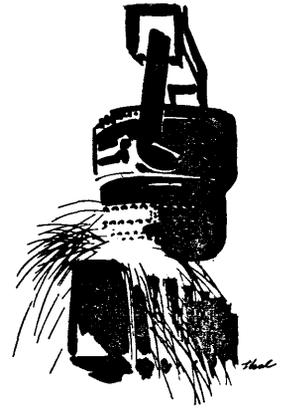


Our war boom, soon to celebrate its 20th birthday, is clearly an established part of the system. An economist here gives his views of what this means for the U. S. economic structure and functioning.

Economics of the War Economy

by Paul Mattick



EVER since Lord Keynes' dictum that wars—like pyramid-building and earthquakes—may serve to increase wealth, it has been increasingly recognized that war and preparation for war are necessary aspects of the prevailing economy and a condition of its proper functioning. Because, in recent history, only inflation and war have resulted in full utilization of productive capacities, the question has been raised whether this association between war and full employment is an accident or a necessity. It is usually answered with the assurance that, although it is no accident, it is not a necessity, for government expenditures can lead to full employment whether they are geared to the needs of war or to the requirements of peace. With full employment as the sole goal of economic activity, even people opposed to war do not seriously object to the creation of "wealth" in the form of armaments and military installation, even though they may prefer "wealth" in the form of social welfare.

Quite independent of preferences, government spending includes an always growing amount for purposes of defense. The "military wealth" of the United States is said to exceed \$124 billion. This "Real and Personal Property of the Defense Department" does not include investments in atomic energy estimated at \$12½ billion, nor the properties of the "National Plant and Equipment Reserve," nor the supplies and equipment in overseas depots, nor the military assistance to allied and favored nations. The great bulk of the inventory consists of things that can be used up, wasted, or that will become obsolete. The Defense Department is actually a tremendous business enterprise. In 1955, for instance, it spent more than \$42 billion, or about one-seventh of the national income. It was directly responsible for the employment of close to 4½ million people, or about 7 percent of the national labor force.

As always, so now, too, there is much talk of cutting government spending and reducing the budget deficit. This economy talk, however, does not include spending for military purposes. On this point both "savers" and "spenders" think alike. The "defense establishment," as the President made clear recently, "is an exception to the general desire of living within the amounts set by the Budget Bureau after it had cut the spending requests." Opposing all cuts and arguing for increased government spending, Truman's former chief economist Leon H. Keyserling

found it necessary to complain that "we remain content with a defense strength far below the minimum judged essential by most experts." But then, spending for defense loses its sinister implications when it is referred to as the "rising cost of peace."

INCREASED control of the economy by way of government spending seems to worry nobody, particularly because far more than half of it is thought to serve national defense. Despite a high rate of government spending there are still millions of unemployed and it was only under conditions of actual warfare, in which nearly half of the gross national product served the needs of war, that there was full employment and full use of productive capacities. Organized labor will certainly not object to increased government spending for whatever purposes, as this means jobs and a better position at the bargaining table. Neither will big corporations nor small entrepreneurs oppose increased defense expenditures, no matter how much they may object to taxation and social welfare, since spending for defense does not restrict general market demand. Although government-financed social welfare schemes may interfere with private business interests, in military expenditures the government provides both supply and demand simultaneously and takes part of the social product out of the marketing process.

Since government funds proper can come only from taxation, additional funds must be borrowed from private sources. Deficit financing, which covers government expenditures that exceed government income, is resorted to by the government in buying goods and services that would otherwise not be bought. This increases economic activity and even the profitability of enterprises filling government demand. The increase of the national debt is limited only by national productive resources. Deficit financing simply means that the government avails itself of part of the means of production that belong to private capital. Increased production through government initiative is, then, a kind of temporary "expropriation" of private capital and deficit financing, as the means to this end, gives the "expropriation" its temporary character. The funds borrowed by government are only monetary expressions of its power to set unemployed resources to work. The rising national debt indicates that this power has been granted only temporarily and for a price, i.e., interest paid to the bond-

holders. And because the "nation as a whole" stands behind the national debt, there arises the possibility that interests will be paid and bonds will be redeemed if the national income rises faster than the national debt. All that this means is that enough new wealth must be created to take care of old obligations. New wealth has to come out of new private production; what the bondholders get back from the government, they will themselves have to provide either by paying more taxes or by subscribing to new loans.

This situation explains the reluctance of private enterprise systems to engage in deficit financing, and of their governments to live beyond the budget. Funds going to the government cannot be accumulated to private account and it is, therefore, not "policy" but necessity which induces free enterprise systems to increase the "public sector" of the economy in any direction. Of all directions, however, that of increased armaments appears the least obnoxious because of the traditional association of capital expansion with military might and because it supports "genuine" capital formation in so far as it subsidizes the suppliers of government demand at the expense of the national economy as a whole.

THE "defense establishment" is an exception to the general desire to live within the government budget because it is the least obnoxious of all public endeavors. But it is subject not only to national decisions but is determined also by international power struggles. This, of course, is equally true for all competing nations, or power blocs, and enables each to blame the other for the armaments race. International competition contradicts "planning tendencies" in free enterprise systems—or "mixed economies" rather—as well as state planning in totalitarian countries. For it is the competitive process itself which determines the character and extent of the various "defense establishments." To expand or contract armaments production is then not a question of choice, but is determined by the apparent impossibility of reaching international cooperation under conditions of national and social antagonisms and, of course, by the armaments technology which determines the size of the defense budgets.

