

Identifying, calculating and lowering the opportunity costs – the hidden source of financing sustainable development

Position Paper to the 2023 Financing for Development Report of the UN IATF on FFD

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“Because opportunity costs are unseen by definition, they can be easily overlooked”

Jason Fernando in Investopedia, June 2022 (1)

Introduction: how opportunity costs are generated by weak assumptions

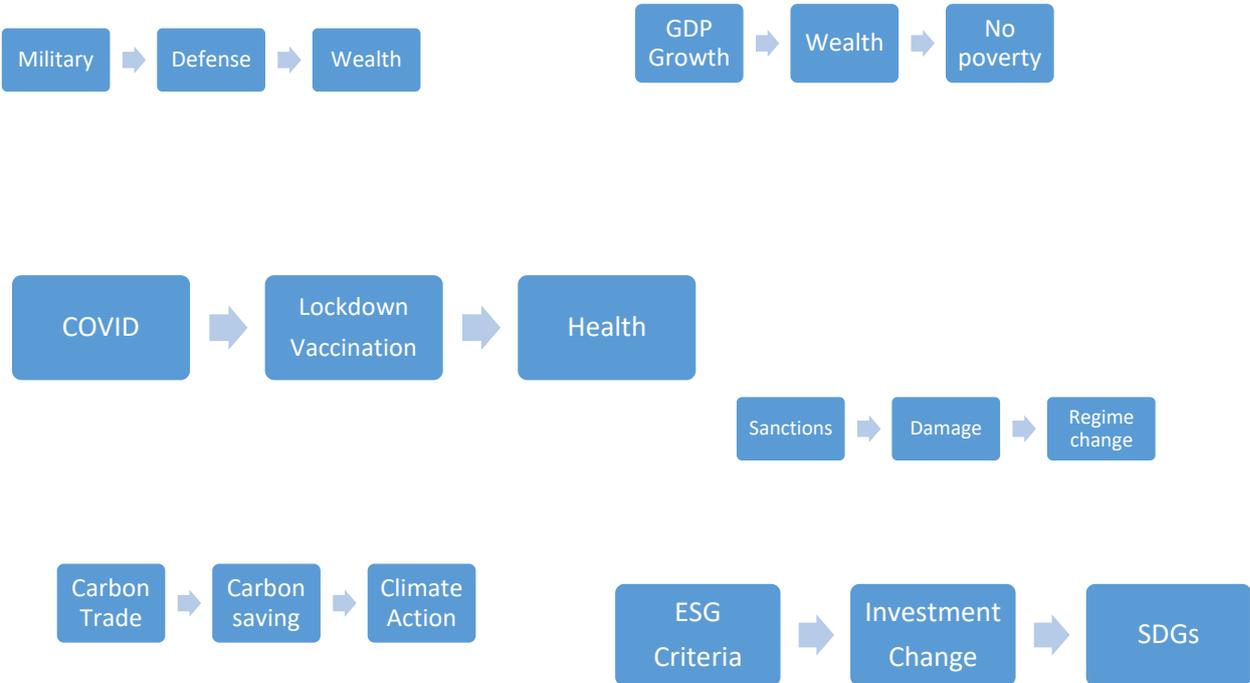
National policies are often based on assumptions that have one thing in common: their evidence was never assessed by scientific methods.

They are therefore not reached by a rational progress of knowledge. Terms such as strategy, policy, value-based, agenda, and foreign policy goals replace the verification of assumptions. Famous examples are the Domino theory of the American President Eisenhower (1954), according to which all states would become communist if they were not immediately occupied and attacked.

