

Defense Sector Politics: The Political Economy of Transferring the Military's Industries

Collin Grimes

*Department of History,
The Frederick Gunn School, Washington, CT, USA*

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Abstract

Ownership and control of defense industrial firms affords the military power, autonomy, and a claim to economic rents. Why do some countries succeed at shifting some or all such firms from military to civilian ownership and control, while others do not? I argue that differing configurations of relative civilian and military coalitional and institutional strength contribute to outcomes. Civilian and military must find party and executive-branch allies who can compete for them to craft or defeat legislation affecting their interests, but coalition building alone is insufficient. Actors must also cultivate executive bureaucratic institutions able to design and implement policies promoting their interests. How coalitions and institutions form, ossify, or fail to develop is assessed through a comparative study of Chile, Argentina (1983–1989), and Argentina (1989–1997).

Keywords: *Defense industry, Political economy, Economic reform, Civil-military relations*

Corresponding Author: Collin Grimes

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Background to the Study

Ownership and control of defense industrial firms affords the military power, autonomy, and a claim to economic rents. That permits the military to favor some civilian economic concerns by investing in them and squeeze out others by competing with them and, indeed, prevent investment and exchange in more open and competitive markets. In government corridors, it translates into privileges, protections, and access to inside information; influence during the budgetary and procurement processes, and veto power over the projects of more dynamic and innovative civilian sectors. The secretive firms can foster corruption by military personnel and sew mistrust between inter-state rivals, who lack information about the off-budget revenue the firms generate. Such revenue also bedevils the civilian authorities, whose lever-age vis-à-vis the military is diluted by the latter's access to sources of finance out-side the budget.

The political economy of defense industrialization and of civil-military relations increasingly preoccupies scholars. After countries defied the predictions of globalization theorists and continued pursuing defense industrialization well into the post-Cold War era, scholars began debating its drivers, then turned to the inner workings of the policy making process (Kurç and Neuman 2017). In parallel, Alfred Stepan told scholars that “if there is a major debate in the country about the size, direction, content, and control of a domestic military-industrial complex, then it becomes an issue that requires separate analytic and political attention” (1988: 82). Successors responded with studies of military enterprise development (Mani 2007), military export levy reform (Grimes and Pion-Berlin 2019), and levels of military production (Acuña and Smith 1995). Yet military industrial reform escaped systematic, comparative inquiry. Why do leaders who craft policies transferring some or all defense industrial firms from military to public or private civilian ownership and control either succeed or fail at what they set out to do? This article argues that differing configurations of relative civilian and military coalitional and institutional strength contribute to divergent outcomes. Civilian and military must surmount diverse obstacles to translate their interests into policy.

Defense Industrial Policy Making

Scholars debate the drivers of defense industrial policy making, but they overlook the politics of civil-military rivalry. One group argues that the forces of globalization lead states to privatize their arms industries (Hayward 2000; Struys 2004). That imposes losses on powerful actors, including the military, workers, partners, and suppliers, who may align to oppose it. If one is going to craft reform to attract investment, then they must be able to get by the opposition first.

Civilian-Military Power Relations

Evidence of a role for coalitional strength in legislative battles between politicians and the military is mounting (Negretto 2013; Grimes and Pion-Berlin 2019). The military's influence dissipates without the support of actors with sufficient legislative and institutional representation to shape outcomes, including the president or prime minister, defense portfolio, and a congressional majority. Nor can the civilian take her power for granted because her own erstwhile supporters may align with the military. By contrast, even the

strongest military coalitions cannot stop equally dominant civilian institutions from pursuing reform without the participation of the legislature

Coalitions and Institution Building

Executive bureaucratic institutions are an essential structural support for any coalition intent on executing or preventing sectoral reform (Nelson and Waterbury 1989). Dispersing authority across agencies can weaken them, Not all institutions are equally capable of realizing the goal of defense industrial reform. Creating a capable institution requires that the central administration created to set defense industrial policy controls credit and can intervene in sectors by appointing firm directors and controlling enterprise reforms (Evans et al. 1985).

Method and Cases

This study of defense industrial reform uses process tracing within two most-similar systems designs. Upon comparing cases of defense industrial reform according to the variables of relative civilian and military coalitional and institutional strength, I selected three cases whose values differed sharply. In Chile (1990–present), dominant military coalitions and military executive bureaucratic institutions emerged, and reform failed. In Argentina (1983–1989), dominant military coalitions and civilian executive bureaucratic institutions formed, and reform partially succeeded.

First, both countries democratized after long bouts with military rule during which the militaries permeated government, meaning their militaries would have an equally large stake in protecting their interests. Second, both were upper-middle-income countries with above average levels of development, as measured by GDP per capita, employment rates, wage levels, strong middle classes, and lower levels of poverty. Such economic successes would have provided equally sound plat-forms for democratic reforms. Third, diplomatic initiatives between Argentina and Chile (including the settling of border disputes and forging of nuclear pacts) ended rivalry, eliminating existential threats which might have led politicians to prioritize defense. And fourth, both reside in a low-threat environment, meaning it would have been harder for politicians to prioritize defense issues.

