

The British pattern is broadly similar. The Boer War increase in military expenditure coincided with a period of high employment as, of course, did the two World Wars. Unlike the US, the UK did not recover from the post World War I fall in employment, but this was primarily a result of the monetary policies followed in the 1920s. As in the US, employment was recovering strongly before rearmament for World War II provided a further boost. There is little or no association in the post-war period between the employment rate and the share of military expenditure. The UK regression results are no more supportive of a belief that military expenditure has significant impact on unemployment, since none of the coefficients of military expenditure have a *t*-statistic over 1.4. However, as in the US, the hypothesis that the variables were Granger non-causal with respect to each other could be accepted. The results are:

$$du_t = 0.93 + 0.15 du_{t-1} - 0.17 u_{t-1} - 0.12 dm_t - 0.11 dm_{t-1} - 0.01 m_{t-1} \\ (0.33) \quad (0.09) \quad (0.05) \quad (0.09) \quad (0.09) \quad (0.02) \\ R^2 = 0.11, \quad SER = 1.78, \quad DW = 1.94.$$

In the regressions for both countries, most of the diagnostic statistics were satisfactory, with the exception of the test statistic for normality. Normality is rejected because of a number of large outliers, which should lead us to question these provisional specifications. While one could conduct a more exhaustive econometric analysis using alternative specifications, this very broad over-view does not suggest that there is likely to be any very close connection between military expenditure and unemployment, beyond the rather obvious observation that there tends to be full employment during major wars.

5. COMPARATIVE ANALYSIS

Having considered the long run time series evidence for the UK and the US, it is useful to consider the evidence for other OECD countries to see if our conclusions can be generalised. Table 2 shows the military expenditures of the OECD countries, as a proportion of GDP. It illustrates the wide dispersion of defence burdens across countries. While military expenditure increased for all countries, the mean share has shown a steady decline, though the experiences of some individual countries differ. There are eleven OECD countries for which we have adequate data for our statistical analysis, the creation of which is described in the appendix. While increasing the number of countries considered requires a focus on a shorter time series, because of problems of data availability, it also allows pooling of the cross-section and time-series data. This potentially gives an increase in efficiency and a consistent framework within which to analyse the cross-country and time-series effects. Again the null hypothesis is that the share of military expenditure in output has no significant effect on unemployment in post World War II capitalist economies.

An obvious point of departure for such an analysis is to look at the cross-country effects. Table 3 presents the means and standard deviations for the unemployment rate and the share of military expenditure in output, together with the correlation coefficients. There are considerable country differences in the average unemployment rate over the period, from an average of 1.72 for Japan to 6.54 for Italy. These two countries have the lowest shares of military expenditure and are the only two countries

provide

relatively
employment
The military
military
blissation
there is a
employment
ated with

between
id this is
are:

m_{t-1})

it is not
equation
istics less
aspect to

