

# THE OFFENSIVE POWER OF DEFENSE NEWS IN EUROPE

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# THIS STUDY

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**European Panel VAR studying the effects of defense spending news**

**Large military spending news multiplier  $\sim 2$**

- Driven by high TFP Gains

**Builds on:**

- Ben Zeev and Pappa (2017): **Smaller multipliers** on defense spending news **in the US**
- Ben Zeev and Pappa (2015): US defense spending multipliers are **through TFP responses**

# IDENTIFICATION IN SVARs

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## Short run identification

- Cholesky: Blanchard & Perotti (2002)
- Proxy / Internal instruments

## Long run identification

- Blanchard Quah (1989)

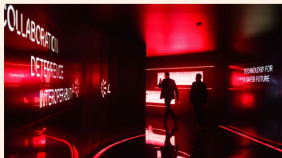
## **This paper:** Medium term identification

- Beaudry and Portier (2006); Ben Zeev and Khan (2015)

# COMMENT 1: MECHANISM-TFP GROWTH

## Leonardo to unveil 'Michelangelo Dome' air shield system

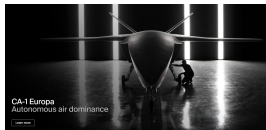
Italian defence group to show AI system that will connect equipment and platforms to protect nations from air threats



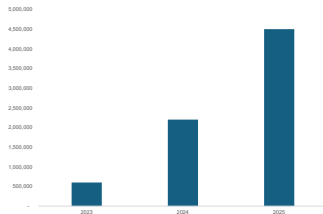
Leonardo's dome is based on software that is not linked to a single military platform so any country could use it for its own vehicles, structures and systems © Jose Sarmento Matos/Bloomberg

Silvia Sciorilli Borrelli in Milan and Sylvia Pfeifer in London

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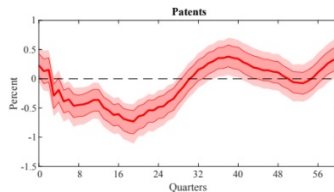
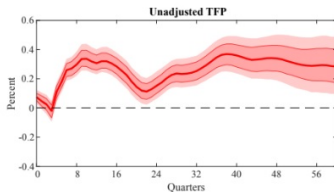


CA-1 Europa  
Autonomous air dominance



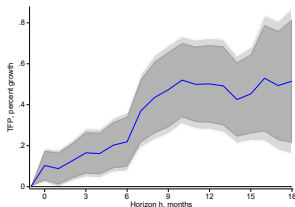
# PUBLIC R&D OR LEARNING BY DOING

## Antolin Diaz and Surico (2026)

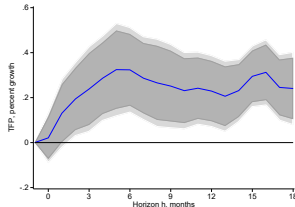


## Ilzetzi (2025)

### Response to demand



### Relative response in high-utilization plants



# COMMENT 1: MECHANISM—IMMEDIATE TFP RESPONSE?

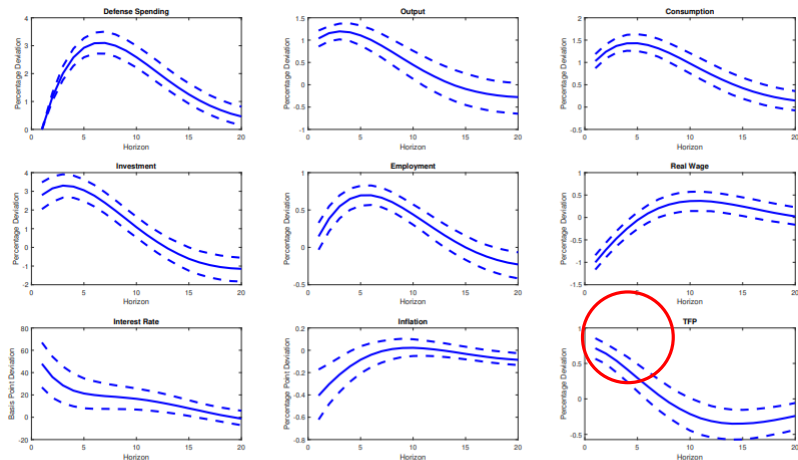


Figure 9: IRFs Defense News Shock: TFP-Inclusive Panel VAR

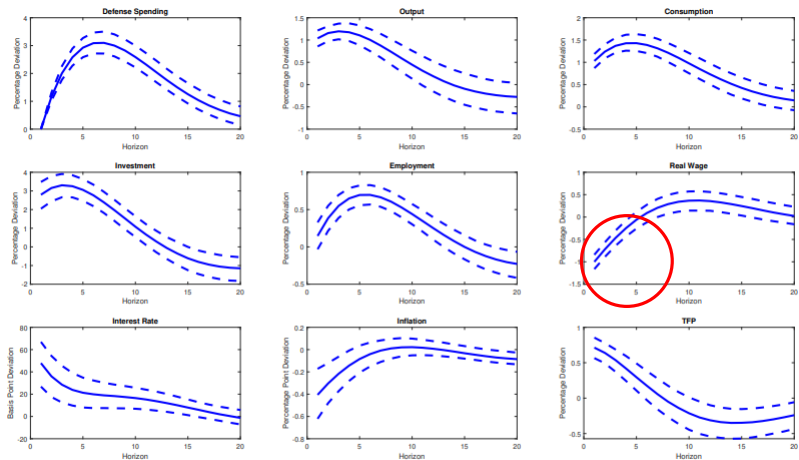


Figure 9: IRFs Defense News Shock: TFP-Inclusive Panel VAR

# MINOR COMMENTS

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## Panel: Why cross-sectional but no time FE?

- Currently: Estimating off of pooled time-series variation, **including** common shocks (e.g. end of the cold war).
- Lagged dependent variables + cross-sectional fixed = Nickel (1981) bias
- Dependent variables already control for country-specific trends (richer than country FE)
- Time FE: identifying off of differential responses to **relative** news (e.g. different trajectories of Germany and Greece after 1991).

## Annual data: How is identification affected by lower frequency?

- Most variables are available in quarterly frequency
- Military spending is slow moving, budgeted annually—interpolation isn't terrible