

# **How Strong is the Relationship between Defence Expenditure and Private Consumption? Evidence from the United States**

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## *Abstract*

The empirical analyses carried out by Ashauer (1985), Barro (1981) and Kormendi (1983) have shown that government consumption activities are transformed by a direct channel into consumption of goods and services for private use with significant substitution effects between aggregate consumption and government expenditure.

An important question raised by the aforementioned issue concerns the specific nature of the relationship between government defence expenditure and the private components of households' consumption. While the impact of military expenditure on output, private investments and growth is well-known by means of crowding-out effects (Dunne, 1990; Gerace, 2002; Gadea et al., 2004; Atesoglu, 2002; Dunne et al., 2002; Dunne et al. 2005; Dunne et al., 2002), few investigations have been carried out to assess its direct influence on the economic agent welfare and on households' decisions regarding consumption.

Following a utility-maximization process, the model proposed in this paper assumes a significant long run relationship between military expenditure and private consumption.

A long run conditional demand model is specified to provide empirical evidence on the relationship between government defence expenditure and private consumption in the United States. By assuming that government defence expenditure is exogenously determined with respect to the private consumption decision, the empirical results show a significant impact on the utility function of households with substitutable or complementary effects for specific categories of private expenditure. However, the findings are not in contrast with the evidence of a weak impact of defence expenditure on aggregate consumption.

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