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Military Expenditure, Fiscal Trade-offs, and Social Investment: Revisiting the Crowding-Out Hypothesis in the Global South

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Abstract

This paper revisits the crowding-out hypothesis by examining the relationship between military expenditure and social spending—specifically health and education—in a panel of Global South countries. While the conventional guns-versus-butter framework predicts a negative trade-off, descriptive evidence reveals substantial cross-national heterogeneity and limited contemporaneous substitution between defense and social sectors. Static panel estimates initially suggest fiscal complementarity between military and health expenditures, though education spending exhibits a negative association with defense outlays. To address persistence and potential endogeneity, we employ dynamic panel GMM estimations. The results reveal strong expenditure inertia and uncover economically meaningful crowding-out effects once intertemporal dynamics are accounted for. In the fully specified models, military spending exerts a negative and statistically significant impact on both health and education expenditures, with long-run effects particularly pronounced for education. These findings suggest that fiscal expansion episodes may temporarily mask trade-offs in developing economies, but intertemporal budget constraints ultimately bind. Compared to prior evidence from OECD countries where crowding-out appears immediate and institutionalized the Global South exhibits conditional and sector ally asymmetric trade-offs. The results underscore that the guns-versus-butter relationship is development-stage dependent and mediated by fiscal capacity and institutional structure rather than universally mechanical. The paper proceeds as follows. Section 1 introduction. Section 2 presents literature review. Section 3 describes the data and measurement. Section 4 presents the panel data and dynamic GMM methodology. Section 5 reports the empirical results, and Section 6 concludes.

Keywords: *Social Welfare Spending, Gun-And-Butter Debate, Global South.*

