

MILITARY EXPENDITURE AND DEBT IN SOUTH AMERICA

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Abstract:

The debt crisis that struck South American countries in the 1980s led to severe recession, and chronic economic problems. This paper considers one potentially important contributor to the growth of external debt, namely military spending. It considers the experience of Argentina, Brazil and Chile. It finds was no evidence that military burden had any impact on the evolution of debt in Argentina and Brazil, but some evidence that military burden tended to increase debt in Chile. At the same time Chile was the least affected of the three countries by acute financial crises resulting from the debt problems, although their relative levels of debt were as high or higher. This suggests that military burden may be important in determining debt in countries, but it is only of significance when it is not swamped by other macroeconomic and international factors.