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Preventing Plunder: Military Technology, Capital Accumulation, and Economic Growth*

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Abstract

A growing body of research highlights the correlation between strong, centralized states and economic growth. Given the important role that national defense has played in the development of the state, it seems as though this would imply some relationship between military expenditures and economic development. However, there is no consensus on the direction of the relationship between military expenditures and economic growth. In this paper, we propose a resolution to this puzzle. We argue that military technology is a limiting factor for wealth (and therefore capital) accumulation. Since wealth must be protected from plunder and/or destruction, the amount of wealth that can be accumulated is constrained by a society's ability to adequately defend it. We present a theoretical model consistent with this idea and perform a Monte Carlo experiment to determine the implications of this hypothesis for empirical work. We find that the long-run relationship between military expenditures and private production is positive. However, in sample sizes consistent with existing data, the relationship is ambiguous. As a result, we provide support for this idea by relying on historical examples consistent with our hypothesis. Finally, we consider the implications of our hypothesis for the development of state capacity.

Keywords national defense, economic growth, military technology
JEL Classification O40

*This paper is a merger and extension of two previous working papers, "Military Technology and Economic Growth" and "Preventing Plunder: National Defense, Capital Taxation, and Economic Development."

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