

**MILITARY KEYNESIANISM TODAY
– AN INNOVATIVE DISCOURSE -**

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Dr. Peter Custers
Affiliated Researcher
International Institute for Asian Studies
(I.I.A.S.)
Leiden, the Netherlands
Website: www.petercusters.nl
Email: antimil@hotmail.com

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1.

Introduction

Conceptualizing Military Keynesianism

This essay discusses military Keynesianism, broadly understood as the use of military spending by the governments of capitalist countries, towards macroeconomic policymaking. It is appropriate to start my discussion, I believe, by referring briefly to the history of the very idea and concept of military keynesianism. Strikingly, the idea was first formulated two years *before* John Maynard Keynes published his world famous theory on employment, interest and money. For in 1935, i.e. two years before Keynes' theory appeared, the Polish economist Michal Kalecki wrote an essay, in which he pointed out that Germany's Nazi government combined deficit spending with the building up of an armaments economy (1). Subsequently, in the post Second World War era, when Keynes' ideas gained wide acceptance among Western governments, the concept of military keynesianism has primarily been used to refer to economic practices of successive US governments. Whereas European governments were seen to rely on social spending to promote regulation of their business cycles, the US's governments in the second part of the twentieth century have frequently relied on expanded military allocations to ensure an adequate level of aggregate demand for commodities produced.

Yet whereas the concept of military keynesianism did gain some acceptance among critical economists and was formulated in opposition to Keynes undifferentiated theory, - the whole debate regarding military allocations and macroeconomic policymaking has suffered from a lack of theoretical sophistication. Implicitly, for instance, it was presumed that the term could only be applied in a context where deficit spending was closely related to (enlarged) purchases of armaments and to military allocations in general. Yet there exists the possibility that a Western government does not rely on military spending as its *primary* leverage for business cycle regulation, but gives preference to civilian spending to play this role, while resorting to arms' spending as *secondary* leverage. Again, there is the possibility that a government uses military spending in support of a business cycle which is primarily market driven. These different alternative scenarios where military keynesianism is also at stake, to my knowledge have rarely been discussed in depth. In short, although economists opposed to the US's incessant reliance on a high level of military spending have frequently employed the term to question government policy making, - little attention has been paid to the various secondary ways in which Western governments have resorted to military keynesianism.

Below, I will develop the discