Chapter 16

Relationship Between Military Expenditure, Economic Growth, and Social Expenditure in India, China, and Bangladesh

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ABSTRACT

One of the most debated phenomena of recent times in the global scenario is whether there really exists a true opportunity cost of a sequential increase in global military expenditure across the world. The existing literature on the relationship between military expenditure and economic growth confirms that three kinds of linkages may be plausible: positive, negative, and no significant linkages. The chapter focuses on contradictions and conflicts between military expenditure and social expenditure such as health and education. The chapter also attempts to examine both the long-run and short-run relationship between defense expenditure (DE), health expenditure (HE), educational expenditure (EE), and economic growth (changes in GDP). Here the autoregressive distributed lag approach (ARDL) and error correction model (ECM) technique have been applied to examine the long- and short-run causality among the variables. The study observes that there exists no significant long-term relationship between economic growth, defense expenditure, health expenditure, and educational expenditure in India and China, but Bangladesh does have one.

INTRODUCTION

The relation between military expenditure and economic growth on the one hand and social expenditure and economic growth, on the other hand, has received considerable theoretical and empirical scrutiny. Most economists take the view that unproductive public expenditure generally slows down economic growth. When it comes to military spending, however, they have often argued the opposite – that public expenditure boosts economic growth. Emile Benoit (1973; 1978) set the ball rolling with some surprising
statistical findings, allegedly showing that military expenditure enhances economic growth in developing countries. The fundamental issue addressed in many studies is whether a high ‘military burden’ (usually defined as the share of military expenditure in GDP) tends to decelerate economic growth in developing countries. So our fundamental point is whether there exists a trade-off between warfare and welfare, in the sense that high levels of spending frequently raise concerns as to the ‘opportunity cost’ involved in military spending—the potential civilian uses of such resources that are lost. So the matter which is of utmost importance to policy makers is the portion of the budget in a nation that is to be dedicated to development, security and welfare. When one looks back to a decade earlier, e.g. 2004 to 2014 it clearly shows an increasing trend in defense expenditure which is more prominent for South Asia than the world as a whole (figure 1).

The existing literature on the relationship between military expenditure and economic growth confirms that three kinds of linkages may be plausible:

1. There exists a positive and significant relation between them;
2. There exists a negative and significant relation between them;
3. There exists no significant relation between them;

**LITERATURE SURVEY**

Benoit’s analysis (1978) finds a significant, positive correlation between defense expenditure as a proportion of national income and the growth rate of civilian output between 1950 and 1965. Heo (2010) similarly explains that the positive employment effects of defense spending also boost aggregate demand in the United States economy. The basic idea by which military expenditure may positively related to economic growth is through aggregate demand. It is related to the capacity utilization, and also that when an economy is in a phase of recession an increase in military expenditure will boost the economy. This

*Figure 1. Changes in military expenditure in South Asia and world (2004-2014)*
(Source: U.S. Department of State, 2016)