand equipment.\textsuperscript{111} For those countries exporting the latter, I
treated their arms export performance ratios as non-existent. The assumption here is
countries that are exporting their old equipment, as Moldova did in 1994 and 1997,
already own the equipment and are not providing any kind of subsidy to the military
industry to produce and export that equipment.

There are almost no references to any kind of external standard on which to base
calibrations for transforming the data into fuzzy set format. I also did not find actual
interpretations of this ratio as it pertains to arms exports other than to measure relative
differences between countries. I did find one reference in which an export performance
ratio greater than 1 percent of total exports implies a competitive advantage for that

\textsuperscript{110} Appendix D lists the countries coded for the sNSE condition.
\textsuperscript{111} SIPRI (2008c) produces a trade register in its annual yearbooks in which there is an
appendix that lists all the known world weapons exports. These lists include supplier and
recipient/licenser countries; year ordered; year delivered; weapon category; type of
export (new versus used or second-hand); and number ordered and exported. I recorded
information from these registers for the years 1989 to 2004.
country in the industry being measured (Belassa 1965); I apply this reference point to the arms industry. I assigned 1 percent as the threshold for full membership in the category of countries with high arms export ratios. The cross-over point is 0.099 so that the full range of most countries with known strong military industries falls between 0.1 and 1 percent and because it is assumed countries provide subsidies regardless of the level of military industry that is present. Further, full nonmembership in the category of countries with high export ratios and therefore high levels of subsidies to military industries was left at zero. The fuzzy set calibrations were calculated after converting the data to constant (2000) US dollars. The data are from the World Development Indicators for 1988 to 2004 (World Bank 2007).\footnote{I considered weighting the export ratios with country GDP/world gross product and found this weighted measure actually indicated how much arms exports impacted overall economic size. It seemed to be measuring the impact of export policy rather than the policy itself, that is, rather than whether countries value arms as part of their export policy, and therefore competitive strategy, and provide subsidies. I decided to stick with the WMEAT indicator without the weight for size of economy.}

Weak National Security Exception (wNSE):
Whether or not the strong version is applied, a weak national security exception (wNSE) exists when states sign onto agreements and policies that allow for the privileging of military industry; in this case, these policies are reflected in trade agreements and sectoral restrictions. As with other types of data pertaining to the global military industry, accessible data on sectoral restrictions are non-existent. As for trade agreements, however, Kathy Powers and Gary Goertz (2005) have begun compiling a comprehensive list of trade agreements via the Regional Economic Institutions (REI) Project, making it
possible to begin coding the presence and absence of the national security exception in
different types of trade agreements and related documents.\textsuperscript{113}

International trade agreements\textsuperscript{114} since the 1947 General Agreement on Tariffs and Trade
(GATT) have included national security exceptions such that countries can overlook or
flout trade agreement criteria that restrict direct and indirect subsidies and other types of
privileges should countries deem it necessary to protect national security. In addition,
national security is self-defined by each country.\textsuperscript{115} Looking at the various types of NSEs
written into trade agreements shows how widespread the view is that national security
cannot be precisely defined as well as shows how the neo-liberal economic agenda’s
open, free-market trade tenet can be disregarded in the name of this self-defined NSE. I
consider this version a weaker exception (compared to the strong version stipulated
earlier) because the NSE in trade agreements is not necessarily applied but rather is a
latent element that can be accessed when deemed in a country’s national interest.

\textsuperscript{113} I was allowed generous remote access to Kathy and Gary’s electronic files of the
treaties they are coding for their REI project. In return, I am providing Kathy and Gary
with my coding of the NSE in trade agreements. To my knowledge, I am the first to
systematically code the presence and absence of NSEs in multilateral trade agreements
and related documents.

\textsuperscript{114} I am concerned with international trade agreements and related trade documents that
are internationally binding because the nature of the research question has to do with
competitiveness in the global political economy. As with focusing on arms exports to
capture the international element, here I focus on external trade agreements and related
documents. For a description of internal trade agreements and security exceptions, see the
Treasury Board of Canada Secretariat (2003). I alternate between ‘trade agreements’ and
‘trade documents’ for flow purposes, not substantive ones.

\textsuperscript{115} According to the Australian government, “[e]very free-trade agreement gives its
members the right not to apply the provisions of the agreement in specified circumstances
by invoking general or security exceptions” (Goode 2005).
Countries can act by granting tacit approval even if the NSE is not invoked. While this perception is similar to the sNSE, it differs in that in the wNSE the implied nature of the exception remains more in the background than the sNSE, which is based on active policy generated by states. The wNSE is often relied on but not actually used directly, and it is considered normal and natural which in large part contributes to its unquestioned and ubiquitous presence in trade agreements.\textsuperscript{116} In addition, depending on what is categorized as a trade agreement, not all trade documents between countries necessarily contain an NSE, but a majority of them do.\textsuperscript{117}

The national security exception stipulated in trade agreements allows countries to sidestep other obligations contained in these trade agreements if procurement is deemed to be in the interest of national security (Treasury Board of Canada Secretariat 2003). National security is loosely defined, often containing vague language such as “security interests,” “emergency,” and “necessity” without providing clear examples or definitions.

\textsuperscript{116} In many trade documents, this exception is placed at the end of the document separate from a more extensive general exceptions article or category. In other words, it typically stands out. There also is variation among countries. For instance, while the US, Canada, and Mexico all belong to the North American Free Trade Agreement (NAFTA), Mexico has one fewer NSE than the other two countries. The NAFTA document has an instance each for the US and Canada in which those countries are granted an NSE directed specifically to them.

\textsuperscript{117} Trade-related documents without NSEs were coded separately from those with an NSE. Because of the role of perception in this study, it is not possible to apply tacit approval to spending priorities if no tacit approval is evident. I want to test if the absence of an NSE in trade documents has an impact just as I am testing if the presence does. The two measures, then, concern whether the presence of a latent NSE contributes to military spending priorities by also testing for absence. There is more variation among countries on whether they signed trade agreements with NSEs and how many, than there is among countries that have signed trade agreements that do not stipulate an NSE.
of these words (Schloemann and Ohlhoff 1999). The typical wording usually mirrors the
NSE as stipulated in Article XXI of GATT\textsuperscript{118} and often resembles the following:

Nothing in this Agreement shall be construed

(a) to require any contracting party to furnish any information the
disclosure of which it considers contrary to its essential security interests; or
(b) to prevent any contracting party from taking any action which it
considers necessary for the protection of its essential security interests
   (i) relating to fissionable materials or the materials from which
they are derived;
   (ii) relating to the traffic in arms, ammunition and implements of
   war and to such traffic in other goods and materials as is carried on
directly or indirectly for the purpose of supplying a military
   establishment;
   (iii) taken in time of war or other emergency in international
   relations; or
(c) to prevent any contracting party from taking any action in pursuance of
   its obligations under the United Nations Charter for the maintenance of
   international peace and security. (WTO nda)

In part because all members of the WTO except Mongolia belong to some sort of RTA
(showing the growing importance of these agreements)\textsuperscript{119} and in part because of time
constraints, this study concentrates on pluralistic Regional Trade Agreements (RTAs) and

\textsuperscript{118} With varying language specific to the NSE, the WTO umbrella agreement covers six
other agreements that have NSEs, though I focus on regional trade documents in this
study. Further, at least one government outright recommends word-for-word inclusion of
the more comprehensive version of the WTO security exception language into trade
agreements to streamline the updating process when WTO agreements are modified more
generally; at the same time, other language is acceptable too (Goode 2005). In addition,
countries tend to copy the NSE language because using the same or similar language cuts
down on possible legal technicalities. It is also easier to later update domestic and
regional documents if the language is standard.

\textsuperscript{119} However, because of document availability and language constraints not all RTAs
were coded for this project. Further, while countries belong to some sort of RTA, there is
variation among how many RTAs any country may have signed. See Limao (2005: 1) for
the Mongolia reference.
the various types of internationally legally-binding documents that fall within RTAs more generally.\textsuperscript{120} The files provided from the REI Project specifically contain these types of agreements as well as other documentation related to these agreements.

In terms of justifying this choice theoretically, Crawford and Fiorentino (2005) claim countries join regional trade agreements (RTAs) for economic, political, and security considerations. For economic reasons, which is most pertinent to the current project, states see joining RTAs as making it easier to gain access to market share at the regional level such that “…some countries argue that their participation in RTAs provides a competitive spur to liberalization at the multilateral level by promoting trade liberalization on multiple fronts, as a means of maintaining market access opportunities in the absence of MFN-driven liberalization” (Crawford and Fiorentino 2005: 16).\textsuperscript{121} These authors further state that joining RTAs “…may confer long-term advantages in a market and may enable a supplier to steal an irreversible march on the competition” and can be seen as “a means of securing foreign direct investment” particularly if a country has lower labor costs (Crawford and Fiorentino 2005: 16) which goes to show why transnational corporations might support trade liberalization via trade agreements, too. For developed countries, RTAs can be seen as “leveling the playing field” and as investment protection; for developing countries they are considered to promote economic

\textsuperscript{120} Future work could include other types of trade agreements that might enhance a country’s position in the global political economy, e.g., bilateral trade agreements and agreements between RTAs. Powers and Goertz (2004) exclude RTAs between non-state actors and states; RTAs between non-state actors (e.g., RTAs between RTAs); and bilateral RTAs, as well as the global WTO.

\textsuperscript{121} “MFN-driven liberalization” is at the global level as seen with the WTO.
growth and bring in infrastructure investment (Schott 2003). In addition to these reasons, Mansfield and Pevehouse (2000: 779) claim countries join pluralistic trade agreements because they “frequently expect to enhance their position in international economic negotiations, since in relation to third parties they are likely to exert greater leverage as a group than individually” thereby contributing to their competitive advantage.

RTAs are not necessarily within the same geographical region and they tend to develop into their own mini-trade regimes (WTO ndb), which also make them amenable to measuring the quest for competitive advantage. There are a variety of pluralistic RTAs that cover all levels of economic integration from simple tariff reductions between countries to full-blown single markets.122 Building upon Powers and Goertz (2005), I coded all trade-related documents included in the REI database, not just the treaties, because many of these documents are internationally legally binding. The documents I coded include examples from all levels of economic integration and show variation on whether or not an NSE was incorporated.123 Relying on the basic tenets of the Possibility Principle (Goertz 2006; Goertz and Mahoney 2006), I was able to determine which documents should be included in the study regardless of national security exception.

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122 For the current project, the level of economic integration is unimportant as most types of integration had both the presence and absence of NSEs. Only common market integration did not exhibit an absence of an NSE; however, this aberration may be because of the smaller size of this dataset and lack of coding for documents in some languages, especially Russian and Ukrainian. Without the translation, I am unable to know how many RTAs that are relevant for this project were left uncoded.

123 In some instances, the trade document referred to a protocol or law that would be written in the future (because of the original trade document) and would specifically contain a national security exception.
status. I differentiated between those documents that provide a broad agreement for states to integrate versus those documents that at least lay out some specifics regarding how and when that integration is happening.\textsuperscript{124} By definition, it is not possible for the type of national security exceptions I use in my study to be included in trade agreements and other documents unless some level of tariff reduction and other trade-related economic integration specifics are provided; otherwise, what is being “excepted”? In many cases the documents that I initially thought were related to my study only set out to establish the institutions or organs of the intergovernmental organization that would oversee the economic integration but without providing any specifics that would impact trade relations \textit{per se}. In these cases, I found it “impossible” to consider the inclusion of an NSE because there was no inclusion of trade-related language more generally. Rather, an NSE can only be present if the document stipulates trade-related language, specifically language that provides for some amount of actual decrease in tariff and non-tariff barriers to be implemented in accordance with that document. Therefore, all documents that specifically focused on institutional arrangements or issues not directly related to trade

\textsuperscript{124} It is important to note here that while trade agreements do contain these exceptions (Goode 2005), I found several situations where trade-related documents do not necessarily include the security exception. I attribute this discrepancy to how narrowly “trade agreement” is typically defined. I also excluded all documents that replaced previous documents that already had NSEs. There are several instances in which other language in the document is changed but the NSE itself stays in place. For example, since 1957 countries in Europe have revised the original treaty that forms the current European Union. However, it would be misleading to code, for example, Denmark as presently being involved with multiple NSEs from previous versions of the European agreements on community and union since subsequent agreements replace earlier versions.
(e.g., recognition of foreign driver’s licenses) were excluded from the final coding. In this manner, there are documents included that do not have NSEs but are still relevant to my project. Overall, for the project’s time period, 32 of the REI Project’s documents are relevant, 26 of which contain at least one NSE.

