Defence Expenditure and Human Capital Development Nexus: Empirical Evidence from Nigeria

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Abstract

The crux of this paper is the determination of the impact of defence expenditure on human capital development in Nigeria. The study aims to further throw light on the recent debate on the effect of the resource allocation between the defence and the non-defence sectors on the economy –especially through the channel of human capital development. This issue cannot be overlooked especially in developing countries like Nigeria, considering the opportunity cost of these spending and the country’s level of development. Applying Yetkiner (2012) framework - that incorporate defence spending into the solovian model-, this study utilized the VAR methodology in examining the relationship between the variables. Findings from the analysis of data revealed that Nigeria’s defence expenditure has had a positive impact on human capital development within the period of study, albeit not significant overall. An interesting finding also - although not unexpected - was that changes in human capital was more influenced by changes in education and health expenditure, and it had an increasingly stronger and lasting effect than defence expenditure. Expenditure on defence, was observed to have a weak and waning effect on human capital development. With the security challenges facing the country, and given that a fundamental role of the state is the protection of its citizens against external or internal aggression, an increasing share of military spending in total government expenditure is expected. What is useful however is for policy makers and fiscal actors to ensure that these expenditures on defence is structured in such a way and manner that it creates a positive spill over effect to other sectors of the economy like the health and education sectors. For instance, defence expenditure should be targeted mostly on areas that help to improve the technical competence of men of the force and on other aspects of the military, like the civilian components, as this will create a positive spill over effect to the private sector, stimulate aggregate demand and thus investment. It is also recommended that more local armament manufacturing industries should be developed to conserve foreign exchange for the country, combat capital flight and widen the industrial base of the economy. This will further boost the backward and forward linkage effect of the industrial sector.

Keywords: Human capital Development, Defence Expenditure, Health, Education, VAR

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