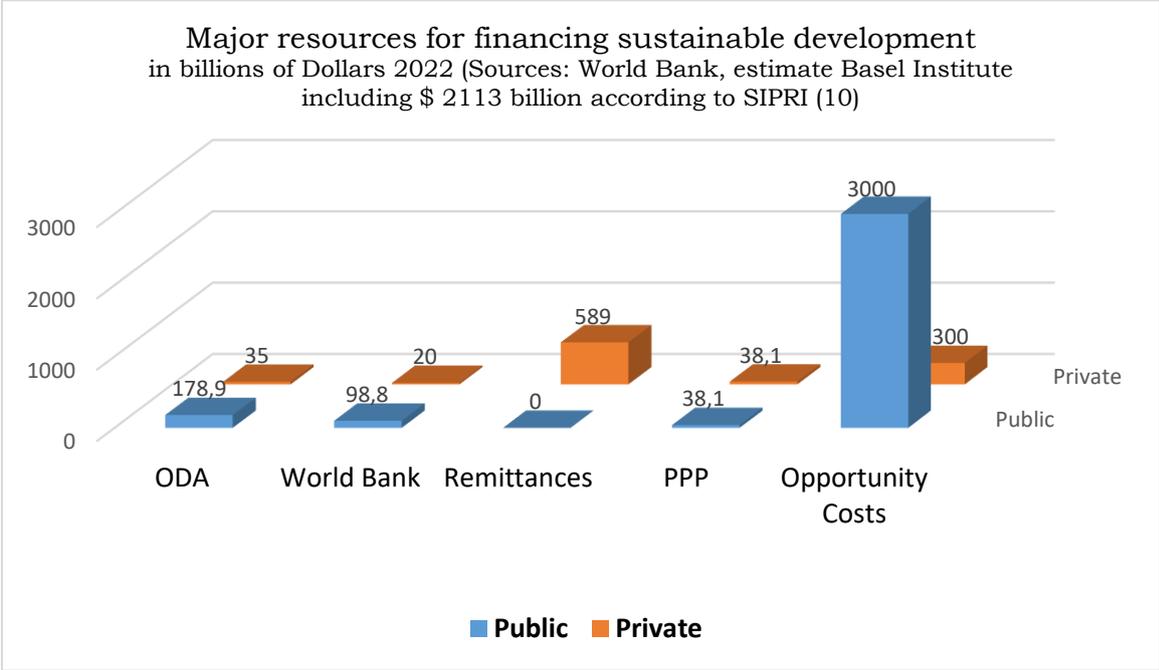
The result was about 5 million victims and trillions of dollars in damage. Afghanistan was invaded by Russia as well as by the USA and NATO on the assumption that there was a terrorist threat from Afghanistan. The result was millions of refugees, around 200'000 victims and a devastated country up to now.

Not only foreign policy, but also economic, health and climate policy are based on assumptions that determine the distribution of public funds.

Six popular misconceptions about the impact of political agendas



Same procedure as every year – the draft of the 2023 Financing for Sustainable Development Report is a list of the past agendas of the contributing agencies. The identified sources of financing for sustainable development are therefore limited by the current instruments such as ODA, credits from World Bank, Development Banks and IMF, alleged ‘mobilization’ of alleged ‘private’ investment, remittances from migrants and donations from charities.



Are there any hidden assets and sources the agencies and we do not see?

Do we have a cognitive problem of identifying new resources to finance sustainable development?

In our 2022 position paper, we will introduce a new perspective on enhancing the financing of sustainable development: opportunity costs.

Similar use – same perspective – three words calling us to think in alternatives.

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Opportunity Cost

Few know what opportunity costs are. Let us try it in one sentence. Opportunity cost is the loss when you prefer an expensive alternative to an economic one.
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Trade Off