To represent the weak national security exception, I coded for two different variables, one for presence and one for absence of an NSE in the trade documents. Since I seem to be the first to code RTAs and NSEs in terms of each other, I was unable to find an established external standard from which to calibrate that would account for countries with simultaneous membership in RTAs that separately have presence and absence of NSEs. While the argument for a cumulative effect of tacit approval in RTAs with an NSE can be made based on the idea that the more times approval is present or perceived to be present, the more a country can act on it, the same cannot be said for absence of an NSE. Rather than being a negative NSE that outright forbids the use of the exception (which

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125 I included two ASEAN documents that were more general about trade arrangements but did include NSEs because these documents established/reinforced intent. There are several instances in which the same international governmental organization has more than one document coded each. In these cases, the more current documents do not replace previous ones but instead contain different information or coverage than the original. For example, ECOWAS member states signed a separate energy protocol that also contains an NSE.

126 I included those documents that stipulated the future writing of an NSE because anticipation of an NSE can be treated as the existence of an NSE when considering perceptions. I also coded those documents that contained specific trade-related liberalization language but did not have an NSE.

127 Appendix E provides a document list and the corresponding trade regimes for the documents coded for this study.

128 I have not actually come across a trade agreement that outright denies the use of an NSE to the signatories.
could have a cumulative effect similar to the presence argument, the two of which might even cancel each other out if they appear in the same years), RTAs that lack an NSE just lack one. There is no language that even refers to the exception in terms of its absence; it is simply left unmentioned. For this reason I coded the presence of an NSE according to how many NSEs each country had signed onto in a given year. Separately, the absence variable was coded only once for each year regardless of how many RTAs lacking NSEs a country had signed in a given year.\footnote{There are four RTAs in my dataset that lack NSE language, whether it is an outright NSE or the stipulation of one to come. These are the Executive Program of the Agreement on Facilitating and Developing Inter-Arab Trade for Establishing Pan-Arab Free Trade Area (of the Arab League); the Unified Economic Agreement (of the Gulf Cooperation Council); the Amendment to East Caribbean Common Market Agreement (of the Organization of Eastern Caribbean States); and, the Agreement on SAARC Preferential Trading Agreement (SAPTA) (of the South Asian Association for Regional Cooperation).}

The presence indicator includes an NSE or the stipulation of a future NSE and was coded as follows then converted to a scale of 0 to one:

\[
\begin{align*}
0 &= \text{no RTAs with NSEs} \footnote{These countries include: no signed RTA; irrelevant documents; no original documents; and, documents I could not translate.}\footnote{These countries include: no signed RTA; irrelevant documents; no original documents; and, documents I could not translate.} \\
1 &= \text{one NSE present} \\
2 &= \text{two NSEs present} \\
3 &= \text{three NSEs present} \\
4 &= \text{four NSEs present}
\end{align*}
\]

These numbers were calibrated with “4” as full membership in the target set of countries with high levels of RTAs with NSEs in a given year. Full nonmembership in this target set was the obvious “0” with countries that had not signed RTAs with NSEs. The cross-
over point of “1.5” split the data groupings to reflect a cumulative effect such that
countries with one RTA would be more out of the target set but countries that have at
least two would be approaching membership in the target set. I chose 1.5 so that no
countries were directly in the category of ambiguity (0.5 in calibration).

The absence indicator was coded as a crisp set (indicating only presence and absence)
based on the lack of cumulative effect, though some countries experienced more than one
of these agreements in a given year.

International Financial Institutions (IFIs):
The International Financial Institutions (IFIs) work in collaboration with states and
transnational corporations to support their goals of competitive advantage. IFIs promote
the Washington consensus and the underlying neo-liberal economic agenda and national
security exception primarily via conditional loans and the corresponding structural
adjustment programs (SAPs).\footnote{As noted in Chapter 2, these SAPs have been renamed but even under the re-
organization, these programs remain essentially the same. The new program was
Enhanced Structural Adjustment Facilities (ESAF) but later was replaced by Poverty
Reduction and Growth Facilities (PRGF) (MacEwan 2002; Welch 2001). The programs
often include a combination of the following measures: “the adjustment/devaluation of
local currencies and/or floating of hitherto fixed exchange rates; the decontrol of internal
price systems as well as external and internal trade flows (trade liberalization); removal
of legal restrictions on private entrepreneurship; abolition of state enterprises and
monopolies in both production and marketing; reforming of banking policy, including
interest rate decontrol; cutting the state budget, including the removal of all consumer
subsidies and other social expenditures; and reduction in money supply accompanied by a
general public sector wage and salary freeze to control inflation” (Muuka 1998: np). In
addition, as this section shows, there are programs without conditions and those with
conditions have varying degrees of reform stipulations. I refer in general to these}
work to enhance markets such that the loans often lead to states restructuring to accommodate the private sector and corporate interests. The prescriptions put forth by the IFIs might vary by case, but they are drawn off the same template and therefore often do not consider individual country time and place as specifically as necessary in order to help an ailing economy (Thomas 1999). These conditions are a key back up to the Washington consensus in that in order for developing countries to access IFI funding, these countries are required to liberalize, deregulate, and/or privatize their economies (MacEwan 2002). Further, the loan conditions are put in place by the industrialized countries that manage the loans (because they manage the IFIs); these loans focus on improving government balance sheets regardless of societal impact (Welch 2001). It is these same industrialized countries that stand behind the Washington consensus.

The literature on IFI-supported programs lacks a clear consensus on whether these programs impact countries in the way intended. While there are a variety of reasons for this inconsistency, the difficult part for this project is the general lack of studies on how these programs are related to the prioritization of military spending and, therefore, how to code the indicator.\footnote{For example, see Hutchison, Michael M. and Ilan Noy (2003). In addition, there are some studies on military spending and IMF-supported programs though there are significantly fewer than those dealing with more general macroeconomic concerns (e.g., see de Masi and Lorie 1988).} In studies on the impact of IFIs more generally, there are three main characteristics that need to be considered when coding IFI-supported programs: length,
type, and size. Length is accounted for by coding the presence/absence variable as present if the program is listed as active in a given year with a one-year lag.133 Because of the focus on data collected from the International Monetary Fund (IMF), the data are based on the IMF’s Stand-By Arrangements, Extended Fund Facility Arrangements, Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and Poverty Reduction and Growth Facility.134 Some argue that it is important to separate out program type because there is a difference between structural adjustment programs and those that focus on macroeconomic stabilization (Noorbakhsh and Noorbakhsh nd; Truman 2001). I do separate out the various programs from one another because these conditions and assumptions, which are present with each IFI-related loan (Abouharb and Cingranelli 2006), vary according to level of reform required, few if any of which explicitly have required cuts in military spending.135 My theoretical argument is that IFI programs and their related conditions and assumptions work in tandem with state policies and TNCs to

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133 Most of the studies I examined do not actually show how they coded IFI-supported programs except to say they were coded as present or absent (e.g., see Clements, Rodriguez, and Schwartz 1998). In some instances there are others who provide a long list of criteria that may measure whether the presence of a program directly impacts economic growth. For example, de Masi and Lorie (1988) calculate IMF financial years into calendar years depending on what month the program started, whether it was split between years, and whether a program was formally canceled but not whether it became inoperational. I calculate program presence depending on the type of program present. More detail is provided below.

134 I focus on the IMF in particular because of how widespread its programs are and because of the accessibility of data. Further work would also include the World Bank and other similar loan programs.

135 Typically the IMF will not include military-related spending criteria due to claims of national sovereignty. Yet, when enforcing reforms in civilian areas, the IMF is setting aside national sovereignty at least to a point. This type of distinction between the types of spending is an example of the ubiquitous understanding that militaries and related industries are a hands-off zone.
maintain military spending levels. It may be of interest to determine if program type and level of reform criteria have an impact on military spending levels. In addition, at this point size does not seem important since it is the conditions and assumptions themselves, which are present regardless of the size of the program, that prohibit a peace dividend.

I coded any time one of these programs is active as present for the year with a one-year lag because Truman (2001) points out that program impacts are seen after the year they are enacted. In relation to military spending, the presence of an IMF-supported program in a given year will not impact current spending in that year. During the time period of this study, 109 countries participated in IMF-supported programs.\textsuperscript{136}

In order to calculate whether or not a country had an IMF-supported program during the study time period, I relied on IMF data (IMF various dates). Though the coding scheme developed by Hewitt and van Rijckeghem (1995) groups Stand-By and Extended Fund programs together and Structural Adjustment and Enhanced Structural Adjustment together, I separate the programs based on the amount of reform required to qualify for the program. That is, the different types of programs were coded according to whether they require structural reforms to be implemented in order for funds to be released.\textsuperscript{137} The

\textsuperscript{136} Appendix F provides a list of the countries with IMF-supported programs during at least part of the period of this study. The data are drawn from the International Monetary Fund’s annual reports from 1988 to 2004, except for 1995 which was missing from the library and not available online. Data for 1995 are drawn from the 1996 report.

\textsuperscript{137} Truman (2001) criticizes work that indiscriminately groups together IMF and World Bank programs and codes them as simply present or absent. While he considers a specific piece of research that combines all types of IMF programs with a specific type of World
programs range from very little or no reform to strong reforms. The coding also recognizes whether two programs existed simultaneously. In the event there were multiple programs at the same time, I conclude a cumulative effect and have a separate category for those programs arguing that a country with simultaneously ongoing programs might possibly see even less of a decrease of military spending than a country with only one program at a time. In the event there is more than one program in a given year but these programs do not overlap, I coded the country for the program enacted later in the year because of the two it would most likely have more of an impact on the following year’s spending decisions. The coding is as follows:

Bank program, his argument lends itself to separating out the different types of programs within a particular institution. By examining the varying levels of reform criteria, it is possible to note more than the simple presence and absence of IMF-supported programs.
0 = No programs  
1 = Stand-By Arrangement  
2 = Extended Fund Facility  
3 = Structural Adjustment Facility  
4 = Enhanced Structural Adjustment Facility/Poverty Reduction and Growth Facility\textsuperscript{138}  
5 = Simultaneous programs

In creating the fuzzy set, I calibrated “5” as the full membership threshold since it is the simultaneous occurrence of IMF-supported programs that have the most potential for the perception of explicit and implicit reform criteria (or lack thereof when considering reforms aimed at military spending cuts). The cross-over point was calculated at “1.5” in order to separate the Stand-By Arrangements, which typically have no stipulated reform criteria, from the other programs, which have varying degrees of reform criteria. The programs that fall between “1.5” and “5” comprise these varying degrees. The full non-member threshold was set at “0” for the obvious reason that the absence of an IMF-supported program means the absence of IMF-supported reform criteria.

**Contextual Conditions**

The contextual conditions set the scene within which the outcome and causal conditions operate. This study contains three: wealth, regime type, and conflict. These three contextual conditions are expected to impact military spending in their own ways. For example, in terms of wealth or economic size some consider how many resources are

\textsuperscript{138} Enhanced Structural Adjustment Facility and Poverty Reduction and Growth Facility are grouped together because the latter is essentially a renaming of the former. In 1999, the IMF broadened the program’s objective to “include an explicit focus on poverty reduction in the context of a comprehensive growth-oriented strategy” but the extent of reforms was not intensified as in earlier program changes, for example, the inclusion of the Enhanced Structural Adjustment Facility as specifically to include stronger reforms than those under the Structural Adjustment Facility (Fritz-Krockow and Ramlogan 2007).
available for states to allocate to military spending (e.g., Castillo et al. 2001); others argue the effect of investment in the military can be either positive (Baffes and Shah 1998) or negative (see Chan 1995). Regime type may matter for a variety of reasons including the role of constituents (see Goldsmith 2003); the size of winning coalitions (see Bueno de Mesquita et al. 2004); election cycle politics (Mintz and Ward 1989); issues of legitimacy (Castillo et al. 2001); and income distributions within regime type (Caverley 2006). As a context condition, conflict may impact military spending depending on the time period involved (Dunne and Perlo-Freeman 2000) and type of conflict (Mintz and Ward 1989). Each of these conditions may provide an element to the context within which the key global actors make spending decisions.

Wealth:
A country’s wealth is typically measured using gross domestic product per capita. I divided the country categories into low income, lower middle income, upper middle income, and high income according to the demarcations provided by the World Bank. I used the historical levels the World Bank lists on its website so that each year is calibrated according to that year’s cut-offs.\(^{139}\) For the high-income grouping, the full membership threshold was set at the lowest amount to qualify for “high income”; the full nonmembership threshold was set at the highest amount to qualify for “low income”; and the cross-over point was set at the highest amount for “lower middle income” qualification. I subtracted these scores from one to calculate membership in the low-

\(^{139}\) See Appendix G for a list of the annual income figures used to determine the (non)membership thresholds and cross-over points.
income group. Then, in order to eliminate the redundancy between the groups caused by using simple subtraction, I squared the scores of each of the target sets.\textsuperscript{140}

Regime Type:
A widely accepted indicator of regime type is drawn from the Polity data. These data measure “levels of democratization between -10 (institutionalized dictatorship with no democratic components) and 10 (full democracy)…” (Perez-Anibal 2005). I relied on Ragin (2008a) for the thresholds with a score of “9” for full membership, “-3” for full nonmembership, and a score of “2” for the cross-over point. The data are from the Polity IV dataset (Marshall, Jaggers, and Gurr 2005).

Conflict:
Much of the research that looks at the role of conflict uses the data from the Correlates of War Project (COW 2005). However, these data do not have the most recent years of my project so I was left to find another means of indicating conflict. I used the data from the Uppsala Conflict Data Project (UCDP 2005). I first broke out the years of my project for which minor and major conflicts existed. I coded major conflicts/wars as “1” if present for at least a month in a given year and minor conflicts including intrastate conflicts as “0.5” for a given year.\textsuperscript{141} For each year, I totaled the number representing the involvement in major and minor conflicts for each country. I then calibrated conflict by adding together the annual number of conflict types for each country.\textsuperscript{142} For example,

\textsuperscript{140} Per personnel communication with Charles Ragin, March 2008.
\textsuperscript{141} See Appendix H for the definition of conflict.
\textsuperscript{142} Pevehouse (nd) suggests breaking conflict into categories of high and low intensity in order to attain more nuanced understandings of the impact the various types of conflict have on trade. These categories also should be relevant for military spending studies.
India has had ongoing minor conflict. Coded as presence/absence, India looks much like Papua New Guinea though the latter has experienced one minor conflict at a time; India has experienced multiple minor conflicts. There seems to be a qualitative difference ignored by a crisp interpretation of the conflict data. I argue that the more conflicts present and/or the higher the level of intensity of the conflicts the higher military spending will be. Conversely, few to no low-intensity conflicts can contribute to a peace dividend.

While the presence/absence variable notes conflict status, it does not differentiate conflict intensity. By creating a fuzzy set, I can examine if conflict as a contextual condition matters depending on how intense the conflict is. I also argue that multiple minor conflicts will have more impact on military spending levels than a single minor conflict and therefore, I add together the total number of conflicts in a way that reflects level of overall intensity. For this calibration, I totaled the number of conflict units for each year. The threshold for membership in the group of states with high levels of conflict was 10 percent of the total amount of conflict in the respective year. The threshold for nonmembership in this group was 0 percent. The cross-over point was 2 percent. In this way, even if there is an increase in conflict globally, if more countries participate in minor or low intensity single conflicts, the impact on military spending will be lower than if fewer countries participate and therefore meet the 10 percent threshold. Similarly, the 2 percent cross-over point leaves single minor conflict in the group that is furthest away from high levels of conflict without actually being categorized in the same way as states
without any conflict are reported. The 10 percent and 2 percent thresholds each contain years in which no country is in the high-level conflict group nor in the low-level conflict group (four years each), reflecting variation in global conflict levels.\footnote{I was unable to find an established external standard for demarcating the thresholds for the calibration of the conflict variable. In creating my own, I considered what would seem reasonable and likely amounts for whether a state is classified as having a high amount of conflict. Smaldone (nd) totals conflict in sub-Saharan Africa to compare to other regions in order to assess if Africa is as conflict prone as often assumed. I rest my rationale on his example in that registering level of conflict can be based on percent of world total a region or country experiences.}

**Conclusion**

This chapter provided an in-depth view of the methodologies available for studies on military spending and what it looks like when the positive contributing factors or elements of the two mainstream methodological approaches (qualitative and quantitative) are synthesized into an overarching methodology called fuzzy-set qualitative comparative analysis (fsQCA). Because of fsQCA’s ability to account for substantive knowledge (for the qualitative side) and precision (for the quantitative side), I argue it is best equipped for processing the data in this study in order to test whether the causal conditions outlined by my theory are indeed present and in the combinations posited. It is possible to examine whether the presence or absence of any of my proposed causal conditions indeed impacts military spending levels in the post-cold war era.

The next chapter takes the compiled data and runs them through the most recent version of fuzzy-set qualitative comparative analysis (fsQCA). As with other methodological approaches, there are multiple steps when testing for conjunctural causality. I outline
these steps and a description of the tests I run. Once the reader understands the process involved and the steps taken, I provide the results and begin with initial conclusions in relation to the theory I developed in the first and second chapters. Chapter 6 addresses these findings and their implications.
CHAPTER 5: FSQCA AND THE PEACE DIVIDEND

The challenge posed by configurational thinking is to see causal conditions not as adversaries in the struggle to explain variation in dependent variables, but as potential collaborators in the production of outcomes. (Charles Ragin 2008a: 97)

In the previous chapter I established the basics to fuzzy-set qualitative comparative analysis (fsQCA) and its usefulness for this project. Unlike other approaches, set-theoretic approaches consider conjunctural causation and so need to be able to examine combinations of set memberships. I strive in this chapter to analyze the set relations that I theorized exist between military spending levels and states, transnational corporations, and international financial institutions. I first outline the three main components of fsQCA and the steps taken to determine causal configurations. I then apply these steps to the current project to see if my theoretical causal combinations actualize in empirical ones.

The Main Components of fsQCA
There are three main components to fsQCA: truth tables, consistency, and coverage. In short, truth tables lay out the logically possible causal combinations in different types of solutions sets\(^\text{144}\) and which of these combinations exhibit the outcome in question. Consistency and coverage are tools in which the former measures whether and to what degree the solutions found share consistent causal combinations and outcomes; the latter

\(^{144}\) The three types of solution sets are parsimonious, complex, and intermediate. I briefly explain them at the end of this section.
measures whether and to what degree the solutions actually result in or are relevant to the outcome. The following section presents these elements in more detail.

**Truth Tables**
In general, truth tables are “the set-theoretic terms for what social scientists call property spaces” (Ragin 2000: 84) and can be thought of as similar to data matrices (Ragin 1987). When first used with qualitative comparative analysis, truth tables were restricted to binary data. However, developments in recent years have led to fuzzy-set applications.

Prior to running truth tables, it is important to first assess the possible necessity of the individual conditions in the model. To do so requires plotting each of the outcomes against the individual causal conditions to measure level of consistency.\(^{145}\) If any conditions have high consistency (e.g., over 0.9), they are excluded from the truth table analysis itself but not from the recipe analysis.\(^{146}\)

In their simplest form, truth tables arrange data according to all possible outcomes on how the causal conditions can combine. These tables are set up in rows and columns. The rows indicate causal combinations and the columns indicate the presence or absence of the single variables in that combination. Each row of the truth table contains one combination and notes whether the outcome being investigated is present or absent for that combination. However, these types of truth tables are limited because they are designed for dichotomous and multichotomous sets (Ragin 2008a). Considering that

\(^{145}\) In short, consistency measures how much the cases reflect the outcome.\(^{146}\) Per personal communication with Charles Ragin, June 2008.
many of the questions addressed in the social sciences revolve around causal conditions that vary by level or degree, truth tables based on crisp sets can be inadequate.

Fuzzy sets are able to handle these varying levels and degrees. However, because fuzzy sets arrange cases according to partial membership in sets, simple rows and columns become too cumbersome. Membership score arrays may be unique making it difficult to sort cases in the traditional truth table format. Instead fuzzy-set truth tables represent vector space corners such that “analysis of the truth table synthesizes the results of multiple fuzzy set analyses” (Ragin 2008a: 109).

There are three main elements that connect truth tables and fuzzy sets. The first is the direct correspondence between the truth table rows and the corners of the vector space that the fuzzy-set causal conditions have defined.\textsuperscript{147} Truth tables “represent statements about the corners of the vector space formed by the fuzzy set causal conditions” (Ragin 2008a: 111, emphasis in original). The second element is the distribution of cases and whether this distribution is across all types of causal combinations or, if because of varying degrees of membership in the sets, means some vector space corners have strong

\textsuperscript{147} Crisp-set truth tables list causal combinations in rows based on presence or absence of the causal combination scores and the outcome. Because fuzzy sets accommodate varying levels or degrees of membership in causal conditions and causal combinations, fuzzy-set truth tables are in the form of vector space with corners. Membership in the vector space corner rests on the lowest membership a case has in any of the causal conditions of the resulting combination. See Ragin (2008a: Chapter 7) for a more in-depth explanation.
membership and some do not. Following the determination of the empirical relevancy of the causal combinations, the third element is consistency in terms of whether the causal combinations exhibit the outcome and to what degree.

The subset relation shows that the causal combination and the outcome are explicitly connected. In order to assess this subset relation, the investigator first establishes the main components then constructs a crisp truth table using the multiple fuzzy-set assessment results before analyzing the table using Boolean logic. When doing this analysis, the researcher needs to remember that there are two important issues concerning the corners of the vector space of causal conditions. The first is how many cases with strong membership are in each corner. The second is how consistent the empirical evidence is in terms of whether the “degree of membership in the corner [i.e., causal combination] is a subset of degree of membership in the outcome” (Ragin 2008a: 111).

The next step in working with truth tables and fuzzy-set assessments is specifying frequency thresholds. These thresholds are key in determining which cases have strong enough membership in a combination to make a fuzzy-set assessment valid. Checking cases against the threshold for sufficiency means eliminating those cases that do not

148 When considering the distribution of cases, it is important to determine whether the existent rows are “remainders” which are logically possible combinations that fail to exhibit empirical instances either because of poor information or because they do not exist. When deciding whether to treat as remainders those rows that have a low frequency of empirical instances, larger-n studies require a higher threshold in order to mitigate possible coding errors that will remain hidden because of the difficulty of becoming intimately familiar with a large number of cases (Ragin 2008a). The issue with applying a higher threshold in this study is discussed below.
exhibit a strong enough set relationship to matter in the analysis of the outcome. As with the cross-over point for establishing membership in each target set, frequency thresholds are no less than 0.5. Membership scores in the logically possible combinations of causal conditions must attain more than 0.5 in order to be considered more in the causal combination than out. Further, scores that are more than 0.5 indicate the closest vector corner for the respective cases. Therefore, instead of sorting cases by rows on the truth table as done with crisp sets, fuzzy-set truth tables that are displayed as multidimensional vectors allow the investigator to rely on degree of membership to sort cases in terms of vector space corners.

In order to determine the frequency threshold, the researcher needs to establish a rule concerning which combinations of causal conditions to include (Ragin 2008b). This determination is based on the researcher’s understanding of the study and the evidence, and the rule rests on the number of cases that have more than a 0.5 membership in each of the causal combinations. As with calibrating the indicators into fuzzy sets, determining this threshold is based on a qualitative understanding of the study and the related data. The investigator must consider many elements including the following: total number of cases in study; number of causal conditions; degree of case familiarity; degree of calibration precision possible; extent of measurement and assignment error; and whether coarse or fine-grained patterns are of interest (Ragin 2008b). In this way, more cases in a particular corner translate into a higher frequency threshold because there may be some corners (i.e., those with memberships larger than 0.5) resulting from coding errors or
measurement issues.\textsuperscript{149} Low-frequency causal combinations and those without any strong empirical instances are treated the same.

If there are enough cases that return the causal combination and the outcome, then it is time to proceed to an assessment of the subset relation between the causal combination and the outcome. In this assessment, there are two key measures used in fsQCA to evaluate set relations and whether causal conditions or combinations of causal conditions are necessary and/or sufficient: consistency and coverage. The next two subsections discuss what these measures are and how to proceed with utilizing them.

