

Chapter 41

Military Expenditure and Economic Growth Relationship Revisited in Some South Asian Countries: With Special Reference to India

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ABSTRACT

To protect the motherland from foreign invasion, to maintain peace and stabilize border tension, to maintain a balance of strength among neighboring countries, military expenditure is inevitable. On the other hand, if huge money is spent to continue the war game with neighboring countries that shrinks the funds available for investing in health, education, infrastructure, and industrialization. Under this controversy, some researchers feel increase in military expenditure raises national income through multiplier effect, but another group thinks it crowds out investment for generating employment and reduction of poverty especially in developing countries. In this chapter an attempt has been taken to investigate the relation between military expenditure and its impact on economic growth of some South Asian nations (e.g., India, Pakistan, Sri Lanka, and Bangladesh) by giving special importance to India.

INTRODUCTION

Economic impacts of military expenditure can be studied from various facets. The basic economics says that given our technical knowledge and endowment of resources, more production of one commodity results in less production of some other commodities. Naturally if more money is spent on defense results a decline of funds for production of civilian goods. Some researchers feel defense spending promotes economic growth if some of the expenditures are used for the creation of socio-economic infrastructure like roads, bridges, airports, hospitals and so forth. Moreover, defense spending leads to formation of

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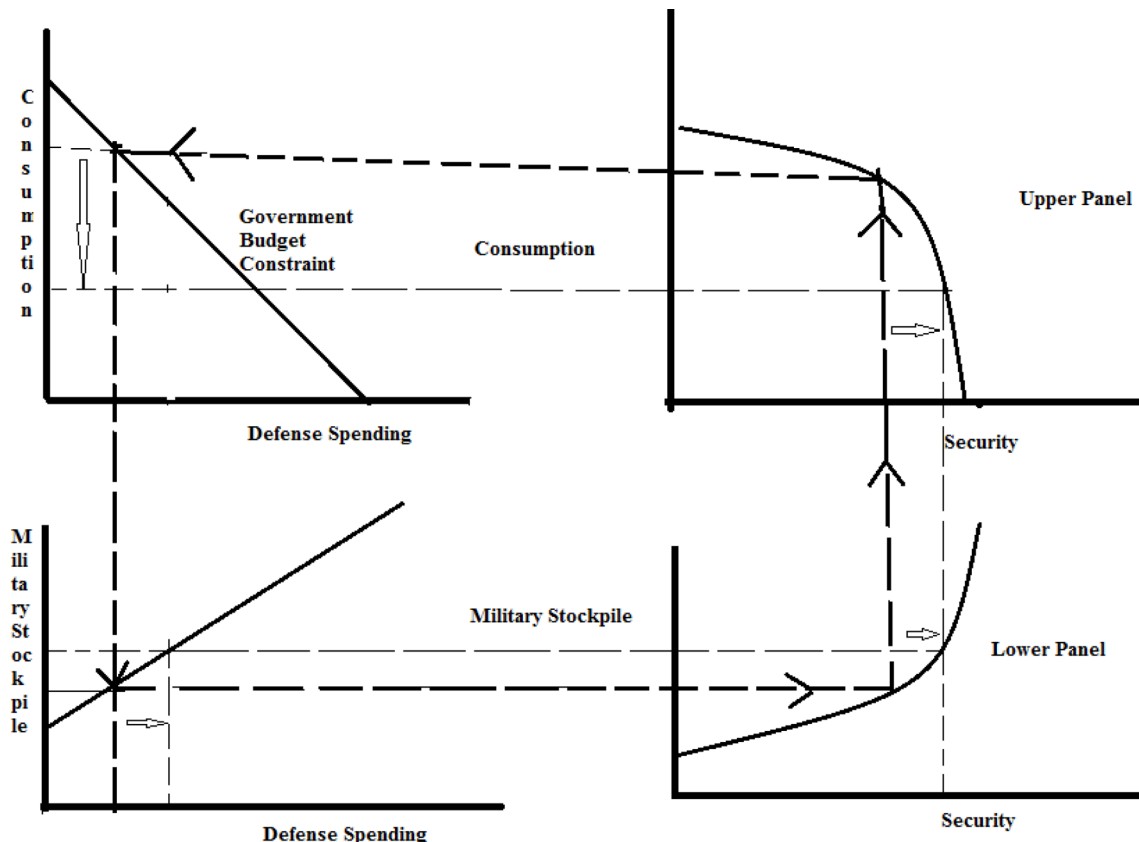
human capital, if the part of defense spending is used for education, training, discipline and so forth. Military spending can provide protection to the citizens where internal and external security promotes market exchange. Other researchers feel defense spending can affect economic growth negatively if it can crowd out the private investment and less investment on public goods like health, education and research and development. So proper understanding on the relationship between defense spending and economic growth is very important issue.

It is a very important but tough task to balance national security and economic growth. National security is the first priority in every nation, but huge spending on defense can be a large burden for government and detrimental to the welfare of the people of that nation. Therefore, effective budget plan for defense spending is needed.

According to Stockholm International Peace Research Institute (SIPRI), World military spending have crossed the figure of \$1.63 trillion in 2010, which shows a 1.3% increase since 2001 (Anwar, Rafique & Joiya, 2012). Thus military spending constitutes a significant share of global resources but despite its significant size its economic impact has only recently been an issue of analysis in economic theory (Dunne J.P, 2011). In the study done by Anwar, Rafique and Joisa (2012) clearly depicted this trade-off between defense spending, military stockpile, security of the nation and civil consumption given government budget constraint shown in upper panel. If the government decides to spend more on defense

Figure 1. Trade-off between defense spending, military stockpile

Source: (Anwar, Rafique, & Joiya, 2012)



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