In general, you only know after. The stock you did not buy exploded while the stock you purchased declined.
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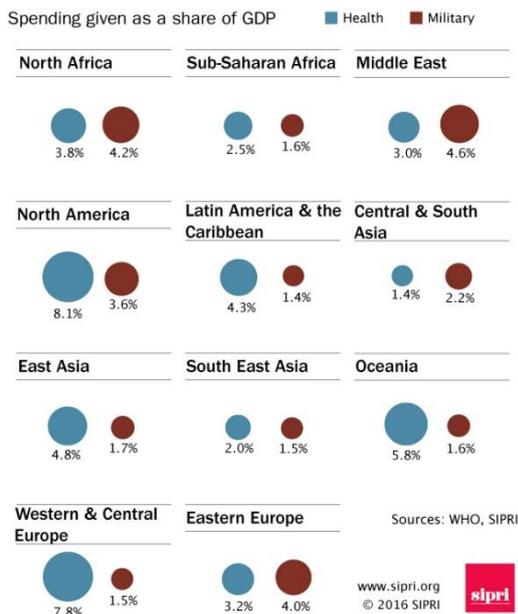
Transaction Cost

Therefore, any effort to identify and calculate the opportunity cost within the decision process is a strong business case.

Why are opportunity costs so unknown in organizations and governments though?

- Opportunity costs question the status quo of a policy and the budgets to implement it
- Opportunity costs question the rational choice of a policy
- Opportunity costs question the distribution within a public budget
- Opportunity costs question the mental health of the policy makers

Health spending versus Military spending, 2013



In the past, opportunity costs within governmental budgets were identified by comparing them with the military expenditures. In 2016, SIPRI contrasted them with the expenditures for Health. (see image)(3)

But, are expenditures for health, education, or social welfare an alternative choice to achieve the same goal?

So what is the Goal of a military budget? Almost all States call their military budget “Defence” budget. Spending a trillion Dollars (including veterans) annual military budget the United States of America defend their country against whom? The U.S. have only borders with two States: Canada and Mexico. None of them threatens them. Even the Arctic border with Russia has never been

under dispute

In 2022, at COP 27 (6), opportunity costs contrasted with the expenditures for Climate Change (see image right).

However, would an increased budget for green energy prevent permanent members of the UN Security Council to conduct wars and to put a threat on other countries? To destroy their economies by war and sanctions?



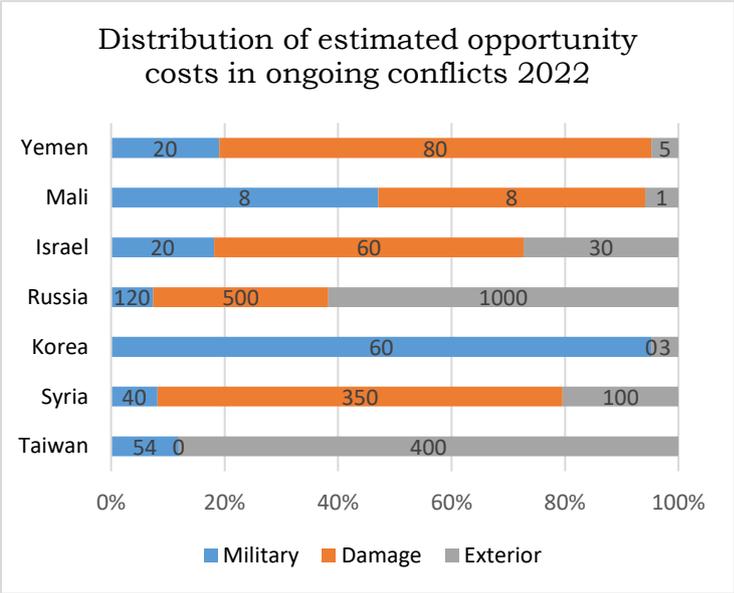
Bringing the perspective of opportunity costs to the expenditures for military would raises up the question: which alternative action will generate the same effect to protect your country against other countries?

In 2018, Mainak Bhattacharjee and Debashis Mazumdar from the Heritage College in India picked up this question and wrote:

“This implies the necessity of military expenditure needs to be lowered which can be made possible by improving international harmony and imparting more bonhomie among the nations particularly amongst those which are close neighbours.” (5)

One sample for this might be the European Union before starting an economic war against the Russian Federation and China.

