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## Taming the Beast

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### An Economist Explains Why Reducing the Deficit Will Require Big Cuts in Military Spending

*Marcellus Andrews*

*Our country is getting deeper and deeper into debt. We are spending more than we are receiving in tax revenue. The author suggests that a key way to get out of debt is to cut military spending.*

Article by Marcellus Andrews,  
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An economist explains why reducing the deficit will require big cuts in military spending. The main cause of our ongoing economic crisis—which is perhaps finally starting to slowly wane—is too much private debt. After the elimination of financial-industry regulation by Republican and Democratic governments, Wall Street got rich by acting as a middleman, lending Asian and Middle Eastern money to people who could not possibly repay their debts. Borrowers—workers with stagnant or declining incomes—bought too many houses, cars, big-screen televisions, and other toys that they really could not afford. The festival of mindless, unsustainable lending ended in global economic collapse.

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What's saving us from a second Great Depression now? Deficit spending by Uncle Sam. In an economic collapse on the scale of the last few years, the economy falls into a vicious cycle of unemployment, pessimism, falling spending by workers and businesses, and bank failure. Big government is the only institution in the system that can break the cycle, by pumping more buying power into the economy by spending more while cutting taxes.

In other words, the way to keep a recession from turning into a depression is for governments to deliberately run budget deficits. In this way, government budgets are the exact opposite of household budgets, for which it's usually prudent to cut spending in tough times.

But aren't budget deficits bad? Not always. Borrowing—for a government, as for a household—is either a fine or stupid idea depending on what a borrower spends the money on. Borrowing for stimulus and for assets that increase future income by more than interest payments is an excellent idea; the higher income is so large that the overall burden of interest and debt repayments falls.

Government economic stimulus spending to fend off a depression is one (but not the only) form of wise investment. Better schools, roads, transport infrastructure, investment in green technologies—all of these boost a nation's future income.

On the other hand, borrowing lots of money to have a gigantic party is deeply irresponsible; once the party is over, the family or nation must cut back its spending on other things, perhaps even essential needs, in order to pay off its bills.

The American government does have a debt problem. The problem comes from borrowing in the Reagan and George W. Bush eras to finance a lavish party—all those tax cuts for the rich—which did nothing to improve our nation's income and capacity to pay off the debt in good times. Tax cuts for wealthy people are the very definition of economic frivolity and deep social injustice.

When our current economic crisis finally abates, we are going to have to stop borrowing as much, raise taxes, and cut economically ineffective forms of government spending. Indeed, economic sanity requires the U.S. to return to the conservative policies of the Clinton years, when the federal government ran a budget surplus in good times.

The alert reader will note that I've said nothing about Social Security or Medicare or any of the other big, bad stuff that deficit scaremongers love to throw out there. The only way Social Security will run out of money is if the young stop paying taxes to finance their parents' benefits; as long as we like our parents, we can more than afford Social Security. And Medicare's problems, though real, will go away once we fix the U.S.'s health-care

finance mess, in which we pay far more per person than similarly rich countries with better health outcomes.

So what should be the primary targets of fiscal reform? Hard-nosed economics tells us that these targets must include big cuts in military spending and root-and-branch reform of the “defense” economy. From the perspective of hard-edged economics, a substantial part of military spending is a spectacular waste of public money. In fiscal 2009, military spending—not including veterans’ benefits or interest on past military deficit spending—amounted to \$661 billion, roughly 19 percent of all government spending. (The budget authority for defense, in constant 2010 dollars, was \$712 billion.) This is down from the up-to-28 percent slice of the Reagan years, but up from the Clinton-era low of 16 percent. Put bluntly, many new weapons systems are “party favors” compared to better schools—and one should never borrow to buy a party favor.

Of course, serious questions have been raised about whether the U.S.’s military decisions, particularly on the Iraq and Afghanistan wars, are just or morally right. Here, I’m focusing more narrowly on the question of to what extent our military spending is, from an economic perspective, foolish and imprudent.

