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# Chapter 21

## Political Economy of Growth Effects of Defense Expenditure in Nigeria

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### **ABSTRACT**

*National security is as important as the existence of a nation. Nigeria has witnessed consistent rise in defense expenditure, with attendant opportunity costs. Internal threats have contributed immensely to the rise in defense expenditure as proliferation of arms and uprising of different ethno-rival groups and incipient militancy and insurgency have created insecurity in the country. Similar pressure and general insecurity has been intensified by increasing spate of kidnapping, politically motivated killings, ethno-religious uprisings, and terrorist web-like war by the Boko Haram sect. It is expedient to investigate the political motivation behind the military expenditure rise. This study is poised to estimate the politico-economic determinants of military expenditure in Nigeria using unrestricted VAR model for estimation. The data were sourced from World Bank's WDI, ICRG data, transparency international and SIPRI data, using Stata 13 software. The results show that ethnic violence, index of corruption, quality of governance, population growth, freedom from corruption affect military expenditure. The authors recommend that improved quality of governance will reduce corruption, ethnic violence, and improve welfare.*

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## **INTRODUCTION**

National security is as important as the existence of a nation, that is, why different countries spend fortunes to maintain both internal and external security. Military expenditure occupies an important portion in every nation's national budget. Defence literature provides plethora of studies on relationship between military spending and economic growth with mixed results. The seminal work of Benoit (1973, 1978) pioneered the study of the impact of defence expenditure on economic growth, though it generated controversies that led to the development of a conceptual framework for the relationship between military expenditure and economic growth. It has been theorized as a positive effect of military expenditure and concluded that the additional resources used for procurement of military wares would leave fewer resources for investment in other public and private productive activities. But this conclusion was not fully accepted by scholars; Looney (1990) showed that certain conditions are necessary for military expenditures to have a positive effect on economic growth. However, Benoit's conclusion was rejected by Deger (1986) who reasons that increased military expenditure decreases growth rates because it reduces the capital available for investment. Dommen and Maizels (1988) also rejected this conclusion because "the armed forces are relatively unproductive - in the sense of contributing to capital formation."

Two principal types of explanations have been advanced to account for changing military expenditures: the first relies primarily on influences exogenous to the nation, the second focuses on internal considerations (Nincic & Cusack, 1979). It should be noted that most writers who followed the traditional method rely more or less on the well-known and pioneer work of Lewis Richardson (1960), who first popularized and formalized the dynamics of arms races. The Richardson's model was based on intuitive plausibility and theoretical parsimony, where he inferred that the driving force behind fluctuations in military spending was continuously and apparently the process of action and reaction between two rival nations. This framework has been criticized on the ground that there has not been compelling evidence in support of the 'action-reaction' hypothesis. In addition, the framework paid little attention to how actual decisions are made or to the institutional procedure surrounding them. Again, it said nothing about the actors and interest groups involved, or of the perceptions and motivations of the relevant parties, neither did it say anything about the politics and behavior of the key players in terms of corruption.

Due to the latter shortcoming, the second major perspective has the potential for a partial remedy, since it is based on organizational dynamics of the state. The fact remains that the decision to acquire additional military equipment and other resources is enshrined in the organizational and bureaucratic set up. However, the decision-making process is a complex one which can lead to co-opting the budgetary allocations into routine requests, and which will be referred to legislative organ from time to time.

McKinlay's (1989) study showed that budget size predicts military expenditure in a positive direction, and that Gross Domestic Product (GDP) is the single best predictor of military expenditure. We should note that other non-economic variables are also important predictors of military expenditure such as foreign policy, arm races, external aggression, etc. For example, higher population of city necessitates higher demand for security and thus higher increase in defence expenditure. Literacy rate is also a factor which increases the pool of educated population. A high literacy rate represents a large pool of educated workers capable of contributing to the tax base of the country by working in light industrial jobs.

Nigeria has witnessed consistent rise in defence expenditure. For some years now, the defence budgetary allocation has grown more than other sectors. This has led to diversion of the money needed for infrastructure projects and work on reforms of social and industrial sectors. Right from the period of independence in 1960, military expenditure as a proportion of GDP for Nigeria has been rising. For

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