In order to identify and calculate opportunity costs to increase financing for sustainable development, our focus is on governmental expenditures first. Not only military expenditures are opportunity costs. The damage caused by the destruction of infrastructure and refugees as well as the losses in economic relations are as well part of the opportunity costs:



Military: Added expenditures of the conflicting parties involved. (Sources: SIPRI+ estimate Basel Institute)

Damage: Damage caused by military action, e.g. in infrastructure and human capital (estimate by Basel Institute)

Exterior: Effect of the conflict on exterior countries e.g. through higher energy prices or lost business revenues, through refugees, sanctions and blockage. (Estimate by Basel Institute)

Due to the different impact of the conflicts, the distribution of the opportunity costs differs extremely.

The divide of North and South Korea causes almost zero damage. Nevertheless, the costs for military are at \$ 60 billion per year on both sides. The exterior effect is quite low, because South Korea is successfully integrated in the World’s economy and North Korea may increase its economy by estimated \$ 20 billion in the beginning. (Currently the official export is less than \$ 1 billion per year)

In Syria, the damage created in this 12-years-war is at \$ 400 billion – much more than the costs for the military and the exterior losses due to the decline of business with Syria.

In Taiwan, we estimate that the People’s Republic of China spends the double of the Taiwanese military budget of \$ 18 billion per year, which is \$ 36 billion. While there is no damage, the exterior costs are in the lost businesses due to the conflict.

An example is the restriction HUAWEI suffers in the Western World, but as well restrictions damaging Taiwan due to a lack of diplomatic presentation. As both countries are at the forefront of global technology development and delivery, the loss of GDP may reach \$ 400 billion per year in both countries, almost ten times more than the military costs.

Recent estimates on the cumulated Russian military costs of the war in Ukraine where at \$ 80 billion. Ukraine may have spent the half, which is \$ 40 billion paid by the United States and the European Union. The damage in Ukraine and Donbas might be at \$ 500 billion. The war started with the destruction of the brand new Donetsk Airport in 2014 by the Ukraine army with a damage of \$ 1 billion.

Ukraine conflict uproots hundreds of thousands

Some 514,000 people have been internally displaced by fighting while hundreds of thousands have fled to Russia and other neighbouring states.

By Divers | 05 December 2014 | [Español](#) | [Français](#)

Image: According to UNHCR (11), more than one million inhabitants of the Donbas were displaced in 2014 yet.

The costs of the conflict in other countries that purchased products from Russia and Ukraine reached up to \$ one trillion including the losses in trade with both countries.

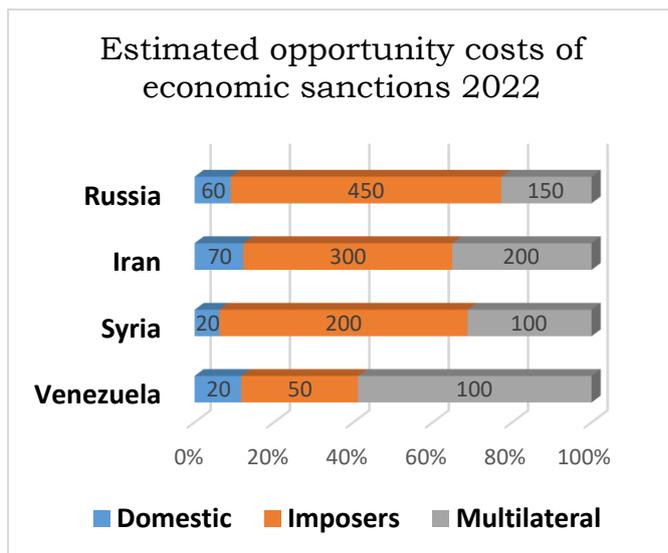
With a military budget of \$ 24.3 billions in 2021, Israel is the most militarized country in the world. The damage caused in Gaza and West Bank reaches \$ 60 billion estimated. The loss in business and trade may reach \$ 20 billion and is mostly related to the businesses of around 6 million expats from Palestine. They could both invest and trade if Palestine is allowed to participate in the Global economy.

