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Is Military Keynesianism the Solution?

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The United States is currently preparing to send 30,000 additional troops to Afghanistan by summer 2010. Military contractors, deeply integrated into the U.S. economy, will continue to prosper and profit from increased military spending resulting from this surge of troops. At a time when unemployment in the domestic economy remains near 10%, it may seem convenient to fall back on the principle of military Keynesianism: War is good for the economy.

John Maynard Keynes, the British economist whose work has once again become popular in the wake of this most recent economic crisis, advocated increased government spending to lift an economy out of recession or depression. When consumers and businesses slow their spending, the government can step in to increase demand for goods and services so that businesses can continue to produce and people can remain employed. This fiscal stimulus could take the form of infrastructure projects, healthcare, education, or other productive endeavors. By this logic, military spending can lift an economy out of recession by creating demand for goods and services provided by military contractors, such as the production of tanks and ammunition or the provision of security services. Advocates of this strategy point not only to the widespread employment created by military spending, but also claim that military spending creates well-paying, stable jobs.

It is true that military spending creates jobs throughout the economy, and that many of those jobs are well-paying. But at a time when our jobless rate is high, infrastructure is crumbling, and global climate change is becoming an increasingly urgent matter, we must ask whether military spending is truly a solution to our economic woes or whether we might be able to create more jobs in productive areas that also help us meet longer-term goals.

In a recent paper that I co-authored with Robert Pollin, we show that dollar per dollar, more jobs are created through spending on clean energy, health care, and education than on the military. Further, we show that more middle-income and well-paying jobs are created in all of these areas. For each $1 billion of spending, over 17,000 jobs would be created in clean energy, close to 20,000 in health care, and over 29,000 in education. That same $1 billion would create only 11,600 jobs as a result of military spending. If we look at well-paying jobs, those that pay over $64,000 per year, these alternative domestic spending areas also outperform military spending. The same $1 billion would create 1,500 well-paying jobs in clean energy and just over 1,000 in the
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military—clean energy creates 50% more good jobs than military spending. Education, which is labor-intensive and creates many well-paying jobs per dollar of expenditure, creates close to 2,500 jobs paying over $64,000—that’s 2.5 times as many as the military.

According to the National Priorities Project, military spending on the Iraq and Afghanistan wars has reached approximately $1 trillion since 2001, not including the cost of the surge of 30,000 troops. In fiscal year 2009, federal government outlays on the military were 17% of all outlays.

Meanwhile, energy, resource conservation, and the environment accounted for only 1% of federal outlays, while education, training, and social services made up only 2%. Military spending is therefore eight to seventeen times as high as federal education- and energy-related spending.

The Obama administration is facing increased pressure to reduce the size of the fiscal deficit and the national debt, both of which have grown partly as a result of military spending. At the same time, there is an urgent need to put people back to work and to move the country toward a low-carbon future. While military Keynesianism offers one strategy for recovering from the recession, it is by no means the most effective, even putting aside the other reasons for objecting to a war economy. By reducing military spending, we can channel some of those savings to clean energy, healthcare, education, and other matters of national and global importance.
The Blanche Lincoln Senate Agriculture Committee Derivatives Reform Act

The Wall Street Transparency and Accountability Act passed by the Senate Agriculture Committee is the strongest derivatives control legislation to come out of Committee during the current financial reform debate. And it is one that the largest banks, who do 85% or more of the derivatives trading, will fight to the death to kill. This bill would eliminate most of their opaque and therefore high profit margin, "customized to kill" OTC derivatives trading. In addition it would force most derivatives trading to be put on exchanges where they would have to be more transparent, less complex and therefore less dangerous. More significantly - and more distasteful to the banks - the bill requires that the banks that have access to funds from the Federal Reserve close down their derivatives (swaps) trading and put them in separate entities. The current Senate bill has some flaws: it appears to exempt foreign exchange swaps and does not force all derivatives onto exchanges, making it possible for banks to game the system.

Break the Vise

Much more must be done to truly make the financial system safe, accountable, fair and efficient: issuer-paid rating agencies have to be abolished or significantly reformed; hedge funds need to be subject to prudential regulation; new financial products have to be prohibited unless they can be shown to be safe and effective (rather than just tools for fraud, or tax and regulatory evasion); a consumer financial protection agency that is truly independent and powerful needs to be established; the Federal Reserve has to be made much more democratic; a financial transactions tax to shrink the bloated financial system has to be levied....the list could go on and on.

But there are pieces of financial reform legislation and likely amendments that are worth fighting for. They will not end Wall Street vice, which seems completely endemic to the culture of the system. But they could help break the choke hold that big finance has over the American people. And that is a vise worth smashing.