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Exploring the relationship between military engagement and income inequality in the LAC region (1990-2022)

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Abstract

In this paper, we investigate the relationship between military engagement, defined as a country's overall involvement in military activities, and income inequality using a panel of countries in the Latin America and Caribbean (LAC) region from 1990 to 2022. We consider both short and a long-term effect of military engagement by using two distinct measures: the military burden, defined as the proportion of military spending to GDP, and the Global Militarization Index (GMI). We interpret the military burden as a short-term indicator and the GMI as a long-term measure. Our results reveal that: (i) the military burden is negatively correlated with income inequality, while (ii) the GMI is positively associated with it.

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1. Introduction

This paper investigates the relationship between military engagement and income inequality in a panel of Latin American and Caribbean (LAC) countries from 1990 to 2022. By "military engagement," we refer to a country's involvement in defense-related activities, including defense spending, the maintenance of military personnel, and overall militarization efforts. The link between military expenditures and income inequality is not straightforward; it evolves differently over time, with distinct short- and long-term effects. In the short term, military spending can mitigate income inequality by creating employment opportunities and increasing aggregate demand through government procurement contracts, thereby stimulating economic activity and job creation (Alptekin and Levine, 2012; Ramey, 2011). However, over the long term, military spending may increase income inequality. A possible interpretation of this outcome is the crowding-out effect on welfare expenditures. Several studies support this argument, emphasizing how increased defense budgets may reduce allocations to social programs, thus widening economic disparities (Biscione and Caruso, 2021; Fan et al., 2018; Lin et al., 2015; Ali, 2011; Ozsoy, 2002; Yildirim and Sezgin, 2002; Apostolakis, 1992). Furthermore, the magnitude of this effect depends on a country's economic framework, institutional strength and strategic security priorities. Notably, economies with strong institutional frameworks may integrate military expenditures into broader economic strategies, whereas countries with weaker governance often experience fiscal instability resulting from excessive defense budgets (Dunne and Tian, 2015; Bove and Cavatorta, 2012).

Despite extensive research on the economic implications of military expenditures, its impact on inequality in the LAC region remains underexplored. Over recent decades, inequality trends in LAC have fluctuated: rising in the 1990s, declining in the 2000s, and stagnating in the 2010s (Cord et al., 2017). Notably, inequality did not increase uniformly in the 1990s—countries such as Mexico and Nicaragua saw stable or declining inequality. The 2000s were marked by a more consistent decline, with Costa Rica as a notable exception (Lustig et al., 2013). This period, sometimes referred to as the "golden decade," was characterized by economic stability and falling inequality, but recent data indicate a slowdown in this progress (Lustig et al., 2016). The trend is particularly pronounced in the Southern Cone (Argentina, Brazil, Chile, Paraguay, and Uruguay) but less evident in the Andean region and Central America. However, some countries—such as Colombia, Costa Rica, Honduras, and Panama—continued to experience inequality reduction throughout the 2010s (Gasparini and Cruces, 2021). Despite progress over the last two decades, LAC remains the second most unequal region globally, exhibiting both high inequality and sluggish economic growth, a combination often described as a "dual trap" (Gasparini and Cruces, 2021; Dunne et al., 2004). Within this context, it is crucial to assess whether military spending exacerbates or mitigates income inequality. In the 2000s, several LAC countries increased military spending as a share of government expenditure to modernize their armed forces and address security threats (Battaglini, 2013). In some cases, this increase was linked to productivity declines and slower growth (Marwah and Klein, 2005). However, despite this rise, LAC countries in our study exhibit a lower defense burden than the global average (Kollias et al., 2017). To analyze this relationship, we constructed a dataset covering 22 LAC countries from 1990 to 2022. Military engagement is measured using two key indicators: (1) military spending as a share of GDP, capturing short-term effects, and (2) the Global Militarization Index (GMI), serving as a long-term indicator.

Our empirical approach begins with a baseline regression and proceeds to alternative estimations. The findings reveal a twofold relationship: higher military spending temporarily reduces inequality due to its stimulative effects on employment and aggregate demand. However, in the long term, sustained militarization, as indicated by the GMI, correlates with

higher inequality, as defense expenditures crowd out investments in critical social and economic sectors. Alternative estimations further confirm the negative short-term impact of military burden on income inequality. The paper is structured as follows: the next section outlines the data and empirical methodology, followed by the presentation and discussion of results. Section 3 explores alternative estimations, while Section 4 concludes.

