

# **MILITARY EXPENDITURE AND GROWTH IN THE EUROPEAN UNION: A CAUSAL ANALYSIS**

**Christos Kollias**

Department of Business  
Administration,  
TEI of Larissa

**George Manolas**

Directorate General for  
Economic Policy,  
Ministry of Economy & Finance

**Suzanna-Maria Paleologou**

Council of Economic Advisers,  
Ministry of Economy & Finance

## **ABSTRACT**

In recent years there has been a move towards the development of a Common European Security and Defence Policy (CESDP) in the European Union (EU). The development of a common European defence policy and perhaps eventually the creation of a European Defence Union (EDU) raises a number of issues from a defence economics perspective. In terms of defence spending, the EU15 member states present a very diverse pattern. For example, in 2000 the defence burden - i.e. military expenditure as a share of GDP - among the EU member states, ranged from 0.7% in the case of Ireland and Luxemburg to as high as 4.9% in the case of Greece. Similarly, in terms of development and growth performance the pattern is just as diverse with the growth rate in 2000 ranging from 7.5% in the case of Ireland to 2% in the case of Denmark. This paper sets out to examine the relationship between military expenditure and growth among the EU15 members using cointegration and causality tests. In the relevant literature, the causal ordering between growth and military expenditure has attracted considerable attention with mixed and inconclusive findings. The results reported here, based on cointegration and causality tests suggest the presence of unidirectional causality from military expenditure to growth in seven countries, bi-directional causality in the case of two countries, and the absence of any causal ordering between the timeseries involved in the case of six EU members.