

Military Spending and Finance for Development

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Glossary of Acronyms

DAC.....	Development Assistance Committee (within the OECD)
ECA.....	Economic Commission to Africa
EU.....	European Union
FDI.....	Foreign Direct Investment
GNI.....	Gross National Income (also referred to as GNP, Gross National Product)
IFF.....	International Finance Facility
IGO.....	Inter-Governmental Organization
IMF.....	International Monetary Fund
MC.....	Monterrey Consensus
MDGs.....	Millennium Development Goals
NATO.....	North Atlantic Treaty Organization
NGO.....	Non-Governmental Organization
ODA.....	Official Development Assistance
OECD.....	Organization for Economic Co-operation and Development
SIPRI.....	Stockholm International Peace Research Institute
UNSC.....	United Nations Security Council
WTO.....	World Trade Organization

Introduction

The concept of financing for development within the framework of the UN is a relatively new one. The idea of a UN led, multilateral approach to financing international development on all levels really only dates back to 1997, when the General Assembly adopted the Agenda for Development, which stated that "due consideration should be given to modalities for conducting an intergovernmental dialogue on the financing of development, taking into account the recommendation by the Secretary-General."¹ Since then, a number of resolutions and acts have been both introduced and adopted not only within the UN, but by other NGO's, IGO's and individual states as well. Simultaneously, a whole new field of what has become known as 'innovative finance for development' has emerged, in an attempt to find ways to fund the global economic and human development goals adopted by these various players. The UN has set up a special task force dedicated to innovative financing to further the goals outlined in the 2000 UN Millennium Development Declaration and the commitments made in the 2002 Monterrey Consensus. Many different plans have been made, goals set, and organizations set up, but despite all of this work, especially on finding innovative sources for financing development, the largest, most obvious source of potential financial resources continues to be ignored: military spending.¹ What is it about the current system that makes governments ignore such a huge potential source of development funding, and more importantly, what can be done to change this?

In order to answer such a question, we will outline a basic understanding of different aspects of development finance and the texts of the Millennium Development Goals (MDGs), the Monterrey Consensus (MC). We will survey the main players and the UN process, and then seek to identify and analyse the obstacles within this framework that prevent the consideration of military expenditure as a potential financial source for development. Finally, we will consider what can be done to change this.

¹ Although the lack of sufficiently detailed data makes it difficult to apply a common definition of military expenditure on a worldwide basis, SIPRI has adopted a definition as a guideline. Where possible, SIPRI military expenditure data include all current and capital expenditure on: (a) the armed forces, including peacekeeping forces; (b) defence ministries and other government agencies engaged in defence projects; (c) paramilitary forces, when judged to be trained and equipped for military operations; and (d) military space activities. Such expenditures should include: (a) military and civil personnel, including retirement pensions of military personnel and social services for personnel; (b) operations and maintenance; (c) procurement; (d) military research and development; and (e) military aid (in the military expenditure of the donor country). Civil defence and current expenditures on previous military activities, such as veterans' benefits, demobilization, conversion and weapon destruction are excluded.

The Millennium Development Goals and the Monterrey Consensus

The Millennium Development Goals derive from earlier 'International Development Goals,' which were pioneered by the OECD's Development Assistance Committee back in 1996. The MDGs were then officially established at the Millennium Summit in 2000, where 189 world leaders adopted the United Nations Millennium Declaration, from which the eight-goal action-plan, the 'Millennium Development Goals', were drawn.ⁱⁱ These goals are to eradicate extreme hunger and poverty, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal healthcare, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability and develop a global partnership for development – all with the target achievement date of 2015.ⁱⁱⁱ (For a more complete overview of the MDGs see annex 1 on page 21). Just two years later, in 2002, the International Conference on Financing for Development produced a document known as the Monterrey Consensus. Over fifty heads of state, other leaders and agencies including the IMF, World Bank and WTO joined to make new commitments to further global economic and human development. The commitments made revolved around six broad areas of financing for development: mobilizing domestic financial resources for development, mobilizing international resources for development (FDI and other private flows), international trade as an engine for development, increasing international financial and technical cooperation for development, external debt, and addressing systematic issues like enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.^{iv} (For a more complete overview of the MC see annex 2 on page 22). While the MDG and the MC are two separate documents, the implementation of many of the MC commitments are pertinent and even crucial to helping achieve the MDGs. Therefore, these two documents together are two of the most important and defining pieces of twenty first century international cooperation for development.

Current status of the MDG and MC

Now that the goals and commitments regarding development have been clearly stated, the challenge is implementing them. At present, only one of the eight regional groups reviewed by the UN MDGs 2007 report is on track to achieve all of the MDGs. However, there has been significant progress in certain areas. According to the 2007 report,

“The proportion of people living in extreme poverty fell from nearly a third to less than a fifth between 1990 and 2004. If this trend is sustained, the MDGs poverty reduction target will be met for the world as a whole and for most regions. The number of extremely poor people in sub Saharan Africa has

levelled off, and the poverty rate has declined by nearly six percentage points since 2000. Nevertheless, the region is not on track to reach the goal of reducing poverty by half by 2015. Progress has been made in getting more children into school in the developing world. Enrolment in primary education grew from 80% in 1991 to 88% in 2005. Most of this progress has taken place since 1999. Women's political participation has been growing, albeit slowly. Even in countries where previously only men were allowed to stand for political election, women now have a seat in parliament. Child mortality has declined globally, and it is becoming clear that the right lifesaving interventions are proving effective in reducing the number of deaths due to the main child killers – such as measles. Key interventions to control malaria have been expanded, and the tuberculosis epidemic, finally, appears to be on the verge of decline, although progress is not fast enough to halve the prevalence and death rates by 2015.”^v

The report states that rapid and large scale process is feasible, as demonstrated by nations like Malawi.² Yet in order to keep moving forward, the report calls for the G8 in particular to live up to their 2005 pledge to double aid to Africa by 2010, where the projected shortfalls in meeting the MDGs are most severe. The report also urges the EU to allocate 0.7% of Gross National Income towards Official Development Assistance (ODA), which plays a crucial role in providing funding to make the MDGs a reality. This goal of 0.7% ODA from developed states has been a longstanding UN goal, first established in a UN resolution in 1970 and has yet to be realized.^{vi} Regardless of many wealthy states' commitments to the MDGs and to increase aid overall, ODA fell between 2005 and 2006 by 5.1% and again from 2006 and 2007 by 8.4% among OECD's Development Assistance Committee's (DAC) member states.^{vii} Full yearly and regional reports on the progress of the MDGs can be found at <http://www.un.org/millenniumgoals/documents.html>.