Speculation regarding future relationships between defense requirements and national production seems rather idle, as the determining factor with regard to defense cannot be ascertained in advance. Moreover, at any time now preparation for war may turn into war, despite a general desire for peace. The assumption that peace will prevail rests on the certainty that the armaments race will also prevail if only to safeguard the existing armed peace. This, in turn, safeguards the status quo in international power relations and therewith the status quo of social relationships within the great powers and within the nations under their control.

However, the "permanent war economy" has lost some of the horror previously associated with it, at any rate in America. For America's capacity to produce is such that it could support war production and a high defense budget without lowering the living standards of the broad masses. This is not true for other nations which need American support to maintain their defense programs, and it has not been true for totalitarian countries still forced to

accumulate capital at a faster rate than they can improve living standards. And because, from a material-technical point of view, there is nothing to hinder a further growth of American productivity, a steady increase of defense expenditures need not necessarily lead to a future lowering of living standards. This is possible with a general economic expansion which allows for both sufficient capital formation and increased government budgets.

In a profit producing economy, however, the material-technical possibility for further expansion is not enough to make this expansion a certainty. If, for example, a *profitable* capital formation should require foreign expansion and if the areas in question should be under the control of competing social systems or nations, capital formation would be possible only in violation of the profit principle. It is for this reason that the future growth of the American economy is envisioned, to quote Keyserling once more, through "private and public economic adjustments [which] constantly reinforce and supplement one another"; avoiding both "the virtual merger of public and private action which necessarily occurred during wartime, and the opposite extreme which fails sufficiently to recognize that, while there are many segments in our economic life, there is in the final analysis only one America."

IT is true that there exists only one America. It is just as true that her "many segments" represent an equal number of particularistic and contradictory interests which exclude a common economic policy by consent. When the rate of private capital formation is too low to guarantee stable social conditions, and when the latter are an inescapable necessity because of the United States' position within the world political situation, economic activity will be supported by government action with or without general consent. Unless recent trends should be reversed, the need for government intervention will increase and therewith the government-controlled sector of the economy. To choose one example: government purchases of goods and services in 1929 accounted for 9 percent of the gross national product; in 1952 they accounted for 20 percent (the war-time high was 45 percent). Although slow, the rise was persistent and the probability of the trend continuing is far greater than for its arrest or reversal.

The end product of capitalist production is an enlarged capital. The end product of a government-fostered expansion of production is also a larger productive apparatus. But though nominally in the hands of private capital, it can be fully utilized only at the command of government. From the free enterprise point of view, production which the government commands, whether in the form of public works or armaments, falls into the sphere of "consumption," for like consumption proper, public works and armaments do not constitute, and do not add to, the accumulated capitalist wealth. Yet from the free enterprise point of view this is still better than government-sponsored production for personal means of consumption which would alter not only the *volume* but also the *direction* of production. More of the total social effort would disappear in direct consumption instead of in additional means of production and military strength. And since it is the function of government to maintain itself by maintaining the exist-

ing social system, its economic policy must serve the latter and must therefore be so designed in order to do the least damage to the private enterprise system. This it does by directing government-induced production in increasing measure into armament channels, into production for destructive purposes, into waste-production.

While government-induced production helps to overcome the harmful social consequences of an insufficient rate of private capital formation, it also makes it more difficult to overcome the relative stagnation of private investments. It reduces their profitability and hinders changes of the existing capital structure such as occur in prolonged periods of depression. At any rate, the very existence of the "mixed economy" points to insurmountable difficulties in the way of private capital formation and to a relatively faster growth of the "public" over the "private" sector of the economy. And this, in turn, implies the permanent and steady growth of the economy as a war production economy.

BUT as stated before, so long as the growth of waste-production does not infringe upon customary living standards, it will have no directly perceptible effects other than the increasing militarization of social life—so pleasing to some and so obnoxious to others. Yet, the status quo it is intended to secure cannot really be maintained. While change is arrested in one direction, it occurs in another. The "mixed economy," in which the government attempts to safeguard private enterprise, changes into a government-controlled economy that tolerates private capital. The increasing role of government by way of armaments production brings into being new political forces interested in the maintenance and further expansion of government control. While some social interest groups

are still best served in a purely private enterprise system, others have already little or nothing to lose from the extension of government controls, and still others may profit directly thereby. These groups are supported by social attitudes shared by large layers of the population whose actual life may remain unaffected by whatever change takes place.

The concentration and centralization of economic power extends into the political sphere. There now exists a relatively small group of capitalists, financiers, managers, politicians, militarists, and labor leaders able to determine social activity by virtue of their overwhelming influence over the economy as a whole, including the defense establishment. The celebrated "People's Capitalism" is no indication that people see themselves actually or potentially as members of the capitalist class; rather, it springs from the growing realization that, under conditions as they are now emerging, the traditional capitalist is doomed to extinction. Individualism evaporates in the test of experience; privileges are sought for in increasing measure not so much for the amassing and possessing of capitalist property as for the control of key positions in industry, commerce, politics, or government. With government itself becoming the largest of all businesses, service to the state becomes more attractive and remunerative. Objectively, then, the mass of the population is quite ready to accept a more radical change from the private enterprise to the state-controlled economy—to say nothing of the ambitionless and propertyless layers of the population who have no real stake in the issue at all. In this objective readiness lies the danger for the ruling groups, for in any period of economic stress, it may find expression in political attitudes which would force the free enterprise system into further retreat and give new impetus to those social forces that are steering towards a state capitalist economy.