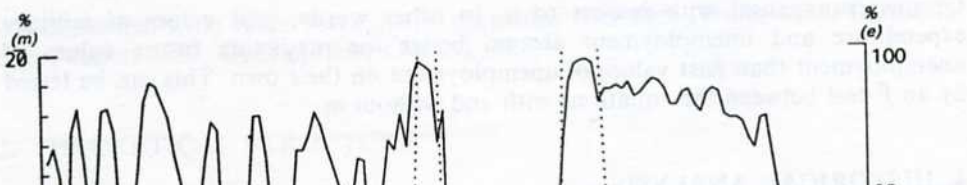

Figure 2 Shares of employment and military expenditure in the UK.

of military expenditure during world wars (Harrison 1988). Nonetheless, they provide some indication.

In the US prior to World War I the share of military expenditure was relatively stable while unemployment fluctuated. War time mobilisation increased employment and demobilisation reduced it, though employment recovered quite rapidly. The sharp fall in employment after 1929 was not associated with any change in military expenditure and employment was recovering prior to the World War II mobilisation which pushed the economy to full employment. Over the post-war period there is a slight downward trend in both the share of military expenditure and the employment rate, while the Korea, Vietnam and Reagan military build-ups were associated with full employment.

The graph does not suggest that there will be a very strong association between the share of military expenditure, m, and the unemployment rate, u, and this is confirmed by the regression analysis. The results for the sample 1890–1987 are:

$$\begin{aligned} du_t = {} & 1.70 + 0.28\, du_{t-1} - 0.20\, u_{t-1} - 0.13\, dm_t + 0.03\, dm_{t-1} - 0.05\, m_{t-1} \\ & (0.60) \quad (0.10) \qquad (0.06) \qquad (0.09) \qquad (0.09) \qquad (0.05) \end{aligned}$$

$$R^2 = 0.144, \qquad \text{SER} = 2.55, \qquad \text{DW} = 1.91.$$

There is a slight impact effect of m with a t-statistic of 1.4, though it is not significantly different from zero at the usual significance level. When the equation was estimated over the period 1947–87 the military variables still had t-statistics less than 2.0. The hypotheses that neither m nor u are Granger-causal with respect to each other can be easily accepted.