

MILITARY EXPENDITURE AND ECONOMIC GROWTH IN MIDDLE EASTERN COUNTRIES: A DYNAMIC PANEL DATA ANALYSIS

By

Julide Yildirim
Gazi University
Department of Econometrics
Besevler-Ankara/Turkey
e-mail: jyildir@hotmail.com

Selami Sezgin
Pamukkale University
Department Of Public Finance
Denizli - Turkey
e-mail: ssezgin@pamukkale.edu.tr

Nadir Ocal
Middle East Technical University
Department of Economics
Ankara - Turkey
e-mail: ocal@metu.edu.tr

The effects of military expenditure on economic growth have been examined extensively in recent years. Defence expenditures have both costs and benefits to the economy. The costs of defence expenditures are mainly emphasised as opportunity costs, as it entails the reductions in public and private spending and investment. On the other hand defence spending may have growth promoting potential benefits: A rise in defence spending may result in a higher aggregate demand, production and employment. If countries are experiencing under-employment, defence expenditures may have a stimulative effect. Investment in human capital is another area where there may be substantial positive externality of defence spending on the rest of the economy.

The bulk of the defence-growth studies can be classified as demand side and supply side: The demand side analysis assumes that defence spending may affect economic growth through crowding out of investment, health and education spending and infrastructural improvement. Whereas supply side analysis assumes that there may be technological spin-offs, positive externalities from infrastructure and human capital. Although the majority of demand side models uncovered a negative effect of defence spending on economic growth, supply side models usually have positive effect of defence spending or have significant effect on economic growth.

Even though there is a bulk of studies concerning the military expenditure and growth relationship for OECD, NATO and Latin American countries, Although Middle East countries spend a high percentage of their GDP to defence, there are only few studies concerning Middle Eastern countries. This paper examines empirically the effects of military expenditures on economic growth for Middle Eastern countries for the time period 1987-2000. The relationship between the military expenditure and economic growth is investigated by using cross section and dynamic panel estimation techniques.

Key words: military expenditure, economic growth, defence economics, dynamic panel data analysis.