

Macro Roundup Article

Headline: [The Price of War](#)

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Tweet: An analysis of war since 1870 finds that nearby non-belligerent countries suffered an 8% reduction in output six years after the onset of war, while distant non-belligerents saw a 4% rise in output, heavily influenced by increased military spending.

Summary: We assemble a new data set spanning 150 years and 60 countries to study the economic impact of war. [These costs] are not confined to the war site, where output declines [on average] by approximately 30% and inflation increases persistently by 15 percentage points. There are strong spillovers to other countries as well [that] depend on geographic distance. As war destroys the productive capacity of the war site, trade with nearby economies collapses, generating an endogenous supply-side contraction. [Yet] for very distant countries, output spillovers can turn positive [because] there is much less trade with Home, and the overall effect may thus be dominated by the expansionary effect of increased military expenditure. For both country groups, we find negative output spillovers in Nearby and mildly positive output spillovers in Distant (left column). Similarly, the pattern of the inflation response, shown in the right column of the figure is somewhat amplified as we zoom in on the belligerents, but does not change fundamentally. Participation in the war as such does not explain the spillovers from the war site. Instead, it amplifies the primary effect related to proximity.

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Primary Topic: Growth

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