**Consistency**
Once the empirically relevant causal combinations have been identified, the next step is to evaluate consistency. This component measures the degree to which the empirical evidence is consistent with the set-theoretic relation in question.\textsuperscript{150} Set-theoretic consistency assesses how much those cases that share a condition or combination of conditions also display the outcome such that “consistency indicates how closely the subset relation is approximated” (Ragin 2006: 292).\textsuperscript{151} As with the frequency thresholds

\textsuperscript{149} It is important to keep in mind that if a case has a 0.5 membership score on any of the causal conditions, then the maximum it can score on a combination with that causal condition is 0.5, leaving that case no more close to any particular vector space corner.

\textsuperscript{150} Ragin (2006) provides the mathematical formula on which this calculation is based. Also, it is important to keep remainders in mind because they might serve as counterfactual cases when simplifying the truth table (Ragin 2008a). The treatment of remainders plays a vital role in whether solutions are complex or parsimonious. However, it is best to avoid a solution that is too parsimonious. As we will see, intermediate solutions offer the best path.

\textsuperscript{151} Coverage, as discussed below, is the key remaining component and needs to be kept in mind while calculating consistency.
in general, higher levels of consistency can make a stronger argument. Typically, any
score below 0.75 makes it difficult to argue that a substantive relation exists.152 The
number of cases also is integral in assessing consistency in that a high level of
consistency with few cases involved will be “less impressive” than a larger number of
cases overall but with a lower but substantial level of consistency (Ragin 2006: 293).

In visual terms, when membership scores are plotted, consistency for causal
combinations that are sufficient for the outcome is determined by how many of those
cases are on or above the diagonal of the plot. If membership scores are consistently
lower than or equal to membership scores in another set at least 80 percent of the time,
then the investigator can claim that that particular causal combination is nearly always
sufficient for the outcome. With fuzzy sets it is possible to consider whether cases have
strong or weak membership in a causal condition; for both consistent and inconsistent
cases, the stronger cases are the most relevant.

The next step is to assess consistency in terms of sufficient and necessary causal
combinations. In set theoretic terms, causal necessity can be argued for when an
investigator shows that “instances of an outcome constitute a subset of instances of a
causal condition” (Ragin 2006: 297). With fuzzy sets, this necessity is shown by the
degree that outcome membership scores are consistently less than or equal to causal

152 For my study a consistency level of 0.70 is sufficient for several reasons: my study is
exploratory; my hypothesis could be considered low probability; and, the study is
essentially large-n making the necessary in-depth knowledge of each case difficult to
have (personal communication with Ragin, May and July 2008).
membership scores. When plotting the cases, they show below the diagonal such that a low score on the cause is also a low score on the outcome. This placement means the ranges of the cause and the outcome are both low so there is more opportunity to violate the subset relation, i.e., show that the combination is not necessary. When making the assessment on necessary conditions, the investigator must consider skewed membership scores and refer to the calibration on which the indicators rest.

**Coverage**

It is possible to assess coverage only after assessing consistency. The coverage measurement looks at how much a cause or causal combination results in the outcome (Ragin 2006). Coverage may be low if there is a variety of ways to arrive at the same outcome. In this way, coverage is about the level of empirical relevance or importance of a causal combination. Because there can be multiple paths to the same outcome, the different paths are considered substitutable, i.e., they are logical equivalents of each other.

Venn diagrams are useful tools for assessing coverage and illustrating subset relations. These diagrams provide a visual means for calculating the size of overlap between sets and subsets. Fuzzy set coverage is an expression of this overlap as “a proportion of the sum of the membership scores in the outcome” (Ragin 2006: 301). In addition, as with consistency, scatter plots are good visual tools for coverage. In the event of sufficient conditions or causal combinations and coverage, any points that fall below the main diagonal are not part of the overall calculation of coverage. Only the points above the
main diagonal are considered consistent and included in assessing overlap. Coverage is determined by how close the values of the conditions or causal combinations are to the outcome value, i.e., how close the X value is to the Y-axis. The closer this value is to the outcome, the less significant the coverage actually is.

After determining consistency,\textsuperscript{153} the coverage measure can be applied to necessary conditions and causal combinations in cases where the outcome is a subset of the cause. The degree of importance or relevance of the condition or combinations depends on how much the outcome overlaps with the condition or combinations. In this way, “[w]hen coverage of X by Y is small, then the constraining effect of X on Y is negligible” so that very low coverage is a sign of an “empirically irrelevant or even meaningless necessary condition” (Ragin 2006: 303). In contrast, with substantial coverage, the condition (and/or combinations) exhibits a high level of constraint on the outcome and is a nontrivial necessary condition.

If equifinality\textsuperscript{154} is present, it is possible to assess how empirically relevant each path is to the outcome. This step is called partitioning coverage. First, if the relevant conditions or combinations of conditions are highly consistent subsets of the outcome, then it is

\textsuperscript{153} Ragin (2006: 303) reminds investigators to assess consistency of subset relations before assessing coverage because the “calculation of the consistency of a sufficiency relationship is identical to the calculation of the coverage (relevance) of a necessity relationship, whereas the calculation of the coverage of a sufficiency relationship is identical to the calculation of the consistency of a necessity relationship.”

\textsuperscript{154} Equifinality is when there is more than one condition or combination of conditions that is sufficient for the outcome.
“possible to calculate how close a case is to the outcome by finding its highest membership score among the possible paths. The degree of coverage of the outcome by this maximum score, in turn, can be calculated using the same procedures applied separately to the two components” (Ragin 2006: 305).\textsuperscript{155} The relationship between the various paths is not necessarily additive such that individually the paths may tell a certain proportion of the story, but they do not necessarily tell the combined total of those proportions when they are viewed together. In this manner, it is important to calculate both raw and unique coverage scores if there are multiple paths to the same outcome. Partitioning coverage calculations are not mathematically calculable for necessary conditions.

\textbf{Parsimonious, Complex, and Intermediate Solutions}
Once consistency and coverage of the initial input have been determined, the next step is to generate solutions made up of causal combinations, or recipes. In generating recipes, truth tables rely on a continuum of solution sets based on counterfactuals and the ease or difficulty with which they can be incorporated into the analysis. Because of the limited diversity factor, it is usual to have many counterfactuals, i.e., logically possible combinations that do not attain empirically. In fsQCA, counterfactuals are referred to as remainders, which are either left out of the truth table simplification or are included. The first option leads to solutions that may be too complex (complex solutions). The second option leads to solutions that may be overly simplified (parsimonious solutions). The best

\textsuperscript{155} Ragin (2006) compares this process to multiple regression analysis with the twist that instead of focusing on correlated independent variables, set-theoretic analysis focuses on causal conditions in light of one another rather than in isolation of one another.
route is to work with the remainders to find the intermediate solutions that cover the
parsimonious solution and incorporate the relevant conditions from the complex solution.

It is important to maintain the subset relationship between the parsimonious solution and
the complex solution while at the same time removing the condition(s) that is at odds
with existing knowledge. Ragin (2008a) explains two types of counterfactuals. The
“easy” counterfactuals are those that are counter to existing knowledge and can be
removed as illogical choices for a causal condition. On the other hand, “difficult”
counterfactuals are those that would add or remove conditions in a way that is counter to
existing knowledge. The researcher needs to carefully assess which counterfactuals work
in which way before removing conditions from solution sets. In this way, an intermediate
solution works as a superset of the complex solution and a subset of the parsimonious
solution.

Procedures
This section outlines the procedures I used in order to assess the three main components
described above and what I did to arrive at the intermediate solutions. The steps followed
in this project correspond to those presented in detail in Ragin (2008a and 2008b).

The first step was to determine whether there were any conditions necessary to the
model. I accomplished this task by using the fsQCA plot function with the outcome
variables on the Y-axis and each of the causal conditions plotted individually on the X-
axis. By assessing the lower right-hand box on the plot generated by fsQCA, I was able to
see which conditions had high levels of consistency with each of the outcomes. These necessary conditions were excluded from the truth table itself but included in the relevant recipes when conducting the full analysis.\textsuperscript{156}

I then entered the model into the truth table option in the fsQCA software (Ragin, Drass, and Davey 2007) in order to create a truth table. I worked through the truth table by eliminating combination rows that did not exhibit the outcome. Next, I determined the frequency threshold to “establish a strength-of-evidence threshold for combinations of conditions” (Ragin 2008a: 167). These thresholds are based on how strongly instances of combinations exhibiting the outcome are distributed across the vector space. The strongest cases approach 1.0 in membership in the causal combination. However, for a more fine-grained analysis that wants to examine combinations that contain a few cases can rely on lower thresholds.\textsuperscript{157} Combinations that exhibit the outcome but that are excluded from the analysis because they do not meet the threshold criteria are treated as ‘remainders’ in the fuzzy-set analysis. My threshold levels varied depending on which outcome variable I was using.

Once the threshold is chosen, the investigator needs to determine what level of consistency these causal combinations have with displaying membership in the outcome target set. The subset relation between membership in the causal combination and

\textsuperscript{156} Per personal communication with Charles Ragin (June 2008).

\textsuperscript{157} Because my study attempts to add in the missing part of the three mainstream approaches, I want a fine-grained study that can catch the most nuances. Per personal communication with Charles Ragin (June 2008).
membership in the outcome target set is used to measure causal sufficiency in terms of the outcome. Consistency in this study was generally set to be at least 0.70. This threshold is lower than usual but not so low as to make the findings suspect. After determining which causal combinations were included in the analysis, I ran the function that determines coverage (the standard analysis function). The results are presented below along with the frequency and consistency thresholds.

**Application**
This section discusses in detail how I implemented the study in fsQCA. It explains the model and the variations used in terms of country groupings based on two types of filters: country income levels (GDP/capita) and levels of democracy (polity scores). Below I describe the breakdown of the components I tested first in general and then according to the filters.

The notations used in the recipes below correspond with those used in Boolean logic, the logic on which fuzzy-set analysis is based. In the recipes, or causal combinations, “×” denotes logical AND, while “+” denotes logical OR. Parenthetical phrases mean those terms are necessary in conjunction with one another. Capital letters indicate presence and lower case indicates absence. For Boolean logic, and thus for fuzzy-set analysis, the absence of a condition can be just as necessary as its presence. For example, A*B*(C+d) is translated as the presence of A, the presence of B, and either the presence of C or the absence of D are necessary (or sufficient) in combination for the outcome to result.
The indicator abbreviations are:

- PDiv3ma = moving average of peace dividend at 3% annual
- PDiv5ma = moving average of peace dividend at 5% annual
- NEA = neo-liberal economic agenda (economic integration)
- sNSE = strong national security exception ((arms exports/total exports) – exports of old weapons), lagged
- wNSEpr = presence of trade agreement with explicit NSE
- wNSEab = presence of trade agreement without mention of NSE
- IFI = presence of IMF-supported reform program
- hiGDP = high GDP/capita squared
- loGDP = low GDP/capita squared
- Polity = polity score
- Conflict = level of conflict

The model is high economic integration, low national security exceptions,158 low IMF-sponsored program participation, high GDP/capita, high levels of democracy, and low levels of conflict. The model is first tested on the outcome for a 3 percent or more annual decrease in military spending, followed by a look at the 5 percent or more annual decrease in military spending version of the peace dividend. In fsQCA notation it is:

```
PDIV3MA = NEA*sNSE*WNSEpr*WNSEAB*IFI*HiGDP*Polity*conflict.
```

I substituted PDIV5MA for PDIV3MA when testing for the higher peace dividend.

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158 Low national security exception (NSE) is entered in three parts in fsQCA: arms exports (sNSE), membership in trade agreements with NSEs (wNSEpr), and membership in trade agreements without NSEs (wNSEab). The low NSE is measured by low membership in the first two and high membership in the last one.
In sum, the model was based on the following assumptions:

- NEA (present)
- snse (absent)
- wnsepr (absent)
- WNSEAB (present)
- ifi (absent)
- HIGDP (present)
- POLITY (present)
- conflict (absent)

Because the NEA and the NSE are in tension with each other, I included both in the model. I marked NEA as present and both the sNSE and the wNSEpr as absent to reflect the tension but also to see if my theory is correct: in general, the NSE overrides the NEA resulting in lower peace dividends.

