

# DEFENCE EXPENDITURES AND ECONOMIC GROWTH: THE CASE OF PAKISTAN

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## Abstract

The aim of this study is to examine the effects of military expenditure on economic growth in Pakistan for the time period 1949-2002. Generally studies comprising demand and supply factors (Deger model) employ similar multi-equation models in a neoclassical production function framework. Although multi-equation modelling is popular, it also attracts a lot of criticism concerning the endogenous-exogeneous division of the variables and the assumptions of zero restrictions, which are imposed in order to achieve identification of the model. However, the shortcomings of multi-equation modelling can be overcome by employing vector autoregressive modelling (VAR). In this paper, rather than employing a neoclassical production function, the military expenditure – economic growth relationship is derived from a new macroeconomic model. A four equation vector autoregressive model is employed where the variables are the real GNP, real military expenditures, real non-military government expenditures and real interest rate. The results indicate that defence spending in Pakistan helps its economic growth both in the long-run and in the short run. However, economic growth appears to be insensitive to real interest rates.

*Keywords:* Cointegration, defence expenditure, economic growth, Pakistan, VAR.

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