Power to Intervene in Sectors

With top enterprise management power vested in its civilian secretary, the civilian bureaucracy proceeded to appoint civilians to the boards of military-owned firms. Facing down military rebellions, it reshuffled to consist of four civilians and two military the board of *Dirección General de Fabricaciones Militares* (General Directorate of Military Industries—DGFM), an autonomous holding that owned and managed wholly or partly the 13 industries of *Fabricaciones Militares* and 23 Argentine industrial firms. Then, it reconstituted directories in the mining, naval, forestry, petrochemical, steel, and construction sectors.

Military Coalitional Strength

But though down, the military was not out. The second pillar of reform, targeting ownership, appeared in April 1985 via a draft law authorizing the Ministry of Defense (MoD) to create a state-run holding to absorb the military's shares in all 45 firms. The military objected, as did

the unions, with the *Asociación de Profesionales Universitarios de Fabricaciones Militares* (Association of Professional University Workers of Military Factories—APUFAMI) buying ad space to warn Alfonsín against provoking “adverse reactions in certain sectors. The unions' strength stemmed both from the relatively high level of unionization and their ties to the *Partido Justicialista* (Justicialist Party, a.k.a. the Peronist Party—PJ), which ruled the Senate. And indeed, the PJ backed labor, demanding that the unions be represented in the firm's directory; the Senate confirm its board, and Congress control its policy. And although the UCR lacked the PJ's tie to labor, it too opposed any policy involving worker layoffs and, thus, also balked. The tables had turned. With the military's political power bound to manifest in the law's defeat, Alfonsín kept his powder dry and abandoned the bill to the gnawing criticism of the mice. Though the Committee of Industry was not the project's last destination, the PJ-UCR military coalition ultimately blocked it. Thus, in 1985 and in 1986, defense industrial ownership reform failed when the coalition aligned with the military in opposition to reform became strong enough to stop its imposition legislatively by the coalition that favored it. In Argentina, the first democratic government performed well regarding managerial aspects of defense industrial reform, as exemplified by the appointment of civilians to the boards of military-owned firms.

Context in Different Time Periods

Still another standard account is that neoliberal reform under democratic rule creates a context more favorable to demilitarization than one under military rule (Schmitter 1994: 71). Unless the military controls the state, neoliberal reform offers demonstrated successes upon which to create constituencies for advancing defense reforms. Reforms like those attempted in defense had, however, succeeded in other sectors, as in the case of copper giant CODELCO, but this had no multiplier effect. The evidence offers only partial support for the alternative hypothesis. The concurrence of neoliberal economics and democratic politics played some role but cannot fully explain the success of defense industrial reform in Argentina. Likewise, the absence of neoliberal reform under democratic auspices in Chile cannot fully explain the failure of defense reform in Chile.

Conclusion

The fate of defense industrial reform efforts cannot be understood without considering the outcomes of coalition and institution building power struggles between civilians and the military. The comparative analysis reveals the importance of differences in relative coalitional and institutional strength. These contrasted with the similarities between the cases of Chile, Argentina (1983–1989), and Argentina (1989–1997). In all three cases, the military elite and certain civilian leaders fought to perpetuate and reform the ownership and management structures of the defense industrial firms built by the military a half-century earlier. They did so in political systems in which a few strong and relatively institutionalized parties fought for seats and well institutionalized and able executive bureaucracies obeyed commands. But these militaries and civilians differed in their abilities to defend or reform the defense industrial firms.

Those rivals were forced to watch the congress, bureaucracy, and president and defense portfolio, at different times, defend the military and its control of firms.

In Argentina (1983–1989), where labor, partisan, and military interests also converged, neither President Alfonsín's institution nor the military's coalition could dominate the other. Though the former could appoint civilians to the boards of military-owned firms, the coalition could block the institution's bills to divest the military of these same holdings. In Argentina (1989–1997), where President Menem used tactics, finance, and expertise to prevail over the military, reforms passed, civilians intervened, and firms were handed to civilian owners and managers.

This paper does not intend to deny some basic tenets of democratization theory or the political economy of reform. It is true that, as a regime legacy and bargaining model would predict, stronger outgoing militaries can last longer in the struggle to ward off defense industrial reform. And it is plausible to say, as do proponents of dynamic approaches, that economic crises weaken actors vested in the military centered political economy. Overall, moreover, reforming other sectors first (or not) does impact momentum for reform, as gradualist perspectives suspect.

Research beyond these countries and periods is however warranted, and findings in the literature are a good place to start. Studying the Turkish case, Kurç finds that the private defense firms opposed a proposal to unite four military-owned firms under a civilian holding because the new holding was expected to dominate the market. Later, when the government used for the first time its power to appoint civilians to the boards of the military-owned firms, the military could not stop it (2017: 269). Studying the Portuguese case, (Barros 2005: 96). It would be fruitful to analyze in cases like these whether ownership and management of defense firms was preserved or annulled through coalitional and institutional politics. A wider, cross-regional study could generate stronger conclusions, with implications for development, democracy, and security.

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