In addition, by plotting each of the conditions separately on both of the peace dividend outcomes, I was able to determine which conditions are necessary based on their individual outcome consistency scores. I applied no filter, two GDP/capita filters, and two polity filters to calculate these scores. In terms of this model, necessary conditions varied by filter. I employed a 0.89 outcome consistency score in order to determine what was a necessary condition. Low arms exports ranged from 0.93 to 0.96 consistency (for all filter types); low IMF-sponsored program participation from 0.89 to 0.97 (for high GDP/capita and for high polity at the 5 percent peace dividend); low levels of conflict from 0.89 to 0.93 (for high GDP/capita and high polity, and for no filter at the 5 percent peace dividend); and low economic integration from 0.89 to 0.90 (for low GDP/capita
countries). These necessary conditions are then excluded from the relevant truth table procedure as will be addressed below.\textsuperscript{159}

In order to see the impact of country type on recipe composition and coverage, I next applied the two filters types. High GDP/capita countries were based on a membership of at least 0.75 in the high-income group; low GDP/capita was at least a 0.75 membership in the low-income group. High polity was based on a minimum of a 0.9 membership in countries with high democracy levels (which corresponds to a polity score of 8); low polity was calculated as no more than a 0.23 membership in the set of countries with high democracy (which corresponds to a 0 polity score).

After determining the necessary conditions, I ran the model in fsQCA to test for causal combination sufficiency. I ran the model without a filter and with GDP/capita and polity filters on both peace dividends. The necessary conditions were excluded from this step but were reinserted later to determine which recipes cover which countries and years.\textsuperscript{160}

\textsuperscript{159} Appendix I contains two charts depicting the consistency scores for the necessity tests on each of the causal conditions on each of the filters.
\textsuperscript{160} Appendix J presents each of the solution sets with their corresponding individual recipes, including for each solution set, consistency and coverage as well as the frequency and consistency cut-offs.
The Results
In this section I provide a summary of results of the tests I ran including the necessary conditions and recipes as seen in terms of the outcomes. I bring together the pertinent information drawn from the necessary conditions and from the recipes, setting the stage for the analysis in the next chapter. I include the causal combinations that were part of each solution set as well as the countries and years covered by each recipe. Each filter is allotted its own discussion space and each section has a summary of findings plus a brief remark on general conclusions. Chapter 6 places these findings in context and presents a clearer picture of what my theory explains when examined through fsQCA.

The Necessary Conditions Revisited
Before examining the various causal combinations, or recipes, it is important to consider what each of the necessary conditions might mean. The first condition in the model is economic integration. It only shows as necessary for low GDP/capita countries and it shows in the negative, i.e., low economic integration is necessary. However, there were no results for the low GDP/capita filter; while the condition might be necessary in theory, it is not possible to draw a stronger conclusion at this point.

As anticipated by the theory, the absence of high arms exports is required regardless of the filter and regardless of level of peace dividend. Whether countries are wealthy or poor, democratic or autocratic, in light of the pressures of the Washington consensus and
the national security exception, countries cannot expect high arms exports to assist in actualizing a peace dividend.\textsuperscript{161}

Another necessary condition anticipated by the theory is low participation in IMF-sponsored reform programs, at least for high-income countries for either peace dividend and for high polity countries for the 5 percent dividend. Of the high-income countries with IMF programs, the majority of them have very low participation (0.27 on the calibrated scale) if any at all, and only some years for some countries show higher IMF program participation (e.g., 0.61 on the calibration scale).\textsuperscript{162} High polity countries tend to have lower IMF-sponsored program participation (0.27 in the calibration scale). Those with high levels (at or greater than 0.89) are low-income countries with varying amounts of membership in trade agreements both with and without NSEs.

Low conflict levels are necessary for both the high GDP/capita filter and for the high polity filter and for a 5 percent peace dividend with no filter on the model. As will be

\textsuperscript{161} There are countries that have high arms exports and still manage a peace dividend. The US throughout the 1990s is a case in point and is discussed in more detail below. It is important to keep in mind that this study does not set out to explain all of military spending, and therefore, all of how peace dividends are achieved. It does, though, set out to explain what the mainstream theories miss, which is how the Washington consensus and our identity construction contribute to spending decisions. In addition, many high-arms exporting countries, especially the former Soviet republics, did not have peace dividends.

\textsuperscript{162} For example, for 1996 and 2000, Argentina was more in than out of the target set of countries with high levels of IMF program participation, the same years its membership in the high-income country group dropped to 0.77 and 0.72, respectively. Venezuela was the same for 1990, 1993, and 1994; however, when considered in the higher-income category, Venezuela is closer to the ambiguous score of 0.5 (0.64, 0.61, and 0.55, respectively) than is Argentina.
explained in more detail in the next chapter, conflict levels impact a country’s recipe membership scores. Not only is low conflict necessary on its own, it also impacts a country’s standing in the recipes that are sufficient for lowering military spending under the Washington consensus.

**Considering the Causal Combinations and the Outcomes**

By adding in the necessary conditions that were omitted from the truth table analysis, the recipes take on a more complete form. In addition, juxtaposing these more complete recipes against the outcomes shows which countries and years each recipe covers. Here, I include the recipes along with the outcome to illustrate the coverage. I also discuss membership scores by country and year in the recipes. These scores show how much a country is close to having full membership in the causal conditions as stipulated in the model (be it full membership in the presence or absence of a condition). The closer a membership score is to one in a given year, the closer the country is to reflecting the model as specified.

**The Unfiltered Model:**

- PDIV3MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict
  Kuwait 1995, 2001-2004

- PDIV5MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict
  Kuwait 1995, 2001-2003
The High GDP/Capita Filter:

PDIV3MA*NEA*snse*WNSEPR*ifi*POLITY*fsconflict
Argentina 1998
Belgium 1989-2003
Canada 1992-1999
Netherlands 1989-2000, 2002
US 1999

PDIV5MA*NEA*snse*WNSEPR*ifi*POLITY*fsconflict
Argentina 1998
Belgium 1989-2000
Canada 1993-1999
Netherlands 1989-2000
US 1999

There were no results for low GDP/capita on either peace dividend.

The High Polity Filter:

PDIV3MA*NEA*snse*WNSEPR*ifi*HIGDP*fsconflict
Belgium 1989-2003
Canada 1993-1999
Mexico 2000
Netherlands 1989-2000, 2002
US 1999

For the 5 percent peace dividend, the high polity filter did not have results with consistency of at least 0.70.

The Low Polity Filter:

PDIV3MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict
Kuwait 2004

PDIV5MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict
Kuwait 2004

There are several general observations that follow from this information. First of all, in addition to the necessity of low arms exports and, generally speaking, low IMF-

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163 Detailed discussion of the findings is presented in the following chapter.
sponsored programs and low conflict, it becomes clear that high GDP/capita is an important condition in order for this model to explain the impact the Washington consensus has on manifesting a peace dividend. High-income is either present in the recipes, implied by being the filter, or implied due to lack of results for the low GDP/capita filter.

Another observation pertains to economic integration, trade agreement type, and level of democracy. When observed, these conditions are only grouped as follows:

\[
\text{NEA*WNSEPR*POLITY} \\
\text{nea*WNSEAB*polity}^{164}
\]

While GDP/capita seems to be uniformly on the high side, democracy level varies depending on whether the other conditions are explicitly present or absent.

As for more country-specific general findings, in several instances, Belgium, Canada, and the Netherlands are not only grouped together under recipes, but examination of the solution sets also shows them juxtaposed in terms of country-years and membership scores. I will discuss the basic findings of the other countries that share these solutions sets after presenting the information on this seeming triad. These countries compare and contrast to each other in different ways. First, Belgium and the Netherlands are virtually the same on all the conditions for the 3 percent peace dividend outcome. Both slightly lower their membership scores in their respective recipes when their level of conflict

\[164\] The low polity filter implies the absence of polity.
becomes marginally elevated. When Belgium and the Netherlands differ on level of conflict, Belgium remains in the recipe while the Netherlands drops out.

When comparing Canada to Belgium and the Netherlands, Canada consistently has the lowest economic integration; the lowest or next to lowest arms exports; and the highest membership in trade agreements with NSEs. Among the three, the remaining causal conditions are identical. Yet, even with the variation Canada has the highest membership in the recipes for the years Canada overlaps with Belgium and the Netherlands. Even variation in peace dividend does not change Canada’s membership levels. Canada and the Netherlands have similar condition membership in 1991, yet Canada is not represented under the recipe. It could be because Canada has a few differences including lower peace dividend, lower economic integration, and lower participation in trade agreements with NSEs (wNSEpr).

There are three other countries that fall under the same recipes as Belgium, Canada, and the Netherlands: Argentina, Mexico, and the US. Argentina appears under the high-income filter for both peace dividends; Mexico is under the high polity recipe for the 3 percent dividend. The two filters have nearly identical recipes with the high GDP/capita filter exhibiting high polity scores as necessary. Just the opposite, the high polity filter requires high GDP/capita in its recipe. All other conditions, as described above, are identical. Argentina qualifies for the high GDP/capita cut-off of 0.75 and Mexico qualifies for the high polity cut-off of 0.9, but not vice versa. Argentina is covered for
1998 and Mexico for 2000 with very similar low recipe membership scores (0.52 and 0.51, respectively). Both recipes require high membership in trade agreements with NSEs, but Mexico’s membership in its corresponding year is higher than Argentina’s (0.95 compared to 0.65, respectively). Though their recipe membership scores are marginal and probably do not differ enough to make a robust claim, on the surface Argentina has a higher recipe membership in spite of its lower wNSEpr membership, the contrary to what Canada exhibited in relation to Belgium. This difference and its possible implications are discussed in the next chapter.

The final country in the high-income and high polity recipes is the US. It is only covered for the 3 percent dividend; the other years that it does exhibit the conditions in this recipe (i.e., 2000 and 2002), it does not experience a peace dividend. In earlier years when it does have high peace dividends, the US also has higher arms exports and at least some conflict, which seems to be impacting its wider membership in the recipes.

The last filter is for low levels of democracy. The recipes for the two peace dividends as well as the countries and years covered and recipe membership scores are identical: Kuwait 2004. This small coverage is interesting given that before applying the two filters, the exact recipe surfaced except it covered Kuwait for more years. The recipes themselves are interesting because different terms for the low polity category come into play, even though Kuwait’s membership score is fairly ambiguous (0.51). For the low polity countries, it seems low arms exports, IMF-sponsored program participation, and
conflict are required while high GDP/capita may in combination contribute to a peace
dividend at least marginally. The opposite is true for the remaining indicators, when
compared with the other recipes above. These recipes include low economic integration
and high membership in trade agreements with NSEs. When compared to the non-filter
country-years, the following is found: compared to 1995 and 2001, the other two years
Kuwait experienced slightly higher economic integration (but still below 0.5), 2004 has
higher participation in trade agreements with NSEs; and in 2003 when Kuwait’s
membership in those agreements is up, its economic integration is down. It seems there
may be a connection between level of economic integration, membership in trade
agreements with NSEs (especially for countries with high membership in trade
agreements without NSEs), and peace dividends.

**Closing Comments**
This chapter began the analysis portion of this study. After explaining the utility of
consistency and coverage in determining necessary and sufficient causal conditions and
causal combinations, I laid out the model and the key assumptions used when running it
in fsQCA for both levels of peace dividend. By relying on fsQCA and its truth table
approach, I was able to present the basic findings that form the foundation for a more in-
depth look at the role the Washington consensus plays in anomalous post-cold war
military spending. I found that low arms exports (and, therefore, lower arms subsidies)
are integral to realizing a peace dividend in the context of the consensus. In addition, low
participation in IMF-sponsored programs and low levels of conflict are necessary in some
instances. High GDP/capita also is important. The remaining conditions are sufficient but
only in specific configurations coupled with the necessary conditions. The next chapter takes these basic findings further, delving into the details and making the connections that begin to be apparent once a closer examination of the solution sets is undertaken.
CHAPTER 6: ANALYSIS AND CONCLUSIONS

[C]ommunism died this year… we can stop making the sacrifices we had to make when we had an avowed enemy that was a superpower. Now we can look homeward even more and move to set right what needs to be set right. (Former President George H. W. Bush, 1992)

The two preceding chapters dealt with methodology and results. Chapter 4 outlined the concepts used in the study, how they were measured, and the data available for those measurements. It also spent a good bit of time explaining a newer approach (fuzzy-set qualitative comparative analysis (fsQCA)) that would better address the general purpose of this study: to learn what causal factors contribute to anomalous post-cold war military spending. Chapter 5 applied fsQCA specifically to this study, i.e., finding the necessary causal conditions and sufficient causal combinations that promote peace dividends even with the Washington consensus as the dominant paradigm of the global political economy. The current chapter draws on those findings providing the bigger picture perspective of what those results say in response to the question at hand. It also is possible at this point to see what this study has to offer not only in its own right but in terms of what researchers utilizing the three mainstream approaches can learn for their own work.

