



By Robert Pollin

ECONOMIC PROSPECTS

Why Militarism Hurts the U.S. Economy

There is no longer any doubt that the Iraq war is a moral and strategic disaster. But is it possible that the Iraq war—which has been the driving force for a huge expansion in the U.S. military budget under the Bush-II administration—has also brought major benefits to the U.S. economy, including money to support

millions of decent jobs and advances in important technologies?

In my Fall 2007 *New Labor Forum* article, I argued that the U.S. economy could generate roughly one million new jobs if we took all \$140 billion out of the Iraq war budget as well as rescinded \$60 billion of Bush's tax cuts for the rich, and transferred this \$200 billion total into health care, education, and energy conservation. But a frequent concern that raises doubts about the realism of such military conversion proposals is the undeniable fact that, at present, the military budget is a cornerstone of the U.S.

economy. The Pentagon is a major underwriter of important technical innovations as well as a major employer. It provides good jobs—jobs that are stable and at least decently paid—to millions of Americans.

Moreover, there have been important cases where war mobilization and spending have generated powerful boosts to the economy. The classic case is World War II. The massive surge in military spending that followed President Roosevelt's declaration of war after the December 1941 Pearl Harbor attack indisputably brought the United States out of the 1930s De-

pression. More specifically, the Depression ended thanks to a huge expansion in *deficit* spending by the government to finance the war effort. This meant that the government was injecting more money into the economy to recruit soldiers and to build weapons than it was receiving in tax revenues.

The Vietnam War offers a similar, if somewhat less dramatic, example. Vietnam was a horribly destructive imperialist venture. But the deficit spending to finance the war pushed the unemployment rate below 4 percent by the end of the 1960s. Employers faced labor shortages as a result. To attract the workers they needed to maintain their business operations, they were forced to raise wages, improve workplace conditions, and reduce job-market discrimination against minorities.

Reflecting on these and related experiences, some of the most astute observers of the U.S. economy over time have argued that large-scale military spending is a necessary prop to the U.S. economy. The most forceful statement of this position was advanced by the renowned Marxist economists Paul Baran and Paul Sweezy in their classic 1966 book *Monopoly Capital*. Baran and Sweezy underscored the dramatic disparities between the performance of the U.S. economy during the 1930s Depression versus the boom that began with World War II and continued in the postwar era of permanent massive Pentagon budgets. Their conclusion was that the private sector of the U.S. economy operated with an inherent tendency to slide into stagnation and depression. The economy required large-scale public investments to counteract these inherent tendencies.

Contrary to Baran and Sweezy, other analysts have argued that huge military budgets produce far more harm than good for the U.S.

economy. The most influential author to develop this position was the late Seymour Melman, whose writings on this topic included his 1970 book *Pentagon Capitalism* and the 1998 study, *The Demilitarized Society: Disarmament and Conversion*. Melman focused on the fact that military spending was draining resources from the U.S. public treasury. This was all money not being spent on civilian research and development, health care, education, and public infrastructure projects such as high-quality mass transportation, water management, and public parks.

Which of these positions is right? Here I will risk invoking the economist's classic two-handed cop-out ("on the one hand, he's right, but on the other hand, she's got a point. . ."). In my view, both positions are actually correct. This is because the two positions present two sides of the same reality.

Baran and Sweezy stressed that the U.S. economy—like all capitalist economies—is not sustainable if it relies, as its primary engine of growth, on private capitalists making investment decisions driven by their pursuit of ever-higher profits. Large-scale public investments are also necessary to promote stability and productivity improvements. However, it also happens that military spending—as opposed to primary school buildings in poor communities or municipal water-management systems—is the only form of large-scale public investment that can consistently win political support from mainstream politicians.

But this hard reality also invokes the other side of the story emphasized by Melman: that alternative forms of public investment would generate much higher levels of public welfare—more and better jobs, better civilian technologies, and a safer, more reliable infrastructure

—than the military. We now know all too well that the New Orleans levee system was among the large-scale public water management projects that suffered from years of severe neglect. Melman therefore argued that we needed to mobilize politically to shift the government's spending priorities away from the Pentagon.

