

# War Is Great for the 1% ... But Makes the 99% Poorer

By [Washington's Blog](#)

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Region: [USA](#)

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## War Profiteers: The 1%

The heads of the big defense firms [make huge salaries off of war, and are part of the .01%](#). They not infrequently [fund and sell arms to both sides of wars](#) ... and make a killing in the process.

Top economists have also proven that [war is horrible for the 99%](#).

Congress members - part of the 1% which has [made money hand over fist](#) during this economic downturn - are [heavily invested in the war industry, and routinely trade on inside information ... perhaps even including planned military actions](#).

Similarly - as detailed below - [the Federal Reserve helps to start wars by financing them](#) (no, I'm not talking about the [billions the Fed sent to Iraq](#) or [Gaddafi's Libyan bank or other recently-disclosed shenanigans](#)).

War is a Racket

Investment legend Jeremy Grantham says that [President \(and former general\) Eisenhower's warning about the military-industrial complex has come true](#).

Eisenhower was not the first. "[War is a racket](#)", according to one of the most highly-decorated military men of all time (and the hero who stopped a coup against FDR ).

"Overgrown military establishments," George Washington [said in his own farewell address of 1796](#), "are under any form of government inauspicious to liberty."

As I [noted](#) in January:

Liberal economist James Galbraith [wrote](#) in 2004:

Inflation applies the law of the jungle to war finance. Prices and profits rise, wages and their purchasing power fall. Thugs, profiteers and the well connected get rich. Working people and the poor make out as they can. Savings erode, through the unseen mechanism of the "inflation tax" — meaning that the government runs a big deficit in nominal terms, but a smaller one when inflation is factored in.

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There is profiteering. Firms with monopoly power usually keep some in reserve. In wartime, if the climate is permissive, they bring it out and use it. Gas prices can go up when refining capacity becomes short — due partly to too many mergers. More generally, when sales to consumers are slow, businesses ought to cut prices — but many of them don't. Instead, they raise prices to meet their income targets and hope that the market won't collapse.

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Libertarian Congressman Ron Paul [agreed](#) in 2007:

Congress and the Federal Reserve Bank have a cozy, unspoken arrangement that makes war easier to finance. Congress has an insatiable appetite for new spending, but raising taxes is politically unpopular. The Federal Reserve, however, is happy to accommodate deficit spending by creating new money through the Treasury Department. In exchange, Congress leaves the Fed alone to operate free of pesky oversight and free of political scrutiny. Monetary policy is utterly ignored in Washington, even though the Federal Reserve system is a creation of Congress.

The result of this arrangement is inflation. And inflation finances war.

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Blanchard Economic Research [pointed out](#) in 2001:

War has a profound effect on the economy, our government and its fiscal and monetary policies. These effects have consistently led to high inflation.

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David Hackett Fischer is a Professor of History and Economic History at Brandeis. [H]is book, *The Great Wave, Price Revolutions and the Rhythm of History* ... finds that ... periods of high inflation are caused by, and cause, a breakdown in order and a loss of faith in political institutions. He also finds that war is a triggering influence on inflation, political disorder, social conflict and economic disruption.

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Other economists agree with Professor Fischer's link between inflation and war.

James Grant, the respected editor of Grant's *Interest Rate Observer*, supplies us with the most timely perspective on the effect of war on inflation in the September 14 issue of his newsletter:

“War is inflationary. It is always wasteful no matter how just the cause. It is cost without income,

destruction financed (more often than not) by credit creation. It is the essence of inflation.”

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Libertarian economics writer Lew Rockwell [noted](#) in 2008:

You can line up 100 professional war historians and political scientists to talk about the 20th century, and not one is likely to mention the role of the Fed in funding US militarism. And yet it is true: the Fed is the institution that has created the money to fund the wars. In this role, it has solved a major problem that the state has confronted for all of human history. A state without money or a state that must tax its citizens to raise money for its wars is necessarily limited in its imperial ambitions. Keep in mind that this is only a problem for the state. It is not a problem for the people. The inability of the state to fund its unlimited ambitions is worth more for the people than every kind of legal check and balance. It is more valuable than all the constitutions every devised.

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Reflecting on the calamity of this war, Ludwig von Mises [wrote](#) in 1919

One can say without exaggeration that inflation is an indispensable means of militarism. Without it, the repercussions of war on welfare become obvious much more quickly and penetratingly; war weariness would set in much earlier.

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In the entire run-up to war, George Bush just assumed as a matter of policy that it was his decision alone whether to invade Iraq. The objections by Ron Paul and some other members of Congress and vast numbers of the American population were reduced to little more than white noise in the background. Imagine if he had to raise the money for the war through taxes. It never would have happened. But he didn't have to. He knew the money would be there. So despite a \$200 billion deficit, a \$9 trillion debt, \$5 trillion in outstanding debt instruments held by the public, a federal budget of \$3 trillion, and falling tax receipts in 2001, Bush contemplated a war that has cost \$525 billion dollars — or \$4,681 per household. Imagine if he had gone to the American people to request that. What would have happened? I think we know the answer to that question. And those are government figures; the actual cost of this war will be far higher — perhaps \$20,000 per household.

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If the state has the power and is asked to choose between doing good and waging war, what will it choose? Certainly in the American context, the choice has always been for war.

And progressive economics writer Chris Martenson [explains](#) as part of his “Crash Course” on economics:

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If we look at the entire sweep of history, we can make an utterly obvious claim: All wars are inflationary. Period. No exceptions.

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So if anybody tries to tell you that you haven’t sacrificed for the war, let them know you sacrificed a large portion of your savings and your paycheck to the effort, thank you very much.

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The bottom line is that war always causes inflation, at least when it is funded through money-printing instead of a pay-as-you-go system of taxes and/or bonds. It might be great for a handful of defense contractors, but war is bad for Main Street, stealing wealth from people by making their dollars worth less.

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And as discussed above, liberals such as James Galbraith and conservatives such as Ron Paul agree that we wouldn’t get into as many wars – and the wars which we did wage would be ended more quickly – if the people were required to pay for them directly instead of war being paid out of the “hidden tax” of inflation.

The father of modern economics – Adam Smith – [agreed](#):

Were the expence of war to be defrayed always by a revenue raised within the year [instead of financing it with long-term public debt], the taxes from which that extraordinary revenue was drawn would last no longer than the war. The ability of private people to accumulate, though less during the war, would have been greater during the peace than under the system of funding. War would not necessarily have occasioned the destruction of any old capitals, and peace would have occasioned the accumulation of many more new. Wars would in general be more speedily concluded, and less wantonly undertaken. The people feeling, during the continuance of the war, the complete burden of it, would soon grow weary of it, and government, in order to humour them, would not be under the necessity of carrying it on longer than it was necessary to do so. The foresight of the heavy and unavoidable burdens of war would hinder the people from wantonly calling for it when there was no real or solid interest to fight for. The seasons during which the ability of private people to accumulate was somewhat impaired, would occur more rarely, and be of shorter continuance. Those on the contrary, during which that ability was in the highest vigour, would be of much longer duration than they can well be under the system of funding.

No wonder many of the “Occupy” protesters are [railing against the war profiteers](#) ... [part of the 1%](#).

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