Chapter 23

Trade–Off Between Defense and Development: A Time Series Study in India

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ABSTRACT

This chapter looks into the existence and the nature of relationship between defense expenditure and GDP and development expenditure for Indian economy for last 30 years (1987-2016). Using Spline function regression technique and single equation regression approach, it concludes that defense expenditure is not significantly contributing in explanation for changes in GDP growth and development expenditure and its components. Further, defense expenditure shows significant structural breaks in the year 2000, which might be attributed to exorbitant hike in the defense expenditure data during Kargil War in 1998. Considering all these rises in defense expenditure, it is to an extent convenient to find the result that this has neither affected economic growth nor development expenditures in a significant manner.

INTRODUCTION

In recent years much focus has been put on the nature of relationship between defence expenditure and development indicators. As all of the developed countries spend a good chunk out of their whole pie of budget on defence and most of the developing countries are following the same path it has become a buzzing question around if we at all need to spend so much and how long we will afford such kind of huge spending on military purpose. Defence can never ignore the standard economic problems that most of the developing economies have to get rid of at their earliest. These standard economic problems include poor standard of living, unemployment, lack of access to education and proper hygiene and so on. On the other hand, defence sector has its own importance in drawing budget. Standing on the reality of giving adequate emphasis to this root question it is a hard challenge for any State of doing justice to...
Trade-Off Between Defense and Development

its public regarding perfect choice of resources. Actually, this is a question of appropriate resource allocation considering priority and returns from such allocation (Katoch, 2006). Expenditure on defence sector is being seen more as a strategic outcome rather than a structural one. It is presumed that the country would allow as much as required by the defence sector. So far in any economy defence sector has been treated as the most sensitive sector as if the performance of this sector is the precondition of welfare of the rest of the economy. And, this is partially true. Though a well-performing defence sector does not itself create development it ensures an environment which is capable of giving birth to peace, security and development.

In the history of military events in India there are two wars in 1962 and in 1965. In 1962 there was Indo-China territorial war and in 1965 Indo-Pak war. Other than these two wars there was Kargil war, a border dispute resulting in the exchange of bullets in the year 1998. From economic point of view the wars are worth mentioning because during war resources are channelled away from all other heads of expenditure to the war frontier. This causes a substitution in expenditure in favour of military activities. In consequence, expenditure is reduced in the development activities. This trade-off might be harmful and development process is hampered if a nation is regularly or frequently engaged in warring. Other than wars, tightening of internal security is another goal of the defence sector. In India, externalities in the form of terrorist attacks form a major source of hindrance to the peace keeping and economic progress.

The need of allocating resources in the defence sector arises from the fact that it is essential to protect the nation from external threats and internal unrest. There is an underlying assumption for each country however big or small it may be that peace keeping is a function of how much a nation spends on its army. Like any other government spending military spending may help or hinder growth of the concerned economy. Advocates of larger government expenditure argue in favour of higher spending on defence, too. However, there are ample empirical evidences which tell us about just an opposite picture. Too much indulgence in defence sector leads to stagnation in development and economic growth.

The objective of the current paper is to look into the relationship between defence expenditure and some development spending components of the Central Government of India. India is prone to spending a huge segment of budget in military. It comprises two main types of spending. The first type is revenue expenditure. It includes all the running expenditures such as payments to the army and allied personnels, allowances and pension. The second type of expenditure is capital investment expenditure on purchase of arms and ammunitions, R&D etc. These two major components add up to total expenditure in defence.

REVIEW OF RELATED LITERATURE

Defence study in India is still in a budding phase. From economic perspective defence study is again fewer. The relationship between military expenditure and economic growth has been explored empirically for other countries and that has enriched the literature of defence economics. The study of defence economics started with the seminal research of Benoit (1973, 1978). This research stems round the hypothesis that military spending is directly related with economic growth and development.

From methodological point of view the researches can be divided in two groups. First, studies which are based on single equation regression model and the second, studies based on the simultaneous equation approach. The first group is set either on the Neoclassical or Keynesian approach. The neoclassical model focuses on the supply side and the Keynesian model emphasises on the demand side. Feder