Since 2002, some progress has been made in implementing the MC. For instance, Brazil managed to implement some aspects of the MC, and experienced a growth in GDP. The Economic Commission for Africa (ECA) reported in 2007 that FDI inflow had increased slightly, and there has been a significant reduction in the external debt burden of African states. However, progress is very slow and the majority of the commitments have yet to be acted upon. The ECA notes that donor nations are far from meeting their ODA commitments, and that donor nations have done little to support African states in their efforts to increase exports. Participation by developing countries is still lacking in international forums, and not much has changed in the area of trade, in spite of the recognition by the conference of issues

² According to the 2007 Malawi Millennium Development Goal Report, Malawi is well on track to meet by 2015 the goals of reducing poverty and child mortality, combating HIV and other diseases, improve access to clean water and sanitation, and much of their outstanding debt was significantly reduced through multilateral creditors. Malawi is also on track to meet the education goal by 83% by 2015. Though Malawi is projected to fall short of meeting some goals like eliminating gender disparity in primary education, they still have made remarkable progress and serve as an example for other states from similar backgrounds.

of particular interest to developing countries: Subsidies, antidumping measures, trade liberalization in agricultural products, tariff peaks and escalation, and special and differential treatment, to name just a few.^{viii} Other than holding the agreed upon follow-up conferences and reports, much of the MC commitments have not been acted upon, especially in the area of market access for developing countries.

Financing and implementing the MDGs and MC

What exactly is needed financially to achieve the MDGs and fully implement the MC, especially in terms of commitments from developed nations? A full analysis of what it would take to achieve the MDGs was put together in 2005 by the UN Millennium Project. This study calculates the cost of meeting the MDGs in all countries to be \$121 billion in 2006, and rising to \$189 billion in 2015. Included in this figure is the presumption that annual ODA needs will rise to \$73 billion in 2006 terms or to \$135 billion in 2015.^{ix}

Estimated cost of meeting the Millennium Development Goals in all countries^x

In US \$ billions (*In 2003 US \$ billions, numbers in table may not sum up to totals because of rounding)

<i>Category</i>	<i>Estimated ODA in 2002</i>	<i>Projected for 2006</i>	<i>Projected for 2010</i>	Projected for 2015
MDG support need in low income countries				
MDG financing gap	12	73	89	135
Capacity building to achieve the MDG	5	7	7	7
Grants in support of heavy debt burden	—	7	6	1
Debit relief	4	6	6	6
Repayments of concessional loans	-5	0	0	0
Subtotal	15	94	108	149
MDG support needs in middle income countries				
Direct support to government	4	10	10	10
Capacity building to achieve the	5	5	5	5

MDG				
Repayments of concessional loans	-6	-3	-4	-6
Subtotal	3	12	11	9
MDG support needed at the international level				
Regional cooperation & infrastructure	2	3	7	11
Funding for global research	1	5	7	7
Implementing the Rio Conventions	1	2	3	5
Technical cooperation by international organizations	5	5	7	8
Subtotal	10	15	23	31
Estimated cost of the MDG in all countries	28	121	143	189

Plausible ODA needs to meet the Millennium Development Goals²

In US \$ billions (In 2003 US \$ billions, numbers in table may not sum to total because of rounding)

Category	Estimated ODA in 2002	Projected for 2006	Projected for 2010	Projected for 2015
Baseline ODA for the Goals in 2002	28	28	28	28
Incremental MDG investment needs	n/a	94	115	161
Adjustment for countries not qualifying due to inadequate governance	n/a	-21	-23	-25
Reprogramming of existing ODA	n/a	-6	-7	-9
Emergency and distress relief	4	4	5	6

Other ODA ^a	34	36	34	35
Total indicative ODA needs for the Goals ^b	65	135	152	195
Share of OECD/DAC countries GNI%	0.23	0.44	0.46	0.54
ODA to Least Developed Countries (% of OECD/DAC countries GNI)	0.06	0.12	0.15	0.22
Absolute increase in ODA required (compared with 2002)	n/a	70	87	130
Difference between total ODA needs and existing commitments	n/a	48	50	74

^a Includes assistance that does not contribute directly to the Goals and operating expenditures of donor agencies

^b Does not include several important ODA needs, such as responding to crises of geopolitical importance (like as in Afghanistan or Iraq), mitigating the impact of climate change etc.

The full report and explanations on how these estimates were calculated can be found at <http://www.unmillenniumproject.org/documents/MainReportComplete-lowres.pdf>. Broken down by sector, the costs of achieving the MDGs are as follows:

- Water and sanitation goal:** The World Health Organisation (2004) estimates that to halve, between 1990 and 2015, the proportion of people without access to safe drinking water and basic sanitation would cost \$11.3bn annually. To reach the entire un-served population by 2015 would cost \$22.6bn per year. ODA allocations to the water sector currently average \$3bn annually, half of which is loans (*Water, Engineering and Development Centre 2004*).
- Health goals:** The World Bank (2002) estimates that to achieve the health-related MDGs would cost an additional \$20-25bn per year, roughly four times the level of ODA spending for health. The World Health Organisation (2001) puts the cost at around double this: \$40-52bn per year. These goals are, between 1990 and 2015, to reduce by two-thirds the under-five mortality rate and to reduce by three-quarters the maternal mortality rate, and by 2015 to have halted, and begun to reverse, the spread of HIV/AIDS as well as the incidence of malaria and other major diseases.