The conflicts around Mali, Niger, Tchad and Burkina Faso appear relatively cheap and so do the damage and the exterior impact. Nevertheless, the conflict is about worthless post-colonial borders that divide tribal areas existing for centuries.

A further creation of new Nations or autonomous regions may end the conflicts quickly.

In Yemen, Saudi Arabia (military budget 2021 \$ 55.6bn), the Emirates (estimated \$ 30bn in 2022) and Iran (military budget 2021 \$24.8 n), compete to support conflicting parties. The mayor damage is the destruction of the public infrastructure in many parts of Yemen. The impact on trade and economy with countries abroad is relatively small – one reason that resolving this conflict is not at the agenda of many states.

The business case of ending the Yemen conflict has to be assessed and the result will be that it is not worth.



Sanctions cause costs in the states against which they are imposed. However, they also cause costs in the states that impose them, the *imposers*. If, for example, sanctions are imposed on the European Union's most important energy supplier, the Russian Federation, the costs of increased energy prices can easily reach a gigantic 600 billion dollars in the first year due to the impact on the value chain in Western industry and Global agriculture. These are by far the most expensive sanctions against

any country in the world. The sanctions against Syria damage the economies of neighbouring countries such as Iran, Iraq, Jordan, Lebanon, Turkey and the European Union. The damage is much higher than the direct losses in the Syrian Republic. Iran heavily suffers by the sanctions imposed by the United States and the European Union, but the entire region loses as well.

Policy recommendations – addressing 3.03 per cent of the sources only?

“The Task Force has two goals: to monitor progress on the Addis Agenda and advise governments on Financing for Sustainable Development” (UN IATF on FFD)

By reading the Finance for Development Report 2022, we can see key messages such as to increase ODA, to mobilize domestic resources, to both increase and decrease fiscal incentives, to mobilize and leverage private capital, to increase credits from public development banks. The total measures can be estimated at an effect of \$ 100 bn per year if considered.

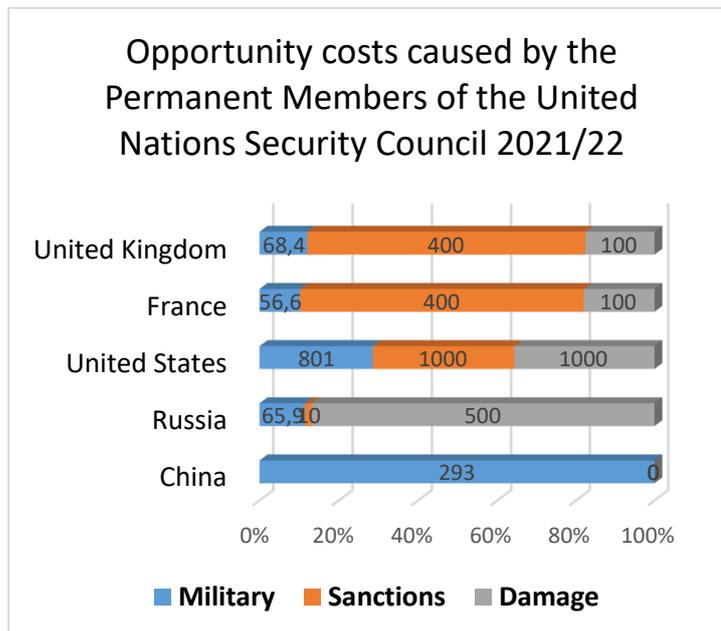
The costs for the Sustainable Development Goals have been estimated up to 5 trillion Dollars per year. (7)

As we could see in the chart on page two, these sources count for only 3.03 per cent of the potential to activate opportunity costs of 3 trillion in the public, 300 bn in the private sector. The private part is reduced to the conversion of military technologies to civil means such as clean energy. The public part consists of the 2.1 trillion paid to the military according to SIPRI and an estimated damage of wars and sanctions by 1 trillion per year. What will though be the most effective way to activate this resource? A recent study comparing several economic approaches reclaims that ‘Society must find new trajectories of economic development that prioritise human and environmental benefits.’ (9)

Do we need new institutions, task forces, Global governance, *Peace 2045* initiatives though?

