

ABSTRACT

Security is a form of guarantee that needs to be given by the state to its citizens. So that actions such as violence, threats, or conflict do not occur. The guarantee allows citizens to carry out various activities freely, including economic activities. This fulfillment can be realized through the provision of national defense for all citizens. Nevertheless, military expenditure as a source of providing national defense needs attention. This is caused by its unproductive nature when compared to other sectors such as agriculture, banking, industry, and others.

This study aims to analyze the effect of Military Expenditures on the level of Economic Growth. Furthermore, this study also analyzes the effect of interactions between Military Expenditure with other variables such as Population, Foreign Direct Investment (FDI), Political Stability, and Law Enforcement, to see their indirect effects on Economic Growth. This study uses secondary data obtained from the World Bank and the Stockholm International Peace Research Institute (SIPRI), covering 27 selected Lower-Middle Income Countries from 2002-2018. Furthermore, this study uses dynamic panel data analysis with the System Generalized Method of Moments (GMM) method developed by Arellano-Bover (1995) and Blundell-Bond (1998).

The Military Expenditure Variable in this study does not significantly influence Economic Growth. However, it was found that Military Expenditure had a positive and significant influence on Economic Growth when interacting with Population variables. The interaction between Military Expenditure with Population shows that an increase in the rate of population growth that is guaranteed security and safety, will have a positive impact on Economic Growth. This can happen because the community will freely conduct economic activities without worrying about threats.

Keywords: National Defense, Military Expenditure, Economic Growth, GMM System, Lower-Middle Income Countries.