- **Universal primary education goal:** The World Bank (2002) estimates that to ensure, by 2015, that children everywhere will all be able to complete a full course of primary schooling would cost an additional \$10-30bn per year.
- **Housing goal:** significant improvement in the lives of at least 100 million slum-dwellers by 2020: \$11.5 billion per year (UN Habitat).
- **Poverty goal:** The World Bank (2002) estimates that to halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day would cost an additional \$39-54bn per year.
- **Debt relief goal:** Total debt cancellation needed by the world's poor amounts to \$300bn, or \$30bn for each year in the forthcoming decade. Debt relief promised by creditors so far is \$110bn, whilst the debt cancellation delivered at July 2003 was \$36bn (CAFOD 2006).^{xi}

The MC does not give a numerical estimate of what it would take financially to implement all of the commitments the Consensus covers. For example it is hard to place a number on what ‘establishing sustainable fiscal and financial systems to help domestic resource mobilization’ will cost. However, since many of the MDGs imply as a pre requisite the sort of economic infrastructure laid out in the MC, one can assume that implementing the MC and working toward the MDGs will work hand in hand. In fact the UN Millennium Project’s analysis is that allocating 0.7% of each wealthy nation’s Gross National Product (GNP) to ODA would provide enough funds to achieve the MDGs.^{xii} This goal of 0.7% ODA is also reaffirmed in the MC. So far, only five countries (Denmark, Luxembourg, Netherlands, Norway and Sweden) have met this target, and eleven of the other twenty two DAC member states have agreed to set a time table to meet the .07% goal. Australia, Canada, Japan and the United States are the only ones who have refused to set a timetable.^{xiii}

There are a variety of reasons why the world is falling behind in meeting the MDGs and implementing the MC. In another section of the UN Millennium Project’s *A practical plan to achieve the Millennium Development Goals*, four reasons are given: governance failures, poverty traps, pockets of poverty and areas of specific policy neglect. (To read the specifics of these setbacks, visit <http://www.unmillenniumproject.org/>). In sum, this chapter concludes that the key to overcoming these challenges and moving forward with the MDGs is a foreign aid “investment program which would promote self sustaining growth, instead of a program that would increase dependence on welfare handouts... The key insight is that it will

be much cheaper for the donors to frontload their aid over 2005-2015 to raise each low income country to the point of self sustaining growth as rapidly as possible – rather than to continue to dribble out aid in small measures for several decades.”^{xiv}

The MC itself lays out no plans as to when or how it should be implemented. The problem surrounding documents like the MC, is that while they put forth good ideas, there are rarely specific commitments made, as it is a consensus and all parties must agree. Therefore ideas and goals are rather vaguely stated, brought down by each contributing party to the ‘lowest common denominator’ for agreement, so to speak. However, the UN General Assembly decided in 2007 that the follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus will be held in Doha, Qatar, from late November to early December 2008. This conference is crucial in identifying obstacles in the process of implementation, and will hopefully set a more specific outline of how to further finance, and follow through with the implementation of the MC.

Of course financing an increase in foreign aid proves to be another barrier in and of itself. So how exactly will the world come up with the amount of resources required as stated by the MC and UN Millennium Project’s report? This question has prompted the development of the field of innovative finance. A paper by Oxford economist Anthony Atkinson entitled *Innovative sources for development finance*, offers a good clear-cut summary of the most promising propositions in innovative finance. The methods which he covers are a currency transaction tax, or better known as a ‘Tobin tax’, global environmental taxes, a global lottery, the creation of new special drawing rights, increased private donations for development, the International Finance Facility (IFF) and increased remittances from emigrants. The table below gives a short overview of each of these proposed policies. To read more about these sources and the costs and benefits of each method, see [Atkinson's paper](#).

Possible Innovative Sources of Development Funding^{xv}

Source	Description
Currency Transactions Tax (“Tobin tax”)	Tax on short-term capital and currency flows at a uniform rate payable by all banks and foreign exchange dealers, collected on a national or a market basis, covering a range of transactions to be defined (spot, forward, future, swaps and other derivatives).
Global environmental taxes	Tax on commercial use of hydrocarbon fuels according to their carbon content; tax on international air passenger mileage and freight transport.

Global lottery	Global lottery operated through national state-operated and state-licensed lotteries, with proceeds shared between national participants and an independent foundation established in conjunction with UN.
Creation of new Special Drawing Rights (SDRs)	New round of creation of SDRs as approved in 1997 but not yet ratified, with donor countries making their share available for development purposes.
Increased private donations for development	Measures to encourage private funding of development through UN agencies, global funds, corporate sponsorship and the internet.
International Finance Facility (IFF)	Long-term, but conditional, funding guaranteed to the poorest countries by the donor countries. Long-term pledges of a flow of annual payments to the IFF would leverage additional money from the international capital markets.
Increased remittances from emigrants	Logistics (reducing cost of remittances), financial institutions (encouraging repatriation) and citizenship rather than residence basis for taxation.

Many of these sources of finance do have the potential to generate vast sums of money which could be used to implement the MC and work towards the MDGs. A 2003 report estimates that a carbon tax could raise some \$60 billion annually if levied on high income countries, and a Tobin tax at a 0.02 rate could produce around \$50 billion annually.^{xvi} The road blocks to actually implementing such taxes are huge - after all the prospect of a leading economic power agreeing to be taxed on its emissions is slim (for example the US still refuses to sign the Kyoto protocol which requires industrialized countries to reduce their emissions of greenhouse gases by a certain percentage). However if we ignore these blocks, one could assume that these two taxes could generate around \$110 billion a year, though the true amount would most likely be less due to administrative and bureaucratic costs. This sum is close to the figure put out by the UN Millennium Project as to what it would cost to achieve the MDGs, yet there is another source of innovative finance that has potential to make the net sum of all these other sources look insignificant: military spending.