How do these two equally important perspectives play themselves out today? The U.S. government spent an estimated \$572 billion on the military in 2007. This amounts to about \$1,800 for every person now living in the United States. It is also an amount larger than the combined total economies (GDP) of Sweden and Thailand, and is eight times greater than the 2007 U.S. federal budget for education.

Given spending levels of this magnitude, the claims made about the positive effects of the military budget cannot help but be true at some level. If the U.S. government is devoting upwards of \$600 billion a year on maintaining

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and strengthening the most powerful military force in the history of the world, how could their expenditures on building sophisticated weapons, along with transportation and communications systems, fail to encourage technical innovations that are somehow connected to these instruments of warfare? These invest-

ments have indeed produced important civilian spin-offs, the Internet being the most spectacular recent example. At the same time—following Melman's perspective—channeling hundreds of billions of dollars into areas such as renewable energy, mass transportation, and public health care would also create a hothouse environment supporting new technologies and service-delivery systems. For example, large-scale investments in solar energy and other clean technologies could drive down costs to the point where they are commercially competitive with oil, coal, and nuclear power.

We can make a parallel case in considering the impact of the military budget on U.S. jobs. The \$600 billion military budget generates approximately five million jobs overall in the United States, both within the military itself and in all the civilian industries connected to the military. And precisely because of the high demand for technologically advanced equipment in the military, a good proportion of these jobs are well-paying and professionally challenging. However, this would also be true with money spent on health care, energy conservation, renewable energy, or education.

What about Baran and Sweezy's argument that military spending serves as an economic stimulus, as with World War II and Vietnam? In both of these cases, comparable positive benefits could have been achieved through large-scale government deficit spending programs targeted at peaceful activities. The positive effects came not through spending on war per se. They resulted rather because the government was able to marshal political support for large-scale deficit spending at a time when there were great needs for more jobs and better jobs.

But we cannot get excessively enthusiastic about government deficit spending. Whether large-scale fiscal deficits are a positive economic force depends on whether, at any given time, there is a large amount of underutilized productive equipment and underemployed people that can be put to work when the government injects increased spending into the economy. It also depends on how much debt the government is already carrying. Remember that the other side of government deficit spending is that these are debts taxpayers owe to mostly rich people and foreign governments. These debts need to be paid back with interest. As a general principle, it is preferable for the rich to pay their taxes like everyone else—thereby raising government revenue and reducing the need for government borrowing—rather than enabling the rich to idly collect interest on their government loans.

As I tried to show in my article in the fall issue of *New Labor Forum*, we now have the financial means available to transform conditions for working people in the U.S. economy. By taking the roughly \$140 billion out of Iraq war spending, along with rescinding the \$60 billion in Bush's tax cuts for the rich, we have the capacity now to offer Medicare-level health insurance for everyone who now has no coverage, and also provide substantial investments in education as well as in energy conservation measures such as home weatherization and mass transit.

Through such spending shifts, we could also generate between six hundred thousand and one million new jobs. The job expansion

would occur because these alternative priorities all entail more spending within the United States itself, as opposed to, say, Iraq; and because they require spending relatively more

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money on hiring workers and relatively less on buying equipment. And by increasing the demand for workers in the United States by this amount, bargaining leverage would also likely shift substantially in favor of workers. Employers in health care, education, construction, and mass transit would have to increase their efforts to attract and retain employees. These are all industries that do not compete with imports and cannot be outsourced. Consequently, the increased demand for U.S. workers could force average real wages to start rising on a sustained basis for the first time since the 1960s.

The costs of the Bush Administration's disaster in Iraq therefore extend well beyond even the death and destruction that have become part of our daily news fare. Dramatic opportunities to create decent jobs, expand educational and health care opportunities, clean the environment, and build a productive and safe public infrastructure are being lost every day we continue the occupation of Iraq. ■