



By: **Emre Alkin**

Does Defence Spending Create War or Inflation? Maybe both



Exactly 27 years ago, I wrote an article on this topic. When I was working on my paper titled “The Impact of Turkey’s National Defence Spending on Budget Deficit, Domestic Debt, and Inflation,” I was about to complete my military service at the F-16 Tactical Aircrafts Department of the Ministry of National Defence.

At that time, the defence industry worldwide was not yet cooperating much with civilian sectors, so the inflationary effects of defence spending and its contribution to economic growth were quite limited.

In fact, there was even a positive side effect called “fading effect,” which involves the evaporation of excess money.

However, things have changed in the quarter-century since I wrote that paper. Today, military technologies and civilian technologies are intertwined, working together, and the inflationary impact and contribution to the growth of defence expenditures have reached a significant level.

Nevertheless, it would be wrong to draw a definitive conclusion without a thorough analysis.

High defence spending: a show of strength or a trigger for conflict?

There is no clear, single opinion that increased defence spending directly causes or triggers wars and conflicts; the relationship is complex and depends on various factors.

However, historical examples show that higher defence expenditures sometimes increase regional tensions and conflict risks.

Let me give you an example: during the 1930s, Germany and South Africa rapidly increased their armament efforts. Specifically, Germany invested heavily in armament from 1933 to 1939.

The result was a substantial increase in military power and weapon stockpiles, which played a significant role in the outbreak of World War II. So we could say that high military spending laid the groundwork for major conflicts down the line.

Let’s examine more recent history: During the Cold War period (1947–1991), the US and the Soviet Union increased their weapon stockpiles, especially their nuclear arsenals.

This “arms race,” although it didn’t lead directly to war, laid the groundwork for many regional conflicts. The Korean War, Vietnam War, and Afghanistan are examples of the consequences of this arms buildup.

In short, the arms race among the superpowers increased fear and tension.

History shows us that increases in defence budgets can sometimes lead to more stress and conflict

Another example is the Iran-Iraq War (1980–1988). Both countries heavily invested in defence, which escalated the scale of the conflict and caused massive losses. Thus, high spending increased the violence and intensity of the war.

Similarly, in Southeast Asia and on the Korean Peninsula, rising South Korean defence budgets and North Korea’s accelerated development of nuclear and missile programmes heightened tensions and conflict risks.

So, what do all these examples tell us?

High defence spending generally **acts** as a show of strength and deterrence, but it can also increase regional tensions and conflict risks.

However, sometimes, these expenditures can be balanced with diplomacy and constructive policies, helping to prevent conflicts. History shows us that increases in defence budgets can sometimes lead to more stress and

conflict, but they can also be used to promote peace and progress.

Smart defence policies are crucial

Turning to the economic side: Since I wrote my article in 1998, defence spending has changed in form and magnitude. Today, it has become a factor that increases aggregate demand in the economy.

Especially after 2000, countries that increased their defence budgets have kept their economies active, but these increases have also pressured budgets and fuelled inflation.



Balanced defence expenditures can contribute to short-term security and technological progress. But excessive spending can increase inflation - Emre Alkin

For example, in the US during the 1980s, as defence spending **rose**, inflation reached as high as 13%.

In some countries with large investments in the defence industry, technological development and exports increased. As an example, Turkey in the 2000s followed this path, contributing to short-term growth. Furthermore, it achieved this without raising the defence-to-GDP ratio above 3.5%.

However, the recent NATO decision to **set** a target of 5% of GDP for defence spending could divert resources from other sectors and negatively affect long-term growth.

In summary:

Balanced defence expenditures can contribute to short-term security and technological progress. But excessive spending can increase inflation, create budget deficits, and lead to long-term economic instability.

Therefore, smart policies and a sustainable, domestically produced defence industry are crucial.

Furthermore, joint defence projects among countries could also be a significant step towards efficiency, providing deterrence without excessive pressure on budgets and prices.