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Military spending a costly gamble – UCT economist warns of economic downfall in defence overdrive



Professor Eftychia Nikolaidou

Photo: Je'nine May

[Professor Eftychia Nikolaidou](#), a professor of economics at the University of Cape Town's (UCT) [School of Economics](#), says that countries cannot spend extravagantly on defence mechanisms and expect it to yield positive economic outcomes. She made this statement during her recent inaugural lecture titled "Defence Spending: Drivers and Economic Effects."

During a conference in 1997, Professor Nikolaidou found herself captivated by intense discussions on corruption, vested interests and the deliberate exaggeration of threats. These discussions shed light on how certain groups sought to benefit from defence spending.

"It sounded familiar to me because in Greece, since I was a kid listening to news, the standard headline was 'We need to spend more on defence because there are impending threats' and at the time, Greece was still suffering from poor infrastructure, poor education and health systems so it made little sense to me," said Nikolaidou.

"I then started working on my PhD, which focused on Greece and the economic effects of military spending and I had to compare with other countries like Spain and Portugal who were also spending a large amount on military spending without facing any threats."

Some of her research questions included:

- What are the economic effects of defence spending?
- How does military expenditure affect public debt?
- What are the political, economic and strategic determinants of military spending?
- Can high military spending by countries that do not face security concerns be justified on economic grounds?

She stated that defence spending should be determined based on the point where the additional benefit from security equals the opportunity cost. However, this is a challenging task because countries cannot accurately measure security threats, making it difficult to predict and prepare for them. The significant risk of allocating large funds to defence is that it can provoke potential threats.

"If you spend a lot of money on defence, that does not mean you are capable of using said military equipment. You might not have the capability or the right personnel to use the high-tech machinery. And there is the matter of maintenance," she said.

Drivers of defence spending come in various forms, resulting from both economic and strategic factors. "A nation's security environment is determined primarily by the likelihood of conflict," she said.

Turning to the debate on defence spending and its impact on a strong economy, Nikolaidou mentioned the work of Emile Benoit in the 1970s. Benoit demonstrated the correlation between military expenditure and economic development. "That provoked a lot of debate and disagreement, and numerous econometric studies were done using different frameworks and models and methods. While the debate rages on recently, the common finding is that military spending has either no significant effect on economic growth or a negative effect on economic growth, particularly in developing countries. Why? Because it crowds out investments in other growth-promoting sectors," she said.

Added Nikolaidou: "Drivers of defence spending cannot be understood purely on economic terms, still we should not neglect economic factors. Strategic factors are important, but very little evidence of an arms race interaction is available. The best way to model demand for defence spending is to integrate strategic, economic and political factors.

"What I can say with certainty is that there is very little support for any belief that military spending is a good way to stimulate the economy. The opportunity cost of defence is huge. So military spending is, at best, wasteful. The way to achieve security is through economic development."

Professor Suki Goodman, the Faculty of Commerce dean, commended Nikolaidou's dedication in pursuing this work. "As an educator, she embodies a student-centred, student-focused pedagogy. She insists that her students actively participate in their learning journey, fostering an environment where inquiry and critical thinking thrive. Her teaching philosophy positions students as partners in learning, empowering independence and ownership, helping students how to learn rather than dispensing information. While her research area is

serious, and seriously unfunny, she brings a lightness to our collective, helps us laugh at ourselves and with each other.”

Story by Kamva Somdyala, UCT News

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