2. The data, the empirical strategy and the results

2.1 The data

For the empirical investigation, we constructed a panel of 22 Latin American and Caribbean countries from 1990 to 2022 (see the Table A1 in appendix for the list of countries) exploiting information from different sources. Our dependent variable is the income inequality measured by Gini index. The Gini index ranging from 0 (indicating perfect equality) and 100 (reflecting maximum inequality). Data on Gini index come from the Standardized World Income Inequality Database (SWIID, version 9.5). We use both gross and net scores of the Gini index, indicating income inequality before and after taxes and transfers, respectively. As explanatory variables we consider two distinct measures of military commitment of a country: first, the military burden, defined as the proportion of military spending to GDP, and second, the Global Militarization Index (GMI). We interpret the military burden as a short-term indicator and the GMI as a long-term measure. Data on military burden are obtained from the Stockholm International Peace Research Institute, while GMI data are calculated by the Bonn International Center for Conversion (BICC), as coded in Bayer et al. (2021). The GMI encompasses various factors, including: (i) the proportion of military expenditure to GDP and healthcare spending; (ii) the ratio of military personnel to both the overall population and physicians; and (iii) the quantity of heavy weapons held by armed forces relative to the total population. We also employ two dummy variables that may relate to the allocation of resources for military spending and national security of a country: (i) military conscription and (ii) existence of a conflict. The dummy ‘conscription’ coded 1 if the country has mandatory conscription and 0 otherwise. Information on military conscription is from The World Factbook published annually by the U.S. Central Intelligence Agency (CIA). Control variables are included to account for other factors that also potentially impact the income inequality. To assess the effect of the change in the population’s human capital endowments on income inequality, we consider the human capital index extracted from Version 9.1 of the Penn World Table (PWT 9.1). This index is based on the average years of schooling and the rate of return to education derived from estimates in Mincer’s equation. To measure economic openness, we use the ratio of total trade (the sum of imports and exports) to GDP. This indicator is widely adopted in empirical studies as a direct proxy for a country’s integration into international markets, particularly in the analysis of globalization and income inequality (Jaumotte et al., 2013; Dorn et al., 2022). Additionally, we account for the political regime of countries exploiting scores taken from V-dem dataset. Finally, we include inflation level and unemployment rate. The latter variables are taken from the World Bank WDI dataset. Table 1 presents the descriptive statistics, Table A2 in Appendix highlights the sources of variables.

Table I. Descriptive statistics

Variables	Number of Observations	Mean	Standard Deviation	Minimum Value	Maximum Value
Inequality					
Gini Net	601	3.837	0.100	3.584	4.004
Gini Gross	601	3.896	0.109	3.603	4.157
Global Militarization Index (GMI)	648	4.598	0.615	1.389	5.480
Military Burden	633	-4.495	0.738	-7.961	-3.113
Openness	634	4.056	0.508	2.621	5.617
Human Capital	630	0.844	0.183	0.300	1.146
Inflation	640	1.905	1.231	-2.586	8.920
Unemployment	569	1.914	0.512	0.641	3.021

Democracy	726	-0.831	0.541	-3.576	-0.145
Conscription	724	0.409	0.492	0	1
Conflict	726	0.085	0.280	0	1

2.2 The regression model

The model specification adopted to estimate the relationship between inequality and military engagement, we use a panel static model which assumes that the disturbance term is first-order autoregressive. This controls for autocorrelation between the errors due to correlation between inequality and military spending at time t and these variables at time $t-1$. Formally, the model is:

$$\ln Gini_{it} = \alpha + \beta_1 \ln Military_{it} + \beta_2 x_{it} + v_i + \epsilon_{it} \quad (1)$$

$$\epsilon_{it} = \rho \epsilon_{i,t-1} + \eta_{it} \quad (2)$$

where $\ln Gini_{it}$ is the log of the Gini index in country i at time t while $Military_{it}$ is the proxy for military engagement in the country at a given year. X_{it} is a vector of time variant controls as described in the data section. To estimate the elasticity and mitigate the skewness, continuous explanatory variables have been converted into natural log. V_i is country fixed effects.

2.3 The results

Table 2 presents the results of the analysis¹. Findings in columns 1 and 3 refer to the baseline model with the Gini index estimated after taxes and transfers as dependent variable, while columns 2 and 4 present results with the Gini index estimated before taxes and transfers.