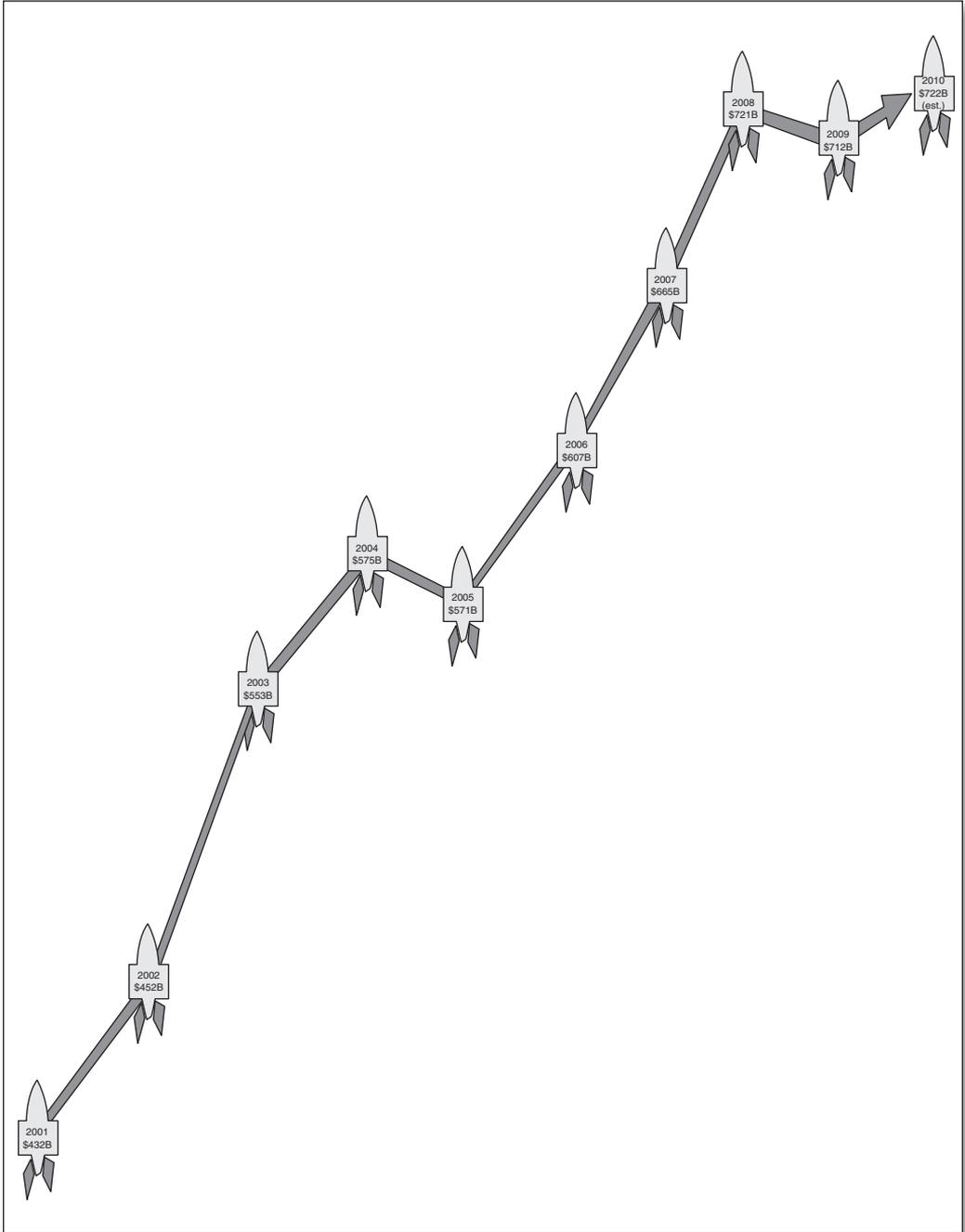
And, from an economic perspective, military spending is a strange process: It can’t be properly valued by the market system since military security is, by definition, a public commodity, provided by government’s monopoly on the means of collective violence. The technologies it creates are for the most part very specialized—a supply of things that the civilian economy cannot use.

This makes military spending an odd form of capital expenditure. In the case of an ordinary capital good—a truck, an apartment building, or a new computer—investors make purchasing choices that allocate scarce capital to the uses that after an accurate assessment of risk, earn the highest net return.

What is the equivalent calculation for military spending? A moment’s reflection on the nature of the military enterprise will explain why military spending is an economic loser. From a rational economic perspective, the Pentagon’s budget in theory is a form of national life insurance—an investment in people, machines, and organizations dedicated to minimizing the chance of disastrous losses of life and property as a result of attacks by adversaries. (This leaves aside, of course, critique of the offensive use of the military as the enforcer of empire around the world.) This insurance requires the nation to assess the risks we face, the potential losses involved, and the cost of reducing risks.

Together, this information lets us estimate the rate of return associated with our military choices, and, finally, whether our military choices not only

### Growth of U.S. Military Spending (2010 dollars)



Source: Center for Arms Control and Nonproliferation.

exceed the cost of capital—i.e., interest on national debt during a time of deficit spending—but are, compared to non-military spending, the most effective use of the nation’s marrow.

For instance, most economists think that the rate of return for each year of schooling is around 10 percent, meaning that a child who spends another year in school will earn 10 percent more in terms of income, per year, for the rest of his or her life. It is both unjust and deeply irrational to invest in a new weapons system if it cannot provide at least the same rate of return.

