

War - The Fiscal Stimulus of Last Resort

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“War! Good God, ya’ll. What is it good for? Absolutely nothin’!”

So went the Bruce Springsteen pop hit of the 1980s, first produced as an anti-Vietnam War song in 1969. The song echoed popular sentiment. The Vietnam War ended. Then the Cold War ended. Yet military spending remains the government’s number one expenditure. When veterans’ benefits and other past military costs are factored in, [half the government’s budget](#) now goes to the military/industrial complex. Protesters have been trying to stop this juggernaut ever since the end of World War II, yet the war machine is more powerful and influential than ever.

Why? The veiled powers pulling the strings no doubt have their own dark agenda, but why has our much-trumpeted system of political democracy not been able to stop them?

The answer may involve our individualistic, laissez-faire brand of capitalism, which forbids the government to compete with private business except in cases of “national emergency.” The problem is that private business needs the government to get money into people’s pockets and stimulate demand. The process has to start somewhere, and government has the tools to do it. But in our culture, any hint of “socialism” is anathema. The result has been a state of “national emergency” has had to be declared virtually all of the time, just to get the government’s money into the economy.

Other avenues being blocked, the productive civilian economy has been systematically sucked into the non-productive military sector, until war is now our number one export. War is where the money is and where the jobs are. The United States has been turned into a permanent war economy and military state.

War as Economic Stimulus

The notion that war is good for the economy goes back at least to World War II. Critics of Keynesian-style deficit spending insisted that it was war, not deficit spending, that got the U.S. out of the Great Depression.

But while war may have triggered the surge in productivity that followed, the reason war worked was that it opened the deficit floodgates. The war was a huge stimulus to economic growth, not because it was a cost-effective use of resources, but because nobody worries about deficits in wartime.

In peacetime, on the other hand, when the government was not supposed to engage in competitive enterprise. As Nobel Prize winner Frederick Soddy observed:

The old extreme *laissez-faire* policy of individualistic economics jealously denied to the State

the right of competing in any way with individuals in the ownership of productive enterprise, out of which monetary interest or profit can be made

In the 1930s, the government was allowed to invest in such domestic ventures as the Tennessee Valley Authority, but this was largely because private sector investors did not believe they could turn a sufficient profit on the projects themselves. The upshot was that the years between 1933 and 1937 proved to be [the biggest cyclical boom](#) in U.S. history. Real gross domestic product (GDP) grew at a 12 percent rate and nominal GDP grew at a 14 percent rate. But when the economy appeared to be back on its feet in 1937, Roosevelt was leaned on to cut back on public investment. The result was a surge in unemployment. The economic boom died and the economy slipped back into depression.

World War II reversed this cycle by re-opening the money spigots. “National security” trumped all, as Congress spent with reckless abandon to “preserve our way of life.” The all-out challenge of World War II allowed Congress to fund a flurry of industrial activity, as it ran up a tab on the national credit card that was 120% of GDP.

The government ran up the largest debt in its history. Yet the hyperinflation, currency devaluation, and economic collapse predicted by the deficit hawks did not occur. Rather, the machinery and infrastructure built during that booming period set the nation up to lead the world in productivity for the next half century. By the 1970s, the debt-to-GDP ratio had dropped from 120% to less than 40%, not because people sacrificed to pay back the debt, but because the economy was so productive that [GDP rose to close the gap](#).

Stimulus Without War

World War II may have created jobs; but like all wars, it took a terrible toll. Economist [John Maynard Keynes observed](#):

Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better. [Emphasis added.]

War was the economic stimulus of last resort when politicians were so confused in their understanding of economics that they would not allow the government to go into debt except for national emergencies. But Keynes said there are less destructive ways to get money into people’s pockets and stimulate the economy. Workers could be paid to dig ditches and fill them back up, and it would stimulate the economy. What a lagging economy needed was simply *demand* (available purchasing power). Demand would then stimulate businesses to produce more “supply”, creating more jobs and driving productivity. The key was that demand (money to spend) must come *first*.

The Chinese have put workers to work building massive malls and apartment buildings, many of which are standing empty for lack of customers and purchasers. It may be a wasteful use of resources, but it has succeeded in putting wages in workers’ pockets, giving them the purchasing power to spend on products and services, stimulating economic growth; and unlike wasteful war spending, the Chinese approach has not involved death and destruction.

A less costly alternative would be Milton Friedman’s hypothetical solution: simply drop money from helicopters. This has been linked to “quantitative easing” (QE), but QE as

currently applied is not what Friedman described. The money has not been showered on the people and the local economy, putting money in people's pockets, stimulating spending. It has been dropped into the reserve accounts of banks, where it has simply accumulated without reaching the productive economy. "Excess" reserves of [\\$1.6 trillion](#) are now sitting in reserve accounts at the Federal Reserve. A helicopter drop of the sort proposed by Friedman has not been tried.

A Better Solution

War, digging ditches, and dropping money from helicopters could all work to stimulate demand and increase purchasing power, but there are better alternatives. Today we have major unmet needs — infrastructure that is falling apart, overcrowded classrooms, energy systems waiting for development, research labs in need of funding. The most cost-effective solution today would be for the government to stimulate the economy by spending on work that actually improves the standard of living of the people.

This could be done while actually *reducing* the national debt. In a recent [article](#), David Swanson cites a [study](#) by Robert Greenwald and Derrick Crowe, looking at the \$60 billion lost by the Pentagon to waste and fraud in Iraq and Afghanistan. They calculated that this money could have created 193,000 *more* jobs than its military use created, if diverted to domestic commercial purposes. Swanson goes on:

There are some other calculations in the same study If we had spent that \$60 billion on clean energy, we would have created (directly or indirectly) 330,000 more jobs. If we'd spent it on healthcare, we'd have created 480,000 more jobs. And if we'd spent it on education, we'd have created 1.05 million more jobs. . . .

Let's say we want to create 29 million jobs in 10 years. That's 2.9 million each year. Here's one way to do it. Take \$100 billion from the Department of Defense and move it into education. That creates 1.75 million jobs per year. Take another \$50 billion and move it into healthcare spending. There's an additional 400,000 jobs. Take another \$100 billion and move it into clean energy. There's another 550,000 jobs. And take another \$62 billion and turn it into tax cuts, generating an additional 200,000 jobs. Now the military spending in the Department of Energy, the State Department, Homeland Security, and so forth have not been touched. And the Department of Defense has been cut back to about \$388 billion, which is to say: more than it was getting 10 years ago when our country went collectively insane.

Labor and resources are sitting idle while the bogeyman of "deficits" deprives the population of the goods and services they could create. Diverting a portion of our massive war spending to peaceful use could add jobs, improve living standards, and add infrastructure, while reducing the national debt and balancing the government's budget by increasing the tax base and government revenues.

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