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Summary of
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"The Impact of Worldwide Military Spending Cuts on Developing Countries" by Tamim Bayoumi, Daniel Hewitt, and Steven Symansky

Recent developments indicate that a precipitous fall in world military spending is under way. Between 1985 and 1990, world military expenditures as a ratio to GDP are estimated to have fallen by over 20 percent or slightly less than 1 percent of GDP. The drop in the arms trade is even greater, approaching 50 percent in monetary terms. In spite of a number of well-publicized exceptions, the trend is widespread. Significant decreases in military expenditures and trade are evident in most parts of the developing world, as well as among the former combatants in the cold war.

Recent simulation-based research, concentrating on industrial countries, indicates that a drop in military spending will tend to have negative short-term effects on overall output and employment. The purpose of this paper is to investigate in more detail the economic impact of reducing military spending in developing countries. Overall, the paper finds substantial long-term economic gains for developing countries from cutting military spending. However, the short-run effect on total output, which includes military expenditures, is ambiguous, depending largely on the underlying level of military spending as well as on other assumptions.

Cutting military spending by 20 percent worldwide could produce in developing countries a long-run increase in private consumption of 0.8 percent and in private investment of 2.1 percent. These gains in turn produce a rise in economic welfare, estimated at $1.45 trillion in 1993 prices, which in present value terms is 46 percent of 1992 GDP compared with military expenditure cuts of 33 percent of 1992 GDP. The welfare gains across individual developing countries are affected by a number of factors. Larger gains in welfare are associated with larger cuts in military spending, larger cuts in military imports, higher ratios of commodities exports, and close bilateral trade links with the United States. On the other hand, triangular patterns of trade in which countries import from Japan and export to the United States are associated with lower welfare benefits, owing to an unfavorable terms of trade effect. Overall, the developing country region of the world that benefits most from military spending cuts is Africa.

These results are relatively insensitive to the timing of the military spending cuts or expectations about the future, although these factors do have an impact on the size of the short-term losses in output. By contrast, if part of the military expenditures are assumed to represent a fall in productive investment, the short-term impact on output is relatively unaffected, but the estimated gains in economic welfare fall significantly.