

Is expenditure on defence personnel productive? Evidence from selected small and large NATO countries

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ABSTRACT

Russia's brutal war against Ukraine has shown that defence funding must be increased urgently. Many NATO countries have done this. According to NATO information (NATO, 2022), in 2022 defence expenditures of nine NATO alliance countries (Croatia, Estonia, Greece, Latvia, Lithuania, Poland, Slovak Republic, United Kingdom, and United States) achieved 2 percent and more of real GDP. Defence personnel play a significant role in the face of war and threats. As the studies show (Zook & Aaron, 2006; Toronto, 2018), the potential of the military force depends not only on the number of soldiers, physical training, equipment, but also on the experience, knowledge, skills, competences, and other abilities, which individuals accumulate as a result of investments. And this is related to government spending on defence personnel. Although expenditure on defence personnel especially in the Baltic countries (Estonia, Latvia, and Lithuania) has been decreasing relatively since 2015, it has been growing in absolute value due to increasing defence funding. According to Hartley & Belin, by 2050, the armed forces will be equipped with modern equipment, which will create a need for new skills and capabilities for defence personnel. The aim of this investigation is to assess whether spending on defence personnel is productive in the selected small and large NATO countries. Productivity is evaluated through the prism of economic growth, that is, in response to the question of whether spending on defence personnel promotes or inhibits economic growth. For this purpose, the author applies cost-based approach and Linear regression models. There is a longstanding debate on the interdependence between expenditure on defence and economic growth. Some scientists (Raifu & Aminu) argue that military spending can stimulate economic growth, however others (Shahbaz, 2013; Azam, 2020) contend that such spending diverts resources away from more productive uses and can lead to economic inefficiencies. The main findings of this investigation reveal similarities and differences between the cases of selected countries and answer the question of whether spending on defence personnel promotes economic growth.

KEYWORDS

Defence spending, defence personnel, economic development, NATO countries, productive expenditure.

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