A single confidence building measure

While the military expenditures after World War II and since the inauguration of the Charter of the United Nations in 1945 (8) are based on vague mistrust, confidence-building measures are the most promising instrument. 'Disarmament for Development' has been reclaimed by UN stakeholders in 2005 yet, ten years before the launch of the Sustainable Development Goals.(4) The North Atlantic Treaty Organization (NATO) has been founded in 1949.



Military: SIPRI (10), Sanctions: estimate Basel Institute, Damage: estimate Basel Institute

While in the meanwhile NATO members started several wars – violating the UN Charter – in 1955 the Warsaw Pact was founded by the Soviet Union. The Pact ended in 1991 after the reunification of Germany.

Despite ever-increasing military spending and new members, NATO has not promoted international security and is the trigger for over 90 per cent of the military spending outside the NATO, especially in China, Russia, Iran, Israel, Japan, North Korea, Saudi Arabia, South Korea, and Taiwan.

Transforming NATO from a military alliance into a civilian one enables the United Nations once again to credibly represent its 1945 Charter (8):

‘AND FOR THESE ENDS to practice tolerance and live together in peace with one another as good neighbors, and to unite our strength to maintain international peace and security, and to ensure, by the acceptance of principles and the institution of methods, that armed force shall not be used, save in the common interest, and to employ international machinery for the promotion of the economic and social advancement of all peoples’

Credits

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<https://www.investopedia.com/terms/o/opportunitycost.asp>

2) Inter-agency Task Force on Financing for Development
Bridging the Finance Divide, Financing for Sustainable Development Report 2022,

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3) Perlo-Freeman, Sam, The opportunity cost of world military spending, in: SIPRI Blog, April 5th 2016

<https://sipri.org/commentary/blog/2016/opportunity-cost-world-military-spending>

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5) Bhattacharjee, Mainak and Debashis Mazumdar, The Opportunity Costs of Military Expenditure, in: Handbook of Research on Military Expenditures and Economic and Political Resources, p 271-284, 2018

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<https://demilitarize.org/wp-content/uploads/2022/11/ED-Green-Climate-Fund-Joint-Letter59-1.pdf>

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<https://link.springer.com/article/10.1007/s43621-022-00088-5>

8) The Charter of the United Nations, 1945

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9) Brand-Correa, Lina et al, Economics for people and planet – moving beyond the neoclassical paradigm, in: The Lancet Planetary Health, Volume 6, Issue 4, p 371-379, April 1st 2022

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10) Trends in World Military Expenditure 2012, SIPRI, April 2022

<https://www.sipri.org/publications/2022/sipri-fact-sheets/trends-world-military-expenditure-2021>

11) Ukraine conflict uproots hundreds of thousands, UNHCR, December 2014

<https://www.unhcr.org/news/latest/2014/12/548190aa9/ukraine-conflict-uproots-hundreds-thousands.html>

Policy Papers of Basel Institute of Commons and Economics recently published in the UNDESA (IATF on FfD and IATT)

https://developmentfinance.un.org/sites/developmentfinance.un.org/files/The_SDGs_are_public_goods_IATF_2019.pdf

https://developmentfinance.un.org/sites/developmentfinance.un.org/files/28_New_Funds_To_Financing_Development.pdf

https://sustainabledevelopment.un.org/content/documents/commitments/3914_11706_commitment_300_Cities_and_their_social_goods_to_achieve_the_SDGs.pdf

<https://sdgs.un.org/documents/digital-technologies-empirically-measure-underpinning-public-goods-each-locality>

Article in Nature (2022) featuring the World Social Capital Monitor among the Global Top Ten to implement the 17 UN Goals:

<https://www.nature.com/articles/s41467-022-28230-x.pdf>