Chapter 10
The Impact of Military Spending on Economic Development: A Study of the Indian Economy

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ABSTRACT
Some countries spend a relatively large percentage of GDP on their militaries in order to preserve or secure their status as global powers. Others do so because they are ruled by military governments or aggressive regimes that pose a military threat to their neighbors or their own populations. It is debatable whether there is a causal relationship between military spending and economic growth in the economy. It is again a policy debate how much to allocate funds for civilian and how much for military expenditure. Under these puzzling results of the impact of military expenditure on economic growth which is frequently found to be non-significant or negative, yet most countries spend a large fraction of their GDP on defense and the military. The chapter tries to investigate the relationship between military spending and economic growth in India. It also sees whether external threats, corruption, and other relevant controls have any causal effect. This chapter obtains that additional expenditure on Indian military in the presence of additional threat is significantly detrimental to growth implying that India cannot afford to fight or demonstrate power at the cost of its development.

INTRODUCTION
It would be of stringent logic to hold the view that unproductive public expenditure like military expenditure slows down economic growth of a country. This is because when it comes to military spending, arguments and data often portray opposite results – that public expenditure boosts economic growth. Whatever may be the case, it is to be admitted that the relation between military expenditure and economic growth has received considerable empirical scrutiny but the debate is far from settled. Some countries spend a relatively large percentage of GDP on their militaries in order to preserve or secure their status as global powers. Others do so because they are ruled by military governments or aggressive regimes
that pose a military threat to their neighbors or their own populations. Some countries do so because they perceive themselves to be facing a serious military threat from neighboring countries or internal instability, whereas some others spend a relatively large percentage of GDP on their militaries because they have low GDPs.

It is debatable whether there is a causal relationship between military spending and economic growth in the economy. It is again a policy debate how much to allocate funds for civilian and how much for military expenditure. Under these puzzling results of the impact of military expenditure on economic growth which is frequently found to be non-significant or negative, yet most countries spend a large fraction of their GDP on defense and the military.

We know that due to the presence of external threats, expenditure on military has to be increased and such increase will also lead to higher economic growth as they would ensure a stable and calm economic and political business environment.

LITERATURE REVIEW

The extant of some relevant literatures should be mentioned here to proceed for our present study. Benoit (1973; 1978) in her statistical findings and studies showed that, military expenditure enhances economic growth in most of the developing countries. This result was reinforced and reestablished later by many other studies (Lim, 1983; Grobar & Porter, 1989). To illustrate, Emile Benoit’s interpretation of his ‘chief regression results involved some startling statistical reasoning, including the notion that the portion of R^2 not accounted for by the regression variables can be discounted when assessing the statistical significance of a particular variable which is a convenient way of magnifying t-statistics.

Benoit’s study stimulated many other economists for further thinking and empirical work on this subject. Broadly speaking, those studies suggest that it is largely inconclusive as some studies find no significant relation between military expenditure and economic growth; others find a negative relation and others still a positive one. On closer examination, however, evidence shows that military expenditure reduces economic growth.

The research question that most studies start with is that whether a high ‘military burden’ (that is military expenditure as a ratio to GDP) tends to lower economic growth in developing countries or not. There is a common answer that military expenditure promotes growth by stimulating aggregate demand and reducing excess capacity but this answer may be misleading because lack of demand is not a major constraint on medium-term growth in most developing countries. Even where demand needs to be stimulated, there is no reason to do it by building missiles rather than roads or schools. What is required is an evaluation of the opportunity cost of the military burden by considering the next best use of public resources other than military expenditure. The question then arises whether to reduce military expenditure and divert funds to other public expenditure or reduce total public expenditure as such.

In the original study of Benoît’s, a more plausible argument is that military expenditure stimulates economic growth through various kinds of ‘spillover effects’ on civilian production. For example, major technological innovation like ‘internet’ by the military has a great influence on the civilian sector. Moreover, military infrastructure in developing countries has immense civilian uses like roads and satellites. Civilians are greatly relieved by the army during disasters. Again military establishment contributes to a country’s efficiency, discipline and national unity (Benoit, 1978, pp. 277-8). The argument used
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