

# Economics 4611/5411: Defence Economics

Fall 2019

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**Lectures:** Monday and Wednesday 11:30-1:00 in RB 1024

**Office Hours:** Monday 9:00-11:00

## Course Overview

This course focuses on issues related to the economics of national defence. We begin with a review behind the theory of public goods. This is followed by an examination of various topics in the subjects including: defence budgets, force generation, strategic interactions, alliances, manpower, procurement, and the defence industrial base. The purpose of this course is to give students an opportunity to apply the skills and tools learned in core economic theory courses to a specific policy area. The hope is that this will familiarize the students with the applied side of economics.

This course will be very different from core theory courses you may have already taken. In general, this is a much less technical course compared to those courses. Here, you are expected to discuss ideas and communicate your understanding of economics through short-answer and essays. Solving mathematical models will still be a part of this course, but not its entire focus. This will be challenging to many of you, but will also help you understand how to apply your economic training to a specific area of study.

## Prerequisite

There are no official prerequisites for this course. However, students should be familiar with undergraduate microeconomics. We will also make use of a number of mathematical tools such as linear algebra and calculus.

## Learning Outcomes

By the end of this course students will

- be better able to apply economic thinking to the area of defence economics.
- have improved their written and oral communication skills.

- have an understanding of numerous issues in the field of defence economics.
- have an understanding of issues in Canada's defence sector.
- be able to understand what types of obstacles researchers face when undertaking research and how these are overcome.
- be able to read and critically evaluate academic articles.
- have experience with working with data.

## **Textbook**

There is no textbook for the defence portion of the course. Instead we will make use of a variety of different reading materials that I will provide directly to the students or that are available online or through the Lakehead library.

## **Grading**

Participation	(10%)	
Assignments	(60%)	
Essay	(30%)	Due: December 13th

Each student is expected to read the required readings, and come prepared to discuss the material in class. Marks will be assigned based on the frequency and quality of in-class participation. Showing up to class but not speaking will earn a student no marks. The goal of this is to encourage you to learn how to discuss economic issues with other economists.

Each student will submit their own assignments. Working together to complete them is allowed.

The essay will be a major paper that you work on throughout the term. More information will be provided in a separate handout.

## **Academic Misconduct**

The University and myself take a most serious view of offences against academic honesty such as plagiarism, cheating and impersonation. Penalties for dealing with such offences will be strictly enforced.

Penalties for those found guilty of attempting to obtain academic credit dishonestly can include receiving a grade of zero for the assignment/essay in question, receiving a grade of zero in the course, and more severe penalties such as removal from their program of study or the university.

The University Regulations regarding academic dishonesty can be found at:  
<https://www.lakeheadu.ca/faculty-and-staff/departments/services/provost-vice-president-academic/academic-integrity-plans-policies/academic-dishonesty-regulations>

The Student Code of Conduct can be found at:  
<https://www.lakeheadu.ca/faculty-and-staff/policies/student-related/code-of-student-behaviour-and-disciplinary-procedures>

## **Course Outline**

### **Topics**

- Topic 1: Public Goods
- Topic 2: Defence Budgets
- Topic 3: Force Generation
- Topic 4: Strategic Interactions
- Topic 5: Alliances
- Topic 6: Manpower
- Topic 7: Procurement
- Topic 8: The Defence Industrial Base

# Readings

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## Topic 1

### Required

- Boadway, Robin W. and Wildasin, David E. (1984), Public Sector Economics, 2nd ed., Little, Brown & Company, Chapter 4, 85-95.
  - G. Kennedy (1975), The Economics of Defence, Faber and Faber, Chapter 2, 40-57.
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## Topic 2

### Required

- H.S. Rosen, B. Dahlby, R.S. Smith & P. Boothe (2003), Public Finance in Canada, McGraw-Hill Ryerson, Chapter 8, 132-155.
  - Skogstad (2016), “Defence Budgets in the Post-Cold War Era: A Spatial Econometrics Approach,” Defence and Peace Economics, 27:3, 323-352.
  - Treddenick (1995), “The Defence Budget,” in Dewitt & Leyton-Brown, 413-454.
  - Treddenick (1998), “Distributing the Defence Budget: Choosing Between Capital and Manpower” in Bland, 57-82.
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## Topic 3

### Required

- Hildebrandt (1999), “The Military Production Function,” Defence and Peace Economics, 10:3, 247-272.
- Lagasse (2005), “Specialization and the Canadian Forces,” Defence and Peace Economics, 16:3, 205-222.
- Skogstad (2017), “The Effectiveness of Canada’s Navy on Escort Duty,” European Review of Economics History, 21:1, 104-132.