World military expenditure

According to the Stockholm International Peace Research Institute (SIPRI), the top five military spenders (USA, UK, China, France and Japan) collectively spent \$762 billion in 2007 on their militaries. That accounts for 63% of the world total, with the United States topping the list with a military expenditure of \$547 billion, or 45% of the world total. If we expand the list to the top 15 spenders, the total rises to \$1,008 billion, and the world defense

spending as a whole was \$1339 billion in 2007.^{xvii} This figure dwarfs the potential revenue of the other sources of finance. Funding death and destruction under the guise of security and maintaining sovereignty has become the world's leading industry, and is among the highest expenses in terms of government expenditure. In many cases, when put into perspective with the estimated cost of achieving the MDGs, or even the target of 0.7% ODA set in the MC, it seems absurd that the world has not made further progress, as it is clear the funds and resources exist, they just happen to be tied up in the defense sector. The cost of achieving the MDGs by 2015 would be roughly equal to the amount spent on the military in any one year in that decade.^{xviii}

Chart of top military and ODA spenders in 2007^{xix}
In US \$ billions

Country	Military spending	ODA	Military spending as % of GNI ¹	ODA as % of GNI	% change in military spending 2006-2007	% change in ODA 2006-2007
US	\$547	\$21.7	4.3	0.16	6.9	-9.9
UK	\$59.7	\$9.92	2.6	0.36	0.1	-29.1
China	\$58.3*	unavailable	2.6	unavailable	12.3*	unavailable
France	\$53.6	\$9.94	2.5	0.39	0.7	-15.9
Japan	\$43.6	\$7.69	0.9	0.17	-0.2	-30.1
Norway	\$4.9	\$3.72	1.6	0.95	1.9	13.4
Sweden	\$5.2	\$4.33	1.4	0.93	-2.9	-2.6
Luxembourg	\$319 million*	\$365 million	1.1	0.90	0.0*	11.7
Netherlands	\$9.8	\$6.21	1.5	0.81	-1.6	3.1
Denmark	\$3.6	\$2.56	1.3	0.81	-3.2	2.9
Total	\$786.019	\$66.435	19.8%	5.48%	+14%	-56.5%

*Based on estimates from SIPRI

¹ GNI data from 2005, all numbers have been rounded

The elephant in the room

The central question is why has military spending not been brought up as a potential source for financing development. The facts regarding the obscene amounts the world spends on the military are available everywhere and yet in all the UN reports on financing the MDGs and implementing the MC, the words military or defense are not even mentioned. This \$1339 billion is like the elephant in the room – everyone knows it is there, though no one talks about it. While policy makers and economists scurry to find ‘innovative’ and different ways to finance development, everyone pretends this \$1339 billion does not exist. What is it about

military expenditure that has acquired it such an untouchable status in the eyes of policy makers at the UN and around the world, and moreover what can be done to make it acceptable to talk of military spending as a source of finance? If the top 15 military spenders redirected just 10% of their military budget towards finance for development (ODA specifically), it would amount to some \$100.8 billion annually (based on 2007 data), much more than the annual amount required to achieve the MDGs.^{xx} As of 2007, not one of the top 15 military spenders has met the ODA target goal of 0.7% of GNI, and four of the five countries who have refused to set a time table to do so are also top military spenders.^{xxi}

Why is military spending ignored

In order to put military spending on the agenda as a source for financing development, we must consider the institutional and global political reasons for its absence. First, military power has always been seen as central and imperative to protect the sovereignty of a state. Since the concept of military strength has historically been so closely tied to the status of a nation's sovereignty, cutting back the defense budget or 'giving up' some military expenditures could be seen as a state somehow giving up some of its sovereignty.

Second, the primary function of a state is to protect its citizens. Article 51 in the UN Charter states "nothing in the present Charter shall impair the inherent right of individual or collective self-defence if an armed attack occurs against a member of the United Nations, until the Security Council has taken measures necessary to maintain international peace and security."^{xxii} Even the UN Declaration of Human Rights states that "The family... is entitled to protection by society and the State."^{xxiii} As states no doubt have both the right and the obligation to protect their citizens, one can infer that a military is necessary to carry out such an obligation, though with different policies, this could be otherwise. So while this does justify the existence and upkeep of a state's defense system, it should not be cited as an excuse for military spending that has grown hideously out of proportion.³

Third, the international political system has historically functioned on the basis that those with the largest, most powerful military are also the hegemonic powers with the most influence in other areas of international relations, such as the world economy. Thus large military expenditure by a state could be seen as a status symbol, as well as a way to preserve an international status quo favourable to that state. However in this case, there is a thin line

³ Here we are referring to military spending in proportion to the domestic needs of a state, and in terms of actual defense threats. For example the US having some 40+ million citizens without health insurance, while spending \$547 billion on the military. Or, other top military spenders who face no immediate military threat from other actors, but still maintain huge defense budgets while lacking an adversary.

between large military spending to preserve an international status quo, and a military budget which grows too large and upsets that country's economy, for example the kind of military spending and economic consequences the US has seen under George W. Bush.

Finally, the UN does not have the mandate to require the redirection of member states' military spending towards development. Even if a supra-national body like the UN did have such a power, this would no doubt be seen as encroaching on a state's sovereignty and right to defend itself. The current UN role in world military expenditure really ends with their Standardized Reporting System for Military Expenditure. After that, the defense budget of a state is determined by that state alone, and due to the sovereignty issue, this is unlikely to change in the near future.

The importance of proportionality

For now, we must accept that military spending is a part of a state's defense, and its method of protecting its sovereignty. However, just as important as sovereignty, is the concept of proportionality. It is hard to make a case that such extravagant military spending, like that of the US, is necessary to preserve state sovereignty. The Just War Theory, an international relations notion whose importance is arguably on a par with that of state sovereignty, stresses proportionality as one of the most crucial elements both of *jus ad bellum* (just cause for the use of armed forces) and of *jus ad bello* (just conduct during war). If proportionality is a fundamental principle of how we expect war to be conducted, and if we then determine the 'justness' of a war on such proportionality, should our means for waging war not also abide by such principles? For those who argue that the world has become a more dangerous place, and thus the world's vast increases in military spending are justified or proportional to the increased 'dangers,' we only need to recall September 11th 2001, when the world's hegemonic power, with a military more powerful, and with a budget larger than the next 46 highest spending countries combined, suffered a devastating attack by a non state actor with no recognized military, and no defined territory.

