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Capital Destruction, Optimal Defense and Economic Growth

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The effects of capital destruction are endogenized in a neoclassical growth model where the economy can optimally allocate part of its labor force to defend capital from being destroyed. The purpose is to explain the optimal allocation of the labor force between productive and deterrence activities along the optimal growth path in response to exogenous terrorist attacks against the material wealth of the economy. The article makes special case to the recent Colombian case and sheds some light on the dramatic increase in the defense activities in Colombia as a result of the increase of terrorist attacks by rebel groups.

Fuente: https://www.banrep.gov.co/en/contenidos/publicacion/capital-destruction-optimal-defense-and-economic-growth