### Additional

- Grimes & Rolfe (2002), “Optimal Defence Structure for a Small Country,” *Defence and Peace Economics*, 13:4, 271-286.
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### **Topic 4**

#### Required

- Palmore & Melese (2001), “A Game Theory View of Preventative Defense Against Ballistic Missile Attack,” *Defense Analysis*, 17:2, 211-215.
- Cotton & Liu (2011), “100 Horsemen and the Empty City: A Game Theoretic Examination of Deception in Chinese Military Legend,” *Journal of Peace Research*, 48:2, 217-223.
- Sandler and Hartley (1995), *The Economics of Defense*, Cambridge University Press, Chapter 4, 82-87.

### Additional

- Gates and Terasawa (1992), “Commitment, Threat Perceptions, and Expenditures in a Defense Alliance,” *International Studies Quarterly*, 36, 101-118.
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### **Topic 5**

#### Required

- Sandler and Hartley (1995), *The Economics of Defense*, Cambridge University Press, Chapter 2, 19-51.
- Acre (2001), “Leadership and the Aggregation of International Collective Action,” *Oxford Economic Papers*, 53:1, 114-137.
- Solomon (2004), “NATO Burden Sharing Revisited,” *Defence and Peace Economics*, 15:3, 251-258.

### Additional

- Sandler and Forbes (1980), “Burden Sharing, Strategy, and the Design of NATO,” *Economic Inquiry*, 18, 425-444.
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## **Topic 6**

### Required

- Sandler and Hartley (1995), *The Economics of Defense*, Cambridge University Press, Chapter 6, 156-176.
- Fredland & Kendry (1999), “The Privatisation of Military Force: Economic Virtues, Vices and Government Responsibility,” *Cambridge Review of International Affairs*, 13:1, 147-164.
- Rostek (2006), “Developing a Surge Capacity for Canadian Forces,” *Defence and Peace Economics*, 17:5, 421-434.
- Poutvaara & Wagener (2009), “The Political Economy of Conscription,” CESIFO Working Paper, 2821, 1-27.

### Additional

- Quester & Gilroy (2002), “Women and Minorities in America’s Volunteer Military,” *Contemporary Economic Policy*, 20:2, 111-121.
  - Golding & Cox (2003), “Design and Implementation of AIP,” CNA, 1-33.
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## **Topic 7**

### Required

- Rogerson (1994), “Economic Incentives and the Defence Procurement Process,” *Journal of Economic Perspectives*, 8:4, 65-90.
- Matthews & Parker (1999), “Prime Contracting in Major Defense Contracts,” *Defence Analysis*, 15:1, 27-42.
- Middlemiss (1995), “Defence Procurement in Canada,” in D. Dewitt and D. Leyton-Brown, 391-412.

- Boyd (1988), “The Politics of Canadian Defence Procurement: The new Fighter Aircraft Decision,” in Haglund, 137-158.
  - Arseneault (1988), “The DDH 280 Program: A Case Study of Governmental Expenditure Decision Making,” in Haglund, 118-136.
  - Lewis (1993), “Defense Procurement and the Theory of Agency,” in Leitzel, 57-72.
  - Franck & Melese (2008), “Defense Acquisition: New Insights from Transaction Cost Economics’,” *Defense & Security Analysis*, 24:2, 107-128.
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## Topic 8

### Required

- Dunne (1995), “The Defense Industrial Base,” in Hartley and Sandler, 400-430.
- Sandler and Hartley (1995), *The Economics of Defense*, Cambridge University Press, Chapter 7, 177-199.
- Hartley (2006), “Defence Industrial Policy in a Military Alliance,” *Journal of Peace Research*, 43:4, 473-489.
- Ferguson (1996), “In Search of a Strategy: The Evolution of Canadian Defence Industrial and Regional Benefits Policy,” *The Economics of Offsets*, 107-137.
- Neal and Taylor (2001), “Globalisation in the Defence Industry,” *Defence and Peace Economics*, 12:4, 337-360.

### Additional

- The Economist (2002), “Defence Industries,” *The Economist*, July.
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