Table II. Military engagement and income inequality- Main Results

VARIABLES	(1) Net Gini	(2) Gross Gini	(3) Net Gini	(4) Gross Gini
Military Burden	-0.027*** (0.009)	-0.022*** (0.007)		
Global Militarization Index (GMI)			0.028** (0.011)	0.019** (0.009)
Openness	0.075*** (0.014)	0.051*** (0.011)	0.061*** (0.012)	0.040*** (0.010)
Inflation	-0.006*** (0.002)	-0.004*** (0.002)	-0.004*** (0.002)	-0.003** (0.001)
Unemployment	0.012** (0.006)	0.011** (0.005)	0.013** (0.005)	0.011*** (0.004)
Human Capital	1.470*** (0.158)	1.386*** (0.138)	1.088*** (0.149)	1.068*** (0.130)
Democracy	0.064** (0.028)	0.053** (0.023)	0.066*** (0.025)	0.054*** (0.020)
Conflict	0.010 (0.006)	0.008 (0.005)	0.007 (0.006)	0.006 (0.005)
Military Conscription	0.006 (0.011)	-0.000 (0.009)	0.010 (0.010)	0.004 (0.008)
Constant	1.602*** (0.007)	1.776*** (0.005)	2.096*** (0.006)	2.232*** (0.005)
Observations	364	364	385	385
R-squared within	0.352	0.346	0.253	0.251
R-squared between	0.002	0.028	0.000	0.060
R-squared overall	0.085	0.012	0.062	0.001
Number of countries	17	17	17	17

Standard errors in brackets. Statistical significance ***p < 0.001, **p < 0.005, *p < 0.10
Significant coefficients are in bold.

Results show a significant (at 1% level) and negative association between military burden and income inequality values. This negative association holds for both Gini scores, with a slightly stronger effect observed when considering the net Gini index. Specifically, a 1-point percent increase in the military burden correlates with a 0.027% decrease in income inequality for the

¹ The GINI index, our dependent variable, has 125 missing values, mostly at the start or end of the period. In our main results (Table 2), we do not impute them. To test robustness, we extrapolate the missing values and re-estimate the main equation. The results remain robust and they are available upon request.

net Gini index and a 0.022% decrease for the gross Gini index. As for the GMI on income inequality, the effect is positive and significant at 5% level. One per cent rise in GMI leads to an increase of 0.028 percent and 0.019 percent in the net Gini index and gross Gini index, respectively. In other words, while military burden is associated with reduced income inequality, an increase in GMI correlates with worsening income inequality. Trade openness exhibits a robust and statistically significant positive associations with income inequality, likely due to the unequal distribution of trade benefits that may favor some sectors or groups over others (Rodrik, 2021). Results also show a robust negative association between inflation and income inequality, suggesting that higher inflation rates tend to lower income inequality inflationary pressures (Siami-Namini and Hudson, 2019). Conversely, human capital shows a positive and statistically significant association with income inequality. This result suggests that improvements in education may not be evenly distributed across the population in the LAC region, but may disproportionately benefited higher-income groups, thereby exacerbating existing disparities (De Gregorio and Lee, 2002; Castelló-Climent and Doménech, 2021). Similarly, higher unemployment rate exacerbates income distribution disparities, especially in countries with underdeveloped social welfare systems (Autor et al., 2015). Finally, countries with more democratic political systems tend to experience higher levels of inequality. This result aligns with existing literature suggesting that in some contexts democracy, can be associated with income inequality (Caruso and Biscione, 2022; Bahamonde and Trasberg 2021; Wong 2016; Bonica et al. 2013).

3. Alternative estimation

As an alternative estimation we use a probit model to explore the effect of military engagement on changes in income inequality. For this purpose, we first calculate the mean of the Gini index (both net and gross) for each country in the period under examination. Then we create a dummy variable equal to 1 if the Gini index is greater than the mean of Gini index, 0 otherwise. Given the nature of our dependent variable, this estimation captures primarily the short-term effects of military engagement on the evolution of income inequality, without accounting for any potential long-term adjustments or dynamic changes. Table 3 reports the results.

Table III. Military engagement and income inequality- further estimation

VARIABLES	(1) Net Gini	(2) Gross Gini	(3) Net Gini	(4) Gross Gini
Military Burden	-1.137*** (0.397)	0.393 (0.414)		
Global Militarization Index (GMI)			-0.876 (0.525)	0.356 (0.633)
Openness	-0.143 (0.512)	-0.028 (0.577)	0.051 (0.484)	-0.104 (0.560)
Inflation	-0.243* (0.135)	-0.469*** (0.144)	-0.220* (0.124)	-0.464*** (0.138)
Unemployment	2.165*** (0.690)	1.678*** (0.372)	1.942*** (0.331)	1.801*** (0.361)
Human Capital	-17.184*** (2.300)	-21.234*** (2.700)	-16.440*** (2.266)	-21.323*** (2.648)
Democracy	2.576** (1.297)	2.041 (1.404)	3.161*** (1.213)	2.081 (1.387)
Conflict	0.341 (0.553)	-0.361 (0.582)	0.282 (0.551)	-0.365 (0.582)
Military Conscription	0.768* (0.431)	2.233*** (0.645)	0.668* (0.395)	2.126*** (0.605)
Constant	6.088** (3.029)	15.887*** (3.694)	12.924*** (4.145)	12.608*** (4.715)
Observations	382	382	403	403
Number of countries	18	18	18	18

Standard errors in brackets. Statistical significance ***p < 0.001, **p < 0.005, *p < 0.10

Significant coefficients are in bold.

Results indicate a negative association between military burdens and income inequality in the short run, particularly when considering the net Gini index. This supports the findings from the

baseline model, suggesting that higher military spending may be associated with a more equal distribution of income, at least in the short term. A possible explanation could be that increased military spending acts as a form of economic stimulus, potentially creating jobs and boosting domestic demand, which may disproportionately benefit lower-income groups, thus reducing inequality in the short run. However, it is important to note that the Global Militarization Index (GMI) does not exhibit a statistically significant effect on income inequality, which suggests that broader militarization does not have the same influence on income distribution as direct military expenditures. This highlights the potential importance of distinguishing between different types of military engagement when analyzing their impact on economic disparities. The evidence from the control variables remains consistent with earlier results, except for military conscription. Specifically, countries with compulsory military conscription tend to show a positive correlation with income inequality compared to their counterparts. This finding contrasts with Caruso and Biscione (2022), Biscione and Caruso (2021), and Card and Cardoso (2012) who assert that military conscription could serve as a tool for income redistribution.

4. Final Remarks

To explore the correlation between military engagement and income inequality in LAC countries, we regress our chosen measure of inequality, the Gini index (both net and gross Gini scores), on two distinct measures of military engagement: (i) the military burden and (ii) the Global Militarization Index (GMI). The main findings indicate that, while the military burden is negatively correlated with inequality in the short run, the relationship reverses when considering the more comprehensive measure of the GMI. Specifically, while increased military spending may initially help reduce inequality by stimulating economic activity and creating jobs, the effect appears to diminish over time. The GMI shows a positive correlation with income inequality, suggesting that as militarization intensifies, it may exacerbate inequality in the longer term, possibly by diverting resources away from social welfare and development priorities. Alternative estimates confirm that military engagement, as measured by military burden, is negatively correlated with inequality in the short term. This finding suggests that in the immediate aftermath of increased military spending, there may be an initial redistribution effect that benefits lower-income groups. This study highlights the short- and long-term effects of military engagement on inequality contributing to the ongoing debate on its socio-economic consequences. Further research should clarify the institutional and economic conditions under which militarization either mitigates or exacerbates inequality. Understanding these conditions is essential for informing policy decisions that seek to balance national security objectives with the promotion of social equity.

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Appendix A

Table A1. List of countries included in the analysis

Argentina	Honduras
Bolivia	Jamaica
Brazil	Mexico
Chile	Nicaragua
Colombia	Panama
Dominican Republic	Paraguay
Ecuador	Peru
El Salvador	Suriname
Guatemala	Trinidad and Tobago
Guyana	Uruguay
Haiti	Venezuela

Table A2. Definition and sources of variables

Variable	Definition	Source
Inequality	Gini Index	The Standardized World Income Inequality Database -SWIID
GMI	Global Militarization Index	Bonn International Center for Conversion -BICC
Military Expenditure	Military Expenditure as percent of GDP	Stockholm International Peace Research Institute (SIPRI)
Conscription	Country with military conscription	The World Factbook CIA
Conflict	Country in an armed conflict	UCDP/PRIO
Openness	Exports plus imports as percent of GDP	WDI, World Bank
Inflation	Inflation Rate	WDI, World Bank
Unemployment	Unemployment Rate	WDI, World Bank
Human Capital	Human capital index.	Penn World Table (PWT 9.1)
Democracy	Deliberative Democracy Index	V-Dem database