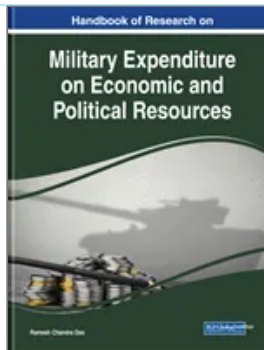


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### Military Spending, Terrorism, and Economic Growth Vinculum in India: An Empirical Morphology of the Post-Reform Period

Sovik Mukherjee (Shri Shikshayatan College, India) and Asim Kumar Karmakar (Jadavpur University, India)

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#### Abstract

Different schools of thought have explained the concept of military expenditures from different angles. The objective of this chapter is to look into the relationship among the focus variables (i.e., military expenditure and growth together with the incorporation of terrorism) as an explanatory variable to see to what extent the level of growth gets hampered by terrorism using Generalized Method of Moments (GMM) and Kernel non-parametric regressions. To the best of the authors' knowledge, studies concerning the examination of this trivariate nexus (i.e., military spending, terrorism, and growth) in the post-reform period in the Indian context are very hard to come by. This brings us to the research question, how will India's increased spending affect the country's militaristic goals which not only involve the mitigation of terrorist attacks but also responding to revolutions by militant groups and the consequential impact on growth? The chapter comes to a close by highlighting the future scope of research.

#### Chapter Preview

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#### Introduction

*The only way you can decrease taxes, balance the budget and increase military spending is with mirrors, and that's what it would take.* — John B. Anderson

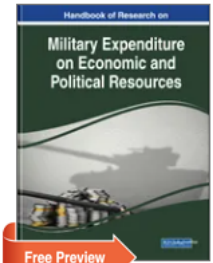
The words of John Anderson kind of sums up the controversy surrounding military expenditure and the resulting impact on economic growth. It is actually a macroeconomic trilemma that the government faces, i.e. increasing military expenditure will mean some kind of a budget deficit and to make up for that deficit there has to be a rise in the tax rates or a curtailment of subsidies. There is no unambiguous answer to whether military expenditure is productive or unproductive in the context of economic growth. It varies from country to country and critically hinges on the macroeconomic parameters like tax rates (direct and indirect), inflation rate, savings propensity, budget deficits, current account deficits, various monetary policy parameters like bank rate, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), etc. and the policies undertaken by the government in relation to these parameters.

Different schools of thought have explained the concept of military expenditures from different angles. Given the changing socio-political and economic environment across the world, the last decade has witnessed a plethora of research based on exploring impact of military expenditure on economic growth. Empirical studies, up until now, can be classified into two schools of thought. The first school of thought makes use of single regression equations in order to test the impact of military expenditure on growth either following the supply driven Neo-classical (technological trickle down

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