The results were presented based on the recipes from two filters that isolated countries sharing the characteristic of either level of GDP/capita or level of democracy. This chapter first examines the findings for each of these filters before looking at how the two basic explanations compare and contrast. I then revisit my theory and hypotheses to see if
the findings and conclusions are compatible with what I expected to happen. As will be discussed, my theory is both confirmed and denied.

**General Conclusions**

There are several general conclusions that can be drawn from the results presented in the last chapter. I first present those that pertain to the study more generally. Then I present those that are particular to recipe groupings, ending with those that fit across recipes but not to the whole of the model *per se*.

To revisit, low arms exports (regardless of filter and peace dividend), low IMF-sponsored programs (for high GDP/capita and high democracy levels), and low conflict levels (for high GDP/capita and democracy as well as the 5 percent peace dividend on the nonfiltered version) are necessary for peace dividend under the Washington consensus. These conditions are fairly straightforward and work as predicted.

The remaining conditions (economic integration, polity level, and trade agreement type) vary together. Whether polity is directly stated in the recipe or implied based on filter (high democracy versus low democracy), either one of the following combinations, but not both, appears at any time in a single recipe:

```
    NEA*WNSEPR*POLITY+
  nea*WNSEAB*polity
```
These combinations suggest that signing trade agreements in general brings more linkages between countries (possibly a contributing factor to peace dividends) though very few highly integrated economies have signed trade agreements without NSEs. Those that have signed these trade agreements exhibit two patterns. Either they fit the recipe above but have low GDP/capita (thus violating the necessary condition of high income levels), or they have the latter two components but are more economically integrated.\textsuperscript{165}

In addition, it is possible to have low economic integration but high membership in trade agreements with NSEs (e.g., Thailand in 2000 had membership levels of 0.48 and 0.95, respectively). From this observation, it seems high GDP/capita is the mitigating factor. If a country has a minimum amount of wealth, then level of economic integration and democracy and type of trade agreement do not matter as long as these conditions are combined so that countries that are highly economically integrated and have higher levels of democracy also have trade agreements with NSEs. On the other hand, less economically integrated, more autocratic societies need trade agreements without NSEs. It seems one aspect of attaining a peace dividend under this model, then, is that signing enough of any type of trade agreement brings country linkages so that military spending can decrease. While trade agreements vary by overall country type and how they combine

\textsuperscript{165} Saudi Arabia and the UAE are missing data on the NEA indicator. Their inclusion might change the results depending on their membership score in the countries with high levels of economic integration. In any event, few countries have high GDP/capita, low economic integration, low polity, and high membership in trade agreements without NSEs, limiting the countries that can be possibly covered.
with other country characteristics or conditions, certain combinations of these conditions can lead to peace dividends.

When looking by filter, there are basically two types of countries covered by the recipes that have high polity under the high GDP/capita filter: those with high levels of economic integration and those with middle-range economic integration (but above the 0.5 crossover point). Further, the higher memberships of countries with high levels of democracy under the high GDP/capita filter seen in conjunction with the low membership of the country under the low polity filter suggests that while high levels of democracy are not necessary across the board, they are rather important for this particular model, i.e., for how the Washington consensus impacts peace dividends for high GDP/capita countries.  

In terms of these same filters, revisiting the discussion regarding trade agreements with NSEs sheds even more light. This time the discussion focuses on countries that are otherwise similar but differ on whether they have high or middle-range membership in the set of countries with high levels of trade agreements with NSEs. It is possible that for high-income and high polity countries that also have low arms exports, IMF program participation, and conflict, level of membership in the set of countries with trade agreements with NSEs makes a difference in recipe membership and therefore

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166 Because high income is a necessary condition, the results presented here are applied to these types of countries. There are low-income countries with peace dividends but none of them exhibit the necessary or sufficient conditions this model asserted.
contributes to peace dividends. In the previous chapter in the examples that centered on Belgium, Canada, and the Netherlands, Canada always had the highest recipe membership scores regardless of how some of its conditions varied from Belgium’s and the Netherlands’ while other conditions were identical. The one constant difference between the three is that for the years overlapping with Belgium and the Netherlands, Canada always had a 0.95 membership score in the set of countries with high levels of trade agreements with NSEs. Belgium and the Netherlands were always at 0.65 for this set. This pattern suggests level of membership in these types of trade agreements does matter. Perhaps for these types of countries, additional linkages via NSE trade agreements actually ensures a peace dividend that otherwise might be lower when the other relevant conditions are lower. Before signing any of these trade agreements, Canada is not covered by the recipes—even in the years it has peace dividends. But once it has a high level of these agreements, its membership scores surpass those of Belgium and the Netherlands, further suggesting a role for these agreements in peace dividends.

At the same time, for countries that are in the set of high-income countries because they passed the 0.5 cross-over point but narrowly, membership in trade agreements with NSEs seems to play less of a role at least in recipe membership. Because high GDP/capita and high polity are both assumed (whether directly in the recipes or because of the filter used), it is possible to draw the broad conclusion that these trade agreements do not produce the same result in the countries that are both lower high-income and high polity. For example, Argentina has lower membership in the set of countries with these
agreements (as compared to Mexico) but it basically has the same membership in its respective recipe, which is contrary to what happens with the fully high-income countries discussed above. Perhaps these agreements need to be coupled with high economic development to work in this model. If both Argentina and Mexico had higher economic integration perhaps the difference on the level of membership in these trade agreements would reflect a difference in recipe membership and tell a different story.

Conflict also seems to play an important overall role. Not only is it a necessary condition in all the recipes, we can see its effects in otherwise nearly identical countries, for example, Belgium and the Netherlands. For all the years when the two share relevant 3 percent peace dividend recipes, these two countries’ membership scores only vary when one or both increase their membership in level of conflict.

The last general conclusions can be drawn from the results of the low polity filter. The recipes for this filter suggest there may be a connection between level of economic integration, trade agreement type, and peace dividend. It is possible that for high GDP/capita countries that also have low levels of democracy, economic integration has to be low (but closer to ambiguity than to nonexistent) along with slightly elevated membership in trade agreements with NSEs, even as they have high membership in trade agreements without NSEs. This assumption is similar to the other high-income countries in that level of membership in trade agreements with NSEs matters (unlike what we see with the high-income countries that are closer to middle-income such as Argentina and
Mexico). Part of the peace dividend for high-income, low polity countries also might be attributed to these countries forging links with other countries but linkages largely based on the absence of NSEs in trade agreements. Kuwait’s low membership in this recipe, though, makes it difficult to draw strong conclusions.

**Revisiting the Hypotheses**

In chapter 4, I presented three main hypotheses regarding the connections between the Washington consensus (via the neo-liberal economic agenda and national security exception), global actors, and military spending. In particular, these hypotheses attempted to explain the links between states, transnational corporations, and international financial institutions that employ the neo-liberal economic agenda and the national security exception (NSE) in terms of maintaining or increasing global competitiveness. I hypothesized that the absence of a strong NSE, weak NSE, and IMF-sponsored reform programs contributes to a peace dividend.

From what I found from the fsQCA results, hypotheses one and three have been confirmed. Hypothesis two was confirmed in part. In a Washington consensus-dominated global political economy, countries need low strong national security exceptions (meaning they need to support their military industries less) and they need fewer IMF-sponsored reform programs (because these programs do not address military spending levels). While trade agreement type does matter depending on levels of economic integration and democracy, the presence of trade agreements with NSEs seems to play a role in peace dividends for countries with high GDP/capita and high levels of democracy.
Those types of trade agreements have less of an impact for countries on the lower end of the high-income category. And these trade agreements seem to have less impact for high-income countries that are more autocratic, though trade agreements without NSEs also are important.\footnote{In chapter 3 I touched on a perspective that a region’s worldview matters for military spending (Solingen 1998). It is difficult to make strong regional arguments here since the recipes cover only a few countries and not any particular region \textit{per se}. However, level of economic integration (perhaps a marker of worldview) and trade agreement type show a pattern (only countries with fairly low economic integration sign trade agreements that lack NSEs) such that the two together contribute to lower military spending.}

In addition to these hypotheses, I also made claims on the contextual conditions within which countries work. As posited high GDP/capita and low levels of conflict are necessary for actualizing a peace dividend under the Washington consensus. Polity type becomes important not in the way assumed (i.e., that only higher democracy scores will lead to more peace dividends). Rather polity type is relevant depending on amount of economic integration.

The overall theory posited a tension between the neo-liberal economic agenda and the national security exception. Emphasis in the findings puts the burden for lowering military spending more on the shoulders of a low strong national security exception more generally since this condition is necessary regardless of how much a country follows the agenda. While there is still tension between the two, in terms of generating peace dividends, the tension seems to be less pronounced than I was expecting.
Final Remarks
While the findings and their interpretations generally support the hypotheses presented in this study, there are a few points that need addressing in future work. First of all, the condition measured by arms exports needs to be expanded to cover a strong national security exception in broader terms. Currently, it does not embrace the many countries with military industries that cater only to their respective domestic militaries. Since most countries do not export arms, the arms exports indicator probably is very much underestimating the impact of arms subsidies on military spending and the chance for a peace dividend. That is, this measure only covers countries that export new or modernized large weapons systems, thereby limiting how much of actual subsidies are captured by the measure. In addition, because arms exports are measured in the year the export occurred, it is not possible to capture subsidies that happened prior to the export year, such as R&D funding, thereby very likely underestimating subsidies.168

Further, it is possible that trade agreements with NSEs might depress military spending levels because they are trade agreements and not because of the NSE component. Because the NSE clause is inserted as boilerplate into trade agreements more generally, the effect I capture here may not be what I think (though I do argue about the linkages

168 In addition, because there is no good measure for lagging exports to military spending, i.e., order dates and delivery dates differ from one to six years (usually two to three); lagging the export performance ratio for previous subsidies prior to delivery is not possible. I considered tagging the order date to try to capture the time of export assistance but the order is not necessarily what gets delivered. In the end it might not match the actual export levels. I had considered using the small arms and light weapons transfer data from Norwegian Initiative on Small Arms Transfers (NISAT 2008). However these data are only available back to 1998.
trade agreements create rather than claiming it is the NSEs in these agreements that make peace dividends).

In addition to addressing these two conditions, future work needs to consider how to incorporate low- and middle-income countries. Not only may the Washington consensus more generally be working differently for these countries than for those that push the consensus, it is possible some of the conditions individually are at play with these countries. For example, trade agreements without NSEs are not a part of most high-income countries’ portfolios. They are agreements that most typically are signed by the lower-income countries in a band from Morocco to Sri Lanka including the oil-producing states of the Persian Gulf even as they differ from the rest of the countries in this band.\footnote{There is one agreement in the Caribbean that does not have an NSE but it is not included in this study because of the general lack of data for small islands states. The member countries are, however, low-income which is consistent with the overall pattern besides the Gulf states.}

There are several avenues of additional work for the general approach I set out on here. First is the pursuit of better military spending data in terms of subsidies and the strong national security exception.\footnote{This pursuit is a difficult one given the nature of military spending data (e.g., lack of transparency) that can be attributed to the “good, natural, and necessary” identity the military has and how states are considered sovereign in the traditional security arena.} Given the likely unavailability of such data in the near future, there should be a focus on proxy development. This study has shown the difficulty in using proxies for such a disparate group of countries. One possible avenue would be to focus on countries for which proxies could more easily be developed. The US has the
most data in the public arena though the US can be considered an outlier because of how
much is does spend on its military and on subsidies for the military industry. However,
looking more closely at the data for the US might provide insight into how to develop
proxy conditions for other states. Another avenue might be to look at countries that do
not export and see how they furnish their militaries; whatever equipment and personnel
materials not imported probably would be manufactured domestically.

