

Corruption, Military Spending and Growth

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ABSTRACT

Allegations of corruption in the military section are neither infrequent nor unexpected. The limited competition in the defense sector leads to a relatively high level of informal contracts and to rent-seeking activities, providing fertile ground for the growth of corrupt practices. This can have led to an increase in the cost of military activities and their burden on the economies rent seeking in the military sector may crowd out productive investment in the private second, meaning there are both direct and indirect effects.

This paper considers the complementary effect of corruption and military spending on economic growth, analyzing both the impact of public spending and the allocation of resources between categories of public spending. Unlike the method generally used in the economics literature, a cardinal corruption index is developed. This is estimated, as a percentage of GDP per capita, using the multiple causes multiple indicators model (MIMIC). Introducing an interaction term between the corruption index and each country's military burden, then allows the gross and indirect elasticities of military spending and corruption with respect to economic growth to be estimated.

The empirical results confirm the expectation that corruption and military burden lower GDP per capita growth rate, especially in those sub-samples of countries where the share of military expenditure in GDP is high. They also suggest that omitting the complementarity effect between military spending and corruption will underestimate their net impact on economic performance.