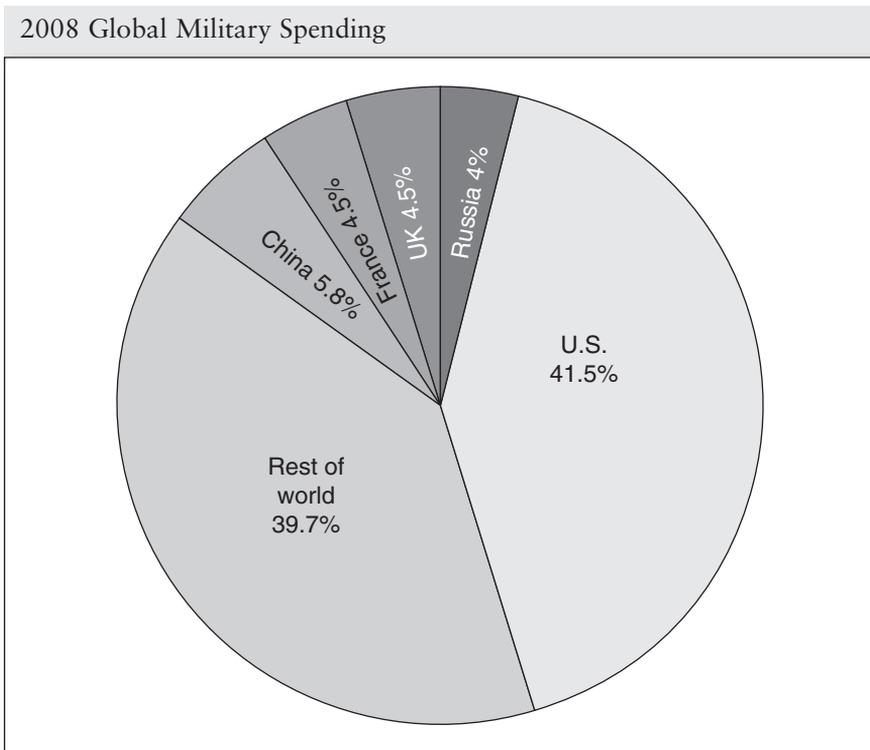
Now we come to a basic problem with military spending as an economic matter: How much and what type of security should we buy—and who does the math? We face a classic economic mess here, called the principal-agent problem, wherein the military system regularly subordinates society’s needs to its own due to a fundamental conflict of interest. The Pentagon tells us the risks we face and, in effect, taxes us, via our elected representatives, to pay for the “protective” measures it recommends. The secrecy and complexity of the national security apparatus puts the public at a brutal disadvantage in this transaction: The people lack the information to test the judgment—or veracity—of the government.

In turn, a second classic economic problem—“rent-seeking”—converts the deadly serious business of ensuring national safety into an ugly cycle: Congress uses public money to buy from military contractors, who in turn recycle a portion of their profits to their favorite legislators in the form of campaign contributions. Analysts Chalmers Johnson and Andrew Bacevich have repeatedly shown how democratic control of the military system is permanently crippled, if not overturned, when the supposed servant of the people knows more than the people and knows how to frighten them into funding its projects.

Two other equally daunting economic problems plague military budgeting, especially for a nation facing a debt crisis. First, the military system’s economic projects are, by their very nature, long-term affairs that commit the nation to expenditures far beyond any immediate price tag. Soldiers must not only be recruited, trained, fed, housed, and paid (a deplorable pittance) as they await deployment; they must also be cared for when injured, compensated with free or reduced-cost education and services, and pensioned after their service or indemnified in death.

Put bluntly, the armed forces are, among other things, a social contract with enduring long-term claims on the public purse on behalf of the people who have chosen, or been pushed by poverty and circumstances, to sacrifice their freedom and often their lives. Linda Bilmes and Joseph Stiglitz’s assessment of the long-term costs of the Iraq war in *The Three Trillion Dollar War* offers a stark example of how large, long, and economically destructive military misadventures can be.

Second, military service is, in fact, an escape route out of the basement of this society. The military is one of the most egalitarian institutions in the United States, open to the vast majority of men and women without regard to race or social class, religion, ethnicity, region, or station. Reform on the required scale will necessarily fail if we evade the awful truth: Even as it wastes money, distorts governing priorities, and corrupts our politics, the American national security state is a model of economic development and social welfare that creates jobs, finances innovation, and promotes social mobility. Cuts to the military budget must go along with policies that address the very real economic consequences that military cuts will impose on millions of working people.



Source: Stockholm International Peace Research Institute.

As this brief survey suggests, our military apparatus encourages political and commercial entrepreneurs to exaggerate risks, to ignore inefficiency, to recycle the booty from defense spending in ways that worsen corruption, to use the undoubted short-term economic benefits of military spending to stave off realistic assessment of our defense posture, and to rely on poverty

and radically unequal economic opportunities in society as recruitment mechanisms—even as the military also offers a very real lifeline to people treated as trash by the current American economy.

The dysfunctional nature of the current system clinches the argument not just for deep cuts in military budgets, but for radical reform of the system as part of deep democratic renewal. Those among us who wish to beat the eagle's sword into plowshares must acknowledge that we ask nothing less than economic and social revolution; our demolition of the current insanely wasteful and misguided system means that we are closing down an opportunity system as well. To offer less wasteful and more just forms of opportunity, responsible peacemakers and anti-imperialist realists among us had better have practical and affordable alternatives—ones that give justice, as well as peace, a chance.

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## Discussion Questions

1. As one way to get out of debt, should we cut military spending?
2. Is there a way for the American people and the members of Congress in particular to know how much we need to spend militarily in order to keep our country safe?
3. Along with cutting military spending to get our country out of debt, should we increase taxes on the wealthy?