It also would likely prove interesting and useful to utilize fsQCA with the traditional
approaches and see what new information can be teased out of those theories. Because
fsQCA finds conjunctural causation, it is possible the three existing approaches might
have more conclusive findings by looking at presence and absence in terms of necessity
and sufficiency. The discrepancies between the qualitative work and the quantitative
work might lessen with a fuzzy-set approach.

Overall, this study accomplished what it intended. By no means had I attempted to
rethink all of military spending and try to develop an approach to replace all other
approaches. Instead, I sought to explain what is missing in the other approaches out there.
Not only did I start that contribution, I confirmed key conditions for lower military
spending that had been disputed in other studies. That means there can be (and are) many
instances in which there is a peace dividend but that dividend-year is not covered by any
of the recipes here. However, it also means because of their necessity, low arms exports,
low IMF-sponsored program participation, and low conflict levels are conditions that
need further examination that is much more nuanced. For instance, in this study conflict is measured by type in terms of intra- and inter-state and for lower battle-death thresholds than the typical 1,000. I capture more of how low conflict can contribute to lower military spending both by including a measure of both internal and external conflict. I also utilize a much more complicated measure for IMF-sponsored program participation that could be useful for the other approaches.

I challenge the political science and international relations communities to examine military spending in terms similar to those outlined here. States, transnational corporations, and international financial institutions take action based on how they identify themselves and the types of actions they can take. For this reason, it is important to recognize these identities and incorporate their elements into our empirical analyses. Without these elements, how can we know the nuances of the various aspects that contribute to military spending? There are a multitude of paths down which countries can travel in order to lower military spending and actualize peace dividends. Here we learned that one group of these paths has to do with the Washington consensus and different country types. At least within the context of the Washington consensus, it seems easier for countries to make a peace dividend if they do not highly subsidize their military industries; have few or no IMF reform packages in place; and have low levels of conflict. It would be to our advantage to more closely examine the linkages I presented in this study and see what other paths open up for us to use to shift spending priorities away from heightened post-cold war military spending to the people who really need it.
In the end, this study offers some food for thought for policy-makers and regular citizens of the world alike. How do we define the key global actors and thereby shape their identities, which then impact their actions, which then either reify or challenge those identities, and so on? If the global political economy is based on competitiveness in such a way that this competitiveness becomes integral to these identities and actions, and if we define the key global actors as tied to militaries that most typically are viewed as good, normal, and necessary, how do we achieve a peace dividend? We do so by defying some of the main tenets of the paradigm that dominates the global political economy. Most importantly, we lower arms exports (and weapons production more generally). Instead of using military industries to both protect and increase the competitiveness of states and transnational corporations, we redefine these identities in such a way as to challenge the current focus on militarization. While there are other necessary means through which to lower military spending (we can lower threat, change our thinking in terms of bureaucracies, eliminate pork-barrel spending, to name a few), one of the most important steps we can take is to challenge the world model we currently employ to shift identities away from definitions and practices that leave the nature and structure of the global political economy unchanged. We can do so by removing the depoliticized version of militarization that is in place.
APPENDIX A: CALIBRATION METHODS

There are two basic ways to calibrate conditions into fuzzy sets: directly or indirectly.

Direct Method
The first step in calibrating the data by using the direct method is to start with a clearly specified target set with the three qualitative anchors necessary to structure calibration (full membership, full nonmembership, and cross-over point). Selection of these anchors is based on substantive knowledge; they are not randomly assigned, nor are they simply a result of dumping the interval-level data into a 0 to 1 scale. The cross-over point marks when cases are more in or more out of a set and it represents the maximum point of ambiguity. Once the cross-over is chosen, the next step is to generate the full thresholds for membership and nonmembership and to subtract the thresholds from the actual case amounts in order to discern the deviation score, i.e., the amount each case is from either full membership or full nonmembership, depending on which side of the cross-over point the case falls. Again, this choice is based on substantive knowledge. The third step is to calculate the degree of membership a case has in the set by translating the cross-over point into the metric of log odds. The first part of this step comprises finding the ratio of the log odds of full membership to the deviation score from full membership or nonmembership (this deviation score is simply the subtraction of the full membership or full nonmembership value from the corresponding actual data point). This ratio is the scalar. The final step is to exponentiate the product of the deviation and scalar to find each case’s degree of membership in the set.
Degree of Membership Calculation
Scalar: log odds full (non)membership/deviation score from full (non)membership

Deviation score * scalar = [deviation score*(log odds of verbal label for full membership/deviation score for full membership)]

Degree = (exp(log odds)/(1+exp(log odds))

Indirect Method
After making the initial assessment and sorting cases into target sets (based on degree of membership in those target sets), it is necessary to predict the qualitative coding for each case. Ragin suggests using a fractional logit model and provides the coding to do so in STATA with the FRACPOLY command (Ragin 2008a: 80).
Table 1: List of Countries Calibrated for fsQCA

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<td>France</td>
<td>Nigeria</td>
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NOTE: Some of these countries dropped from the final analysis due to lack of data on one or more conditions.
APPENDIX B: PEACE DIVIDEND DATA CHALLENGES

It is important to consider the various and many problems with military spending data. Otherwise, the findings may not reflect real world phenomena (Lebovic 1999). The basic problems associated with these data are: difficulty in defining military spending, both by the individual states and by those groups that report the data, and possible state deception coupled with Byzantine methods in accounting for this spending. In the first instance, defining military spending is problematic for a variety of reasons because, as with the national security exception, military spending is a self-defining endeavor for states that determine for themselves what to classify as military spending (Brzoska 1995; Lebovic 1999 and 2000). Secondly, there are a variety of ways in which states report spending. Since it is self-defined, states can determine where military spending fits (or does not fit) in budget lines; for example, some functions such as paramilitary are covered under other departments than defense even though they are clearly military related (Brzoska 1995). In addition, states can and do hide military spending in other budget areas and at times exclude some military-related information from their reports. For example, in Europe, while states are required to inform each other of their military budgets, this information is withheld from a public audience—reporting is kept secret (Brzoska 1995). Further, there is almost no inclusion of many types of costs that do not register on the regular budget, especially those costs that are classified as indirect or intangible. Civilian use of military personnel, equipment, or infrastructure and, conversely, military use of civilian

\[^{171}\] Brzoska (1995: 47) reminds readers of the secrecy often equated with military spending and the resulting ‘black programs’ that keep military-related information away from public scrutiny.
personnel, equipment, or infrastructure, for example, most often are not included in
budgets and therefore not part of the data reported (Brzoska 1995).

Reporting groups also have varying definitions and different methods for measuring the
data. The most commonly accepted definitions of military expenditures come from the
North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF), and
the United Nations (UN) (Brzoska 1995) on which key reporting organizations rely. The
Stockholm International Peace Research Institute (SIPRI) and the Arms Control and
Disarmament Agency (ACDA)\textsuperscript{172} are the two most widely used sources of compiled
military spending data.\textsuperscript{173} However, they diverge on what is included and how. For
example, their respective constant price series rely on different deflators, both of which
might inaccurately reflect prices in the military sector, and ACDA uses a different base
year each time it reports expenditures making it difficult to compare over the longer term

\textsuperscript{172} ACDA integrated with the US State Department’s Bureau of Verification, Compliance,
and Implementation (VCI) which now publishes \textit{World Military Expenditures and Arms
Transfers (WMEAT)}. I retain ACDA to maintain consistency with those sources I cite
(US Department of State 2003b).

\textsuperscript{173} I do not rely on the following sources for the reasons stipulated here: The IMF reports
in fiscal year and not calendar year making it incompatible in comparisons with calendar
year data (my other indicators are reported in calendar year); the \textit{Military Balance}
(published by the International Institute for Strategic Studies), set in volume format,
focuses on providing country profiles rather than data readily useable to assess trends and
cross-country comparisons (Lebovic 1999). In addition, the number of countries reporting
their military expenditures into the UN system is limited therefore excluding global
comparisons; ACDA, among other discrepancies, tends to have an unexplained bias in
when to include arms imports as expenditure and when to leave them out—though I also
excluded these data because of the lack of years covering my time period; and the
\textit{Military Balance} lacks a common definitional standard (Brzoska 1995).
Such differences further contribute to difficulties in replicating findings between datasets (Lebovic 2001).

Different researchers argue for different measures of military spending. The most commonly used indicator is straight-up military spending figures as reported by states from their budgets (e.g., see Mintz and Stevenson 1995). However, when used in cross-national studies, this indicator is sensitive to currency conversion rates (Goldsmith 2003). Lebovic (1999: 683) argues for measuring changes in military expenditures rather than expenditures themselves because measuring the direction of change allows for more interpretation than trying to measure “precise point estimates.” However, Goldsmith (2003: 553) claims the focus on change does not allow the analyst to “distinguish between countries with relatively high or low levels of spending” which confounds attempts to find the determinants of such levels. According to Goldsmith (2003), the defense burden (the measure of military expenditure as a proportion of national product) facilitates time and space comparisons, is not affected by currency conversion issues and general inflation rates, and allows for cross-national comparisons while measuring military spending.
Table 2: Country List Used in Calibrating Military Spending as a Percent of Gross Domestic Product (Both 3 and 5 Percent Change)

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APPENDIX C: THE NEO-LIBERAL ECONOMIC AGENDA

The Neo-liberal Economic Agenda was calibrated to measure economic integration.

Table 3: Countries Calibrated for the KOF Economic Sub-Index

<table>
<thead>
<tr>
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</table>
APPENDIX D: STRONG NATIONAL SECURITY EXCEPTION

Of the countries included in the high arms export list, I included a mix of new and modernized large weapons systems exporters. I left in the calculations those exports marked as “possibly formerly state-owned” (rather than new) when it was impossible to determine otherwise. I also included those that did not have delivery confirmations except for Peru because historically Peru had no new exports and only one year of “no deliveries listed.” It did not seem logical to include Peru’s weapons exports as new. If there are some years with data followed by years with missing data, the missing data remained blank. If all the years were missing data then those countries were marked as non-exporters since most countries do not export large weapons systems. The countries marked with an “*” reflect those that had at least one year in which they exported second-hand rather than new or modernized weapons systems. The number of these countries shows how many countries export many weapons without actually producing them. It also shows the difficulty in tracking not only weapons transfers but also weapons production.
Table 4: Arms Exporting Countries Used in Calibrating Export Performance Ratio

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<th>Country</th>
<th>Country</th>
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<td>Sweden</td>
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<td>Czech Republic*</td>
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<td>Switzerland</td>
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<td>Venezuela*</td>
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</table>
APPENDIX E: THE WEAK NATIONAL SECURITY EXCEPTION

I started with 69 documents that were relevant at first glance, meaning they were scrutinized because they seemed trade related. I eliminated those documents for which I only had the titles and no original documentation; were not in existence during the original time period covered in this study (1988-2004); and/or did not have English- or French-language versions. In total, over the course of the time period in this study, 170 countries belonged to at least one RTA with an NSE and 34 to at least one RTA without an NSE.