Today, non state actors, terrorist groups, and internal conflicts are the main threat to the state, a fact which renders using military funds for development particularly appropriate. We have entered a new period in international relations. In the past, countries invested heavily in defense to deter and defend against threats from other sovereign states, which arguably was the correct policy in a Cold War era of state versus state conflict. However, the opponents the world now faces are largely non-state actors and sub-national forces without a defined territory, and the same extravagant spending used to deter or quell aggression from states does

not work with such groups. Therefore, with this new type of enemy, it makes sense to re-direct money toward development to thwart the poverty and oppression that are the breeding ground of terrorism and insurgencies, rather than buying planes and bombs with no practical way of using them against the true aggressors. In this sense, our patterns of military spending are no longer proportional to the threats faced.

The ratio of military spending among the world's most powerful states, as well as in relation to the rest of the world is important as well. While one can make a strong argument that the world's top powers have acquired this status because they also happen to be the 15 countries with the largest defense budgets, we must take into account just how far ahead of the rest of the world these 15 states are in the category of military spending. In 2007, these 15 countries accounted for \$1008 billion, or 84% of the world share of military spending.^{xxiv} Whether it is preserving the international balance of power, national security, or preservation of sovereignty these 15 states are worried about, it is clear that if they did reallocate even significant portions of their defense budgets, the rest of the world would still trail far behind them. If these top 15 are worried that the reallocation of military funds would upset the status quo among them, a solution could be a UN-negotiated multilateral agreement to redirect a set proportion of each top spender's budget, so that the overall military expenditure of the 15 is reduced, though the balance of power between them (presuming it is militarily determined), would remain the same. From a US defense point of view, one could argue against this joint reallocation in military spending, for fear of named (or un-named) 'rogue states' or other potential enemies or economic competitors who may band together and flex their military power multilaterally, or on their own. However, US military spending is 55 times greater than the combined military spending of the six so called 'rogue states' (Cuba, Iran, Libya, North Korea, Sudan and Syria) which amounts to no more than \$13 billion combined. Should we add China and Russia as 'potential threats,' this brings the total up to \$205 billion, which is still only 25% of US military spending. Furthermore, if we include the strongest US allies (NATO countries, Japan, South Korea and Australia), the total military expenditure of the US and its allies rises to about \$1.1 trillion, vastly ahead of any proclaimed or potential enemy.^{xxv}

What can be done

Now that we have established some of the international political norms keeping military spending off the Finance for Development agenda, we can consider how change is possible. With September 11th, we have seen that the old Cold War notion of equating greater military spending to increased security no longer holds true today, and while a state has the

right and obligation to protect its citizens, other important state functions and the rights of citizens have been brushed aside as more money is allocated to military spending. The world's military spending habits are not proportional to either the conceived international needs of defense, balance of power, and development, nor to domestic needs such as homeland security and healthcare. As stated before, and made clear by article 51 of the UN Charter, the UN does not have the authority to "impair the inherent right of individual or collective self-defence"^{xxvi} Therefore it is unlikely that the UN as a supra-national body will be the agency to put military spending on the finance for development agenda. While the UN General Assembly has passed a resolution each year since the 1970's on the 'Relationship Between Disarmament and Development,' nothing has been done as a result of these resolutions. The 2005 version of the resolution ([A/RES/60/61](#)) was adopted by 177 of the 180 voting member states. All of the highest military spending states adopted the resolution, except for the US and France.^{xxvii} Though just like the many previous resolutions, this one has yet to be acted upon. This then leaves the task up to states and their citizens. In democratic states, such as the US, this is a possibility, as leaders and policy makers in theory, are supposed to listen to the wishes of the electorate. This is the option of a bottom-up approach to change, where taxpayers and civil society push for such redirection of military spending from their leaders. It now seems it is a matter of awareness, and of motivation for society to begin to act. While a large scale citizen movement of this type has yet to be fully organized to the point where it can make a difference, civil society in the past has had success in pushing their governments to make changes in the field of military policy. The most relevant example is the movement that resulted in the Ottawa Treaty, banning the use of anti-personnel landmines, which 156 states have signed. Also, the current civil society campaign to ban the use of cluster bombs has been extremely successful, with a treaty up for signatures at the Cluster Munitions Convention in November.

However individuals or groups in civil society acting on their own good will should not be the only ones pushing for such change. Every person who participates in the global economy should have a vested interest in redirecting military funds towards development, for a few different reasons. First, war is almost always hurtful to the world economy; it upsets production and distribution, and can either permanently damage or delay development and production in certain areas in the future (for example landmines in Cambodia). Second, should we choose to fully invest in development rather than military force and the destruction, human suffering and delays accompanying military action, we stand a chance to help states develop an economy through investment in human capital with which they can gain a foothold

in the international market, and the global trade system. This in turn opens doors for FDI, increased profits on many levels, increased specialization, and can lead to improvement in the overall effective use of resources available in our world economy (for greater detail see page 16). Overall, we all stand to benefit by funding development with ‘military’ funds - either financially, by an improved quality of life, or simply from peace of mind, whether it be a CEO of a multinational corporation, or an average civilian. Raising awareness as to the potential benefits, especially financially, many large corporations stand to gain in the long run through proper investment in development could spur them to lobby their governments to do so. Also, ‘big business’ provides a large amount of tax revenue. Rather than having their taxes be spent on military programs, from which they will not receive return investments, it seems it would be more appealing to such corporations that more of their taxes be allocated toward investing in development which, with time, can cycle back through the world economy and bring further revenue and opportunity to the company.

