**Econometric Framework**

In order to draw meaningful conclusions while acknowledging the potential uncertainty in our models, we have adopted Bayesian Model Averaging (BMA) as our approach to address our core research question. BMA effectively accommodates model uncertainty by simultaneously considering multiple competing models. In empirical research, it’s often the case that there is substantial uncertainty about the appropriate model specification. Model uncertainty arises due to the abundance of existing theories or available control variables (as discussed by Steel (2020)). It becomes particularly pronounced when there is a multitude of potential models to choose from, and the determination of the “best” model is not straightforward. When dealing with a specific endogenous variable and a set of possible predictors, the issue of variable selection becomes a central concern (see Clyde and George (2004)).

In the context of understanding the determinants of military expenditure, there are numerous factors beyond proximity to Russia that might influence or correlate with military spending. This introduces the challenges of model uncertainty. The extensive body of existing literature addressing various aspects of this issue underscores the problem’s complexity. For instance, Nordhaus et al. (2012) investigate how a country’s external security environment affects its military spending, considering variables like real GDP, the weighted military expenditures of friendly and hostile nations, democracy scores, and the estimated annual probability of a significant civil conflict as control variables. On the other hand, Kofron and Stauber (2023) focus on geographical distance as a potential driver of military expenditure and incorporate several variables as controls, including the number of terrorist attacks, government ideology, GDP growth, and historical factors like post-communism and the presence of Soviet military forces.

Economic growth is the central theme in many studies on military expenditure, and Lin and Wang’s 2019 literature review demonstrate the ambiguous findings in this regard. Furthermore, Albelate, Bel and Elias (2009) delve into the institutional determinants of military spending, emphasizing the general observation that democracies tend to allocate less to defense than autocracies, while also scrutinizing specific democratic systems. Dunne and Perlo-Freeman (2003a and b), as well as Nikolaidou (2008) focus on economic, political, and strategic factors. It is worth noting that Dunne and Perlo-Freeman highlight changes in determinants of military expenditure following the Cold War. A myriad of other studies has explored various facts of this topic, but we won’t delve into them here. For a general literature review, see Albeta, Bel and Elias (2009).

The existing body of literature on the determinants of military expenditure underscores the presence of model uncertainty. To address this uncertainty, we have chosen the Bayesian Model Averaging (BMA) approach. Instead of merely estimating a single model and updating our prior belief p(θ) to posterior beliefs p(θ|data), we consider all the models within the model space under consideration. We then compute an average across these models to perform inference. This approach considers the diversity of models, allowing for variation and differences between them. We derive a combined parameter distribution, weighted by the posterior model probabilities of all models within the model space, to draw our conclusions. These posterior model probabilities reflect the plausibility of a given model based on the data, denoted as p(Mi|data), following the BMA methodology as outlined by Steel (2020), Hoeting et al. (1999) and Moral-Benito (2015).

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