Table 5: List of Trade Regimes and International Trade Documents

<table>
<thead>
<tr>
<th>Trade Regime</th>
<th>Trade Document Name (Original Signing Date)</th>
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</thead>
<tbody>
<tr>
<td>Andean Pact (ANCOM)</td>
<td>Andean Subregional Integration Agreement or the Cartagena Agreement (1969)</td>
</tr>
<tr>
<td>Arab Common Market (ACM)</td>
<td>Agreement to Facilitate and Develop the Trade among Arab States (1981)</td>
</tr>
<tr>
<td>Arab League (AL)</td>
<td>Executive Program Of the Agreement on Facilitating and Developing Inter-Arab trade for Establishing Pan-Arab Free Trade Area (1997)</td>
</tr>
</tbody>
</table>

174 For the French, I was able to translate on my own. Other documents were available in Spanish, Russian, or Ukrainian. I was unable to read these documents and therefore unable to code them at this point.
<table>
<thead>
<tr>
<th>Trade Regime</th>
<th>Trade Document Name (Original Signing Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Association of Southeast Asian Nations (ASEAN)</td>
<td>Agreement on ASEAN Preferential Trading Arrangements (1977)</td>
</tr>
<tr>
<td>Association of Southeast Asian Nations (ASEAN)</td>
<td>Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (1992)</td>
</tr>
<tr>
<td>Association of Southeast Asian Nations (ASEAN)</td>
<td>Framework Agreement on Enhancing ASEAN Economic Cooperation (1992)</td>
</tr>
<tr>
<td>Bangkok Agreement (BGK)</td>
<td>Bangkok Agreement (First Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific) (1975)</td>
</tr>
<tr>
<td>Caribbean Common Market (CARICOM)</td>
<td>Treaty Establishing the Caribbean Community (1973)</td>
</tr>
<tr>
<td>Central American Common Market (CACM)</td>
<td>General Treaty on Central American Economic Integration between Guatemala, El Salvador, Honduras and Nicaragua (1960)</td>
</tr>
<tr>
<td>East African Community (EAC)</td>
<td>EAC Treaty (1999)</td>
</tr>
<tr>
<td>Economic Community of West African States (ECOWAS)</td>
<td>Treaty of ECOWAS (1993)</td>
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</table>
Table 5. Continued

<table>
<thead>
<tr>
<th>Trade Regime</th>
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<tbody>
<tr>
<td>European Free Trade Agreement (EFTA)</td>
<td>Convention Establishing the European Free Trade Association (1960)</td>
</tr>
<tr>
<td>European Union (EU)</td>
<td>Treaty Establishing the European Economic Community (1957)</td>
</tr>
<tr>
<td>Gulf Cooperation Council (GCC)</td>
<td>Implementation Procedures for the GCC Customs Union (2002)</td>
</tr>
<tr>
<td>South Asian Association for Regional Cooperation (SAARC)</td>
<td>Agreement on SAARC Preferential Trading Agreement (SAPTA) (1993)</td>
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<td>Agreement on South Asian Free Trade (SAFTA) (2004)</td>
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<tr>
<td>South Pacific Forum/Melanesian Spearhead Group (PIF/MSG)</td>
<td>SPARTECA [South Pacific Regional Trade and Economic Cooperation] (1980)</td>
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<tr>
<td>Trade Regime</td>
<td>Trade Document Name (Original Signing Date)</td>
</tr>
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<td>---------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>South Pacific Forum/Melanesian Spearhead Group (PIF/MSG)</td>
<td>PICTA [Pacific Island Countries Trade Agreement] (2001)</td>
</tr>
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Note: Trade regime names and abbreviations correspond to the REI Project as well as those used by the United Nations (Powers and Goertz 2003 and UNCTAD 2007)
Table 6: Countries Signed to Trade Documents with a National Security Exception

<table>
<thead>
<tr>
<th>Afghanistan</th>
<th>Congo</th>
<th>Iceland</th>
<th>Morocco</th>
<th>Sri Lanka</th>
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</table>
Table 7: Countries Signed to Trade Documents without a National Security Exception

Afghanistan  
Algeria  
Antigua and Barbuda  
Bahrain  
Bangladesh  
Bhutan  
Djibouti  
Dominica  
Grenada  
India  
Iraq  
Jordan  
Kuwait  
Lebanon  
Libya  
Maldives  
Mauritania  
Montserrat  
Morocco  
Nepal  
Oman  
Pakistan  
Qatar  
Saudi Arabia  
Somalia  
Sri Lanka  
St. Kitts and Nevis  
St. Lucia  
St. Vincent and the Grenadines  
Sudan  
Syria  
Tunisia  
UAE  
Yemen
APPENDIX F: INTERNATIONAL FINANCIAL INSTITUTIONS

The causal condition regarding the presence of international financial institutions included Stand-By Arrangements, Extended Fund Facility Arrangements, Structural Adjustment Facility, Enhanced Structural Adjustment Facility, and Poverty Reduction and Growth Facility (IMF various dates). Table 4.6 presents those countries that had at least one of these programs in place in at least one year of this study, though many had more than one program and for much longer than one year.
Table 8: Countries with IMF-Sponsored Programs

<table>
<thead>
<tr>
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<td>Ukraine</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Mexico</td>
<td>Uruguay</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Moldova</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Dominica</td>
<td>Mongolia</td>
<td>Venezuela</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Morocco</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Mozambique</td>
<td>Yemen</td>
</tr>
<tr>
<td>Egypt</td>
<td>Nepal</td>
<td>Zambia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>
APPENDIX G: WEALTH

Wealth was measured according to country income level each year.

Table 9: Country Classification by Income Level

<table>
<thead>
<tr>
<th>Income Level/Year</th>
<th>Low</th>
<th>Lower Middle</th>
<th>Upper Middle</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>&lt;= 580</td>
<td>581-2,335</td>
<td>2,336-7,620</td>
<td>&gt; 6,000</td>
</tr>
<tr>
<td>1990</td>
<td>&lt;= 610</td>
<td>611-2,465</td>
<td>2,466-7,620</td>
<td>&gt; 7,620</td>
</tr>
<tr>
<td>1991</td>
<td>&lt;= 635</td>
<td>636-2,555</td>
<td>2,556-7,910</td>
<td>&gt; 7,910</td>
</tr>
<tr>
<td>1992</td>
<td>&lt;= 675</td>
<td>676-2,695</td>
<td>2,696-8,355</td>
<td>&gt; 8,355</td>
</tr>
<tr>
<td>1993</td>
<td>&lt;= 695</td>
<td>696-2,795</td>
<td>2,796-8,625</td>
<td>&gt; 8,625</td>
</tr>
<tr>
<td>1994</td>
<td>&lt;= 725</td>
<td>726-2,895</td>
<td>2,896-8,955</td>
<td>&gt; 8,955</td>
</tr>
<tr>
<td>1995</td>
<td>&lt;= 765</td>
<td>766-3,035</td>
<td>3,036-9,385</td>
<td>&gt; 9,385</td>
</tr>
<tr>
<td>1996</td>
<td>&lt;= 785</td>
<td>786-3,115</td>
<td>3,116-9,645</td>
<td>&gt; 9,645</td>
</tr>
<tr>
<td>1997</td>
<td>&lt;= 785</td>
<td>786-3,125</td>
<td>3,126-9,655</td>
<td>&gt; 9,655</td>
</tr>
<tr>
<td>1998</td>
<td>&lt;= 760</td>
<td>761-3,030</td>
<td>3,031-9,360</td>
<td>&gt; 9,360</td>
</tr>
<tr>
<td>1999</td>
<td>&lt;= 755</td>
<td>756-2,995</td>
<td>2,996-9,265</td>
<td>&gt; 9,265</td>
</tr>
<tr>
<td>2000</td>
<td>&lt;= 755</td>
<td>756-2,995</td>
<td>2,996-9,265</td>
<td>&gt; 9,265</td>
</tr>
<tr>
<td>2001</td>
<td>&lt;= 745</td>
<td>746-2,975</td>
<td>2,976-9,205</td>
<td>&gt; 9,205</td>
</tr>
<tr>
<td>2002</td>
<td>&lt;= 735</td>
<td>736-2,935</td>
<td>2,936-9,075</td>
<td>&gt; 9,075</td>
</tr>
<tr>
<td>2003</td>
<td>&lt;= 765</td>
<td>766-3,035</td>
<td>3,036-9,385</td>
<td>&gt; 9,385</td>
</tr>
<tr>
<td>2004</td>
<td>&lt;= 825</td>
<td>826-3,255</td>
<td>3,256-10,065</td>
<td>&gt; 10,065</td>
</tr>
</tbody>
</table>

NOTE: These data are drawn from the World Bank (2008). They are GNI per capita (US$). The number in bold is the cross-over point for each year for the calibration for those countries more in the set of countries with high income. This point was set at the highest amount to still qualify for lower middle income.
APPENDIX H: CONFLICT

The Uppsala Conflict Data Program (UCDP) Web site defines armed conflict as “a contested incompatibility which concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle-related deaths” per year and per incompatibility (UCDP 2005).\(^{175}\)

The definition was operationalized to include two key elements:

1. Use of armed force: When arms are used to promote a position in the conflict. Arms are defined as manufactured weapons as well as rudimentary weapons such as sticks, fire, etc.
2. Party to the conflict: the government of a state or any opposition groups or alliance of these groups.

APPENDIX I: NECESSARY CONDITIONS

I produced two charts to reflect the consistency scores for each of the conditions by filter type. The first chart is for the 3 percent peace dividend. The second is for the 5 percent peace dividend. In each case, for the GDP/capita filters I did not run necessity for the GDP/capita condition. The same is true for the polity condition, which explains the blank bar area for those conditions with the respective filter. The X-axis abbreviations are:

nf_3 = non-filtered for 3 percent peace dividend
nf_5 = non-filtered for 5 percent peace dividend
higdp2_3 = high GDP/capita filter for 3 percent peace dividend
higdp2_5 = high GDP/capita filter for 5 percent peace dividend
logdp2_3 = low GDP/capita filter for 3 percent peace dividend
logdp2_5 = low GDP/capita filter for 5 percent peace dividend
hipol_3 = high polity filter for 3 percent peace dividend
hipol_5 = high polity filter for 5 percent peace dividend
lopol_3 = low polity filter for 3 percent peace dividend
lopol_5 = low polity filter for 5 percent peace dividend

The Y-axis shows the level of consistency across each peace dividend for each condition.
Chart 1: Consistency Scores by Filter and Condition for 3 Percent Peace Dividend
Chart 2: Consistency Scores by Filter and Condition for 5 Percent Peace Dividend
APPENDIX J: SOLUTION SETS AND RECIPES

There were seven solution sets (and seven recipes).

Unfiltered Model
The solution sets for the unfiltered model\textsuperscript{176} are:

\[ \text{PDIV3MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict} \]

solution coverage: 0.05  
solution consistency: 0.71  
frequency cut-off: 3  
consistency cut-off: 0.70

\[ \text{PDIV5MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict} \]

solution coverage: 0.06  
solution consistency: 0.72  
frequency cut-off: 3  
consistency cut-off: 0.71

GDP/Capita Filter
I used both a high GDP/capita filter and a low one in order to try to understand if high- and low-income countries experience globalization and militarization in the same or different ways since the high-income countries are in the position to at least encourage if not push globalization and the Washington consensus. The following solution sets include the necessary conditions.\textsuperscript{177}

\[ \text{PDIV3MA*NEA*snse*WNSEPR*ifi*HIGDP*POLITY*fsconflict} \]

\textsuperscript{176} The necessary condition for the unfiltered model is low arms exports (for both peace dividends), and low conflict (for the 5 percent peace dividend).

\textsuperscript{177} The necessary conditions for the high GDP/capita filter are absence of high arms exports, low IMF-sponsored program participation, and low levels of conflict.
solution coverage: 0.33
solution consistency: 0.77
frequency cut-off: 13
consistency cut-off: 0.77

PDIV5MA*NEA*snse*WNSEPR*ifi*HIGDP*POLITY*fsconflict

solution coverage: 0.38
solution consistency: 0.72
frequency cut-off: 13
consistency cut-off: 0.72

There were no results for the low GDP/capita filter\textsuperscript{178} that had consistency scores high enough to warrant examination.

**Polity Filter**
Levels of democracy were split into two groups, high and low, to see if different polity types experience globalization and militarization linkages in the same or in different ways. Following are the solution sets for filtering democracy scores as at least 0.9 for high polity.\textsuperscript{179}

\textsuperscript{178} Though there were no empirical instances of the outcome and this model, there were two necessary conditions for low GDP/capita (low economic integration and low arms exports) that need further scrutiny.

\textsuperscript{179} The three necessary conditions for the high polity filter are low arms exports and low levels of conflict (for both peace dividends) plus low participation in IMF programs (for the 5 percent dividend).
The high polity filter at 5 percent peace dividend did not have results with consistency of at least 0.70.

The low polity filter\textsuperscript{180} was set to reflect the 0 mark in the polity dataset (which corresponds to a 0.23 calibration in the set of countries with high levels of democracy).

\begin{verbatim}
PDIV3MA*NEA*snse*WNSEPR*ifi*HIGDP*POLITY*fsconflict
solution coverage: 0.27
solution consistency: 0.70
frequency cut-off: 29
consistency cut-off: 0.70

PDIV5MA*nea*snse*WNSEAB*ifi*HIGDP*fsconflict
solution coverage: 0.08
solution consistency: 0.72
frequency cut-off: 3
consistency cut-off: 0.71
\end{verbatim}

\textsuperscript{180} The low polity filter has two necessary conditions: low economic integration and low arms exports.
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