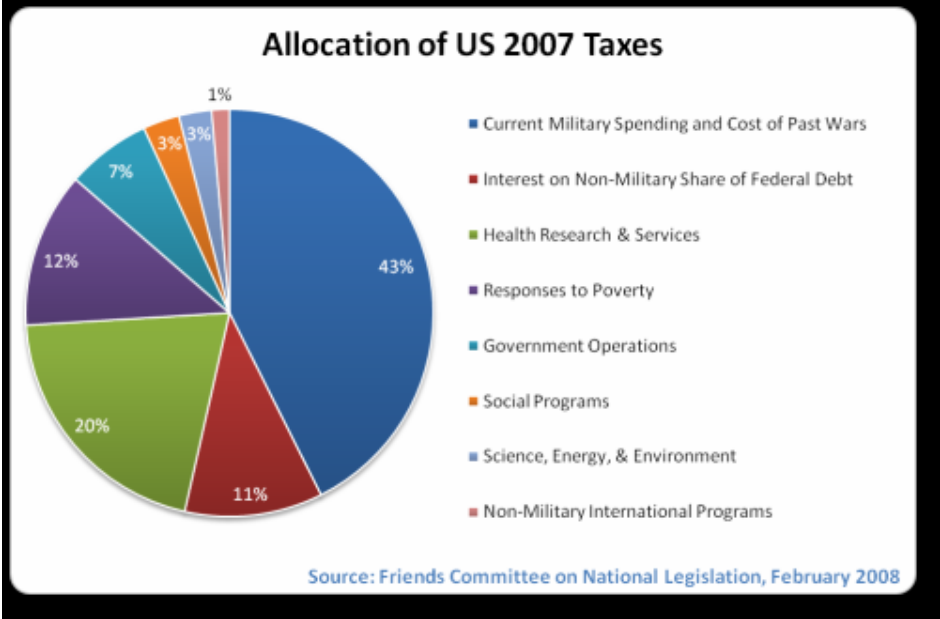
The issue of democracy

While a ‘push from below’ can be an effective catalyst for change in a democratic society, one must question the role of non democratic or semi-democratic states in this process. While citizens of democracies can push their leaders for a unilateral or multilateral reduction and redistribution of military spending (potentially through a body like the UN), non democratic and semi-democratic states can simply ignore the wishes of their citizens. This becomes an issue as three of the top 15 military spending states are non democratic states, and are considered ‘not free’ by Freedom House’s 2008 ‘Freedom in the World’ survey. China, Russia and Saudi Arabia were all deemed ‘not free’ and scored poorly in the survey areas of political rights and civil liberties, while the 12 other top military spenders were all given the status of ‘free’ and high scores in political rights and civil liberties.^{xxviii}

So while the citizens of these other free and democratic 12 top military spending states can push for redirection of military spending, it seems doubtful that governments will adhere to their demands when other top military spenders can ignore their public and can continue their pattern of military expenditure. Especially in the case of the US, it is unlikely that leaders would agree to multilateral military spending cutbacks if ‘potential enemies’ and permanent UNSC members China and Russia do not reciprocate, even though Russia and China’s military combined military expenditure is only \$93.7 billion, or 17% of US military spending.^{xxix} This raises the question of whether we will have to wait until all of the world’s top military spenders are fully functioning democracies before the push to reduce and redirect

military spending can truly take place. The answer is not necessarily. After the end of the Cold War, the world as a whole saw massive military spending cutbacks, mainly major reductions by the US and Russia, and many other less significant players followed suit. More recently, we have seen a top military spender, France, and a top ODA contributor, Sweden, make unilateral reductions in their defense programs, though not on the premise of boosting foreign aid. Also, should the rest of the top democratic military spenders agree on a multilateral redistribution of military spending, they could pressure the remaining states to do the same. For example the US could probably pressure its close ally Saudi Arabia to participate in military spending cuts. Just as at the end of the Cold War, when top military spenders decide to make cuts in their defense budgets, we have seen that this can also prompt others to follow their example.

Of course we must take into account that there may be other reasons for high military spenders to start making cutbacks in their spending, other than a multilateral agreement, initiated at the highest levels of government. As mentioned before, a bottom up push for reform by civil society is a possibility. It is hard to understand why US citizens (or anyone from a top military spending state) will sit complacently by as 48% of their tax revenue is squandered on the destructiveness that accompanies military spending and war - again highlighting the disproportionate nature of US military spending, both domestically and internationally. Furthermore, a Congressional committee estimated that the average burden on an American family of four due to the military spending in Iraq and Afghanistan so far is \$20,900 per year, and could rise to \$46,400.^{xxx}



xxxii

The effect military spending has on the economy also has potential to provoke change in spending habits. As mentioned before, the military spending increases the US has made since Bush took office have had a devastating effect not only on the US economy, but on other parties worldwide as well. The 2007 SIPRI yearbook states that:

“According to the US Government Accountability Office, in the absence of policy changes [regarding military spending], the currently growing imbalance between expected US Government spending and tax revenues will mean ‘ultimately unsustainable federal deficits and debts that serve the threaten [the USA’s] future national security as well as the standard of living for the American people. In addition, the US military operations in Afghanistan, Iraq and elsewhere will have a long-term economic impact far beyond the direct effect of military expenditure. The indirect costs of armed conflict include a range of costs to the warring parties themselves, as well as to neighbouring countries, and the negative macroeconomic impact of disturbances caused by the conflict...In addition, major armed conflicts often have global macro economic implications, in the case of the conflict in Iraq primarily due to the impact on the oil market.’”^{xxxii}

Renowned economist Joseph Stiglitz along with Linda Bilmes produced the estimate that overall, including future care of Iraq veterans, the Iraq war would cost some \$3 trillion dollars, and that figure is just the cost to America alone, not taking into account the costs borne by other nations or impacts on the world economy, and a strong case can be made that this military expenditure is the main cause of the current US financial crisis.^{xxxiii} Thus it is quite possible in the future that top military spenders like the US will have to make cutbacks in their military spending simply due to its impact on the economy. Though whether such cutbacks will be accompanied by increases in foreign development assistance is unclear, and while economic circumstances have the ability to force cuts in military spending, the people of these nations must then push for increases in financing development, both at home and abroad.

Making the shift

The amount spent by the world on the military is so vast, even small percentage changes have the potential to positively or negatively affect all aspects of our lives, anywhere in the world. Furthermore, the connection between democracy, development and redirecting military spending cannot be ignored. The redirection of military spending by top democratic military spenders, like the US, could help achieve the MDGs and implement the MC commitments. Through this process, the overall investment in human capital, such as improved health, education and living standards, will raise the productivity or output potential of a state, while simultaneously fostering stability. Political stability and potential

productivity are essential in attracting FDI. The MC states that “a central challenge [will be] to create the necessary domestic and international conditions to facilitate foreign direct investment flows...”^{xxxiv} Yet if we fully commit ourselves to finance development to achieve the MDGs, such investment in human capital will in turn, attract FDI and result in economic growth both for the state, and the greater world economy. Redirecting military spending for development and to achieve the MDGs should not be seen as wealthy nations sacrificing bits of their sovereignty for charity. Financing the MDGs should be viewed as a worldwide investment to build human capital, which in turn will benefit our world economy and bring greater stability to the globe as a whole, hopefully reducing our perceived need for weapons and militaries.

Redirecting military spending towards development seems like a simple concept with endless positive potential. However we must keep in mind that redirecting military spending is not as simple as moving a pile of money from one box to another. There are many bureaucratic obstacles to setting up such programs, committees to be established to deal with how, when and where development aid is distributed, and then follow ups to check on progress and monitor for corruption and so on. This is part of what is called the ‘leaky bucket’ syndrome. For example redirecting \$2 billion of military spending towards development does not mean there is \$2 billion available for development as administrative or bureaucratic costs will take a large bite out of the initial sum. The ‘leaky bucket’ syndrome can happen with other innovative sources of development finance as well, taxes in particular, though for different reasons (see [Atkinson's paper](#) for more).^{xxxv} Despite the bureaucratic red tape, and the transfer of funds with a ‘leaky bucket’ it is hard to deny that redirecting military spending has the potential to finance development much, much further than any other single option.

Conclusion

Military spending is not on the agenda as an innovative source for financing development due to outdated notions of sovereignty and international power structures. In a world system where economic forces are already well structured to act globally, political structures still remain nationally focused, though the European Union is an example of how such structures are beginning to change.^{xxxvi} We need to rethink what is required today, in terms of national security, defense, development and the economy. Most countries’ defense policies are still focused on state versus state defense, which requires huge amounts of military spending and is no longer pertinent, or proportionate, to the dangers we now face. Civil society needs to push its leaders to expand their political horizons, and work with others

towards agreements to redirect military spending to fund development so the rest of the world can partake in, and benefit from our world economic system. Not only would redirecting military spending be the right policy to adopt from a humanitarian point of view, but in the long run, wealthy developed nations will benefit from the achievement of the MDGs and implementing the MC. While this may cost much more than the regular aid contributions that donor countries give each year, frontloading ODA now to achieve the MDGs will in the long run save money, as it will provide even the poorest states with an economic basis from which they can expand and prosper. Valiant efforts are being made to find innovative sources of finance to fund development, but the most obvious potential source continues to be ignored due to outdated notions surrounding the importance of military, sovereignty and power hierarchies in the international system. Death and destruction have become the world's largest market, and they continue to consume an unacceptable amount of resources. We must stop investing in our destruction and start investing in our development for a sustainable future. The time has come for the world to call upon its leaders to put the issue of military expenditure onto the agenda of finance for development. As eloquently stated by Costa Rican Foreign Minister Bruno Stagno, "Security does not come from multiplying weapons; history has already proven this too many times. Security comes from remedying injustice, easing shortages [and] creating opportunities so that we can have collective prosperity on a par with collective security."^{xxxvii}

Annex 1 - Millennium Development Goals

The Millennium Development Goals (MDGs) are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions-income poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability. They are also basic human rights-the rights of each person on the planet to health, education, shelter, and security. The Millennium Development Goals derive from earlier 'international development goals,' and were officially established at the Millennium Summit in 2000, where 189 world leaders adopted the United Nations Millennium Declaration, from which the eight-goal action-plan, the 'Millennium Development Goals', were drawn.^{xxxviii}

The summit set a goal date of 2015 to achieve the 8 main objectives set forth by the UN Millennium Declaration. Below is a summary of the Millennium Development Goals and their sub targets. To see how things are progressing, visit <http://www.unmillenniumproject.org/>. Or, to read the entire the Millennium Declaration, see <http://www.un.org/millennium/declaration/ares552e.pdf>.

1. Eradicate Extreme Poverty and Hunger

- Reduce by half between 1990 and 2015 the proportion of people living on less than \$1 a day
- Reduce by half between 1990 and 2015 the proportion of people who suffer from hunger
- Achieve full and productive employment and decent work for all, including women and young people

2. Achieve Universal Primary Education

- Ensure that boys and girls everywhere will be able to complete primary school education courses

3. Promote Gender Equality and Empower Women

- Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

4. Reduce Child Mortality

- Reduce the under-five mortality rate by two thirds between 1990 and 2015

5. Improve Maternal Health

- Reduce the maternal mortality ratio by 75% between 1990 and 2015

6. Combat HIV/AIDS, Malaria, and Other Diseases

- Halt and begin to reverse the spread of HIV/[AIDS](#) by 2015
- By 2010, achieve universal access to treatment for HIV/AIDS for all those who need it
- Halt and begin to reverse the incidence of [malaria](#) and other major diseases by 2015

7. Ensure Environmental Sustainability

- Integrate the principles of [sustainable development](#) into country policies and programmes; reverse loss of environmental resources
- By 2015 reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation
- Achieve by 2020 a significant improvement in the lives of at least 100 million slum-dwellers

- Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

8. Develop a Global Partnership for Development

- Further develop an open, rule-based, predictable, non-discriminatory trading and financial system which includes a commitment to good governance, development and [poverty](#) reduction—nationally and internationally
- Address the special needs of the least developed countries.
- Address the special needs of landlocked and small island developing States
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
- In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies^{xxxix}

Annex 2 - The Monterrey Consensus

The Monterrey Consensus was the outcome of the 2002 [United Nations](#) International Conference on Financing for Development. It was adopted by leaders and Governments on [22 March 2002](#). Over fifty Heads of State and two hundred Ministers of Finance, Foreign Affairs, Development and Trade participated in the event. Governments were joined by the leaders of the United Nations, the [International Monetary Fund](#) (IMF), the [World Bank](#) and the [World Trade Organization](#) (WTO), prominent business and civil society leaders and other stakeholders. New development aid commitments from the United States and the European Union and other countries were made at the conference. Countries also reached agreements on other issues, including debt relief, fighting corruption, and policy coherence.

Since its adoption the Monterrey Consensus has become a major reference point in financing for international development. The document addresses six main areas:

1. Mobilizing domestic financial resources for development.
2. Mobilizing international resources for development: foreign direct investment and other private flows.
3. International Trade as an engine for development.
4. Increasing international financial and technical cooperation for development.
5. External Debt.
6. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.^{x1}

Below is a short outline of the main points and commitments made in regard to each of the main points of the Monterrey Consensus (MC). Or, to read the full text visit <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>.

1. Main MC commitments regarding domestic resource mobilization:

- Ensure favorable domestic conditions for the mobilization of private savings, productive investments and economic growth (§10)
 - Macro-economic stability, sound monetary and regulatory policies,

- Good governance, including stable property rights, rule of law, democratic processes, accountability, equity and gender equality
- Investments in economic and social infrastructure; effective services
- Strengthened domestic financial sector
- Establish sustainable fiscal and financial systems (§15)
 - Effective institutional governance, fight against corruption
 - Sustainable, efficient and equitable fiscal system
 - Improved public spending
 - Institutional capacity building and human resource development
- Ensure the impact of domestic resources on development objectives: growth, poverty eradication, equity and sustainable development (§10)
 - Investment in gender sensitive social services, active labor market policies, social safety nets, etc.
 - Microfinance, credit for MSE and rural areas
 - Incorporation of the informal sector
 - Education and human resource development

2. Main MC commitments regarding international financing:

- Creating domestic conditions that are conducive to foreign direct investment (FDI) (§20)
 - Build transparent, stable investment climate
 - Establish public/private sector financing mechanisms
- Orientation of foreign investments towards domestic development goals (§23)
 - Encourage businesses to address social, gender and environmental implications of investment
 - Increase support for infrastructure development
 - Promote public private partnerships
- Regional and international institutions to support FDI (§22)
 - Increase transparency and timely information on financial flows and markets
 - Provide export credits, co-financing, venture capital, etc.
 - Implement measures to mitigate the volatility of short-term capital flows
 - Provide technical assistance and capacity building programmes related to policy frameworks, regulation, financial management, etc.

3. Main MC commitments regarding international trade:

- Reduce barriers to international trade (§28)
 - Establish a universal, rule-based, non-discriminatory, equitable multilateral trading system; trade liberalization
 - Accession of all developing countries to the WTO
- Improve market access for exports from developing countries (§33, 34)
 - Address marginalization of LDCs in international trade
 - Duty-free and quota-free access for all LDC exports
 - Full participation of developing countries in multi-lateral trade negotiations
- Reduce supply-side constraints to trade (§36)
 - Develop trade infrastructure
 - Trade-related training, capacity/institution building and trade-supporting services
 - Multilateral assistance to mitigate the consequences of depressed export revenues of countries heavily dependent on commodity trading

4. Main MC commitments regarding development cooperation:

- Promote the essential role of ODA as a complement to other sources of financing (§39)
 - Recognize national leadership and ownership of development plans
 - Orient ODA towards domestic resource mobilization
 - Aim at improved environment for private sector activity, including FDI
- Maximize the effectiveness and poverty reduction impact of ODA (§40-43)
 - Harmonize operational procedures, untying aid, etc.
 - Build support for ODA by cooperating to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness
 - Work towards every developed nation meeting the target of 0.7% of GNI as ODA to developing countries, and 0.15-0.20% of GNI of developed countries to least developed countries
 - Focus specifically on achieving the goals outlined in MDGs
 - Enhance absorptive capacity and financial management of recipient countries
- Substantially increasing the volume of ODA (§41)
 - Build support for ODA
 - Promote the role of multi-lateral and regional development banks, mitigating volatility of financial markets, ensuring long-term resources available to IFIs
 - Explore innovative sources of financing

5. Main MC commitments regarding external debt:

- Implement strategies for the relief of unsustainable external debt (§48)
 - Reduce outstanding indebtedness; cancel debt where appropriate
 - Share responsibility between borrowers and creditors for preventing future unsustainable debt
 - Consider reduced debt sustainability in cases of natural catastrophes, trade shock, etc.
- Build national strategies and capacities for managing external liabilities (§47)
 - Establish preconditions for debt sustainability, including economic and fiscal policies
 - Provide technical assistance to strengthen external debt management.

6. Main MC commitments regarding systemic issues:

- Enhance the coherence of international monetary, financial and trading systems (§52)
 - Improve global economic governance
 - Reform the global financial architecture
 - Enhance financing for poverty eradication
- Strengthen instruments and resources for crisis management and global stability (§59)
 - Support coordination of macro-economic policies
 - Improve identification and prevention of potential crises
 - Ensure a suitable array of financial facilities and resources to respond to crises
 - Accommodate the social costs of adjustment programmes
- Improve governance and broaden the basis of decision making (§62)
 - Strengthen participation of developing countries in international decision-making and norm-setting
 - Repatriation of illegally acquired public assets
 - Implementation of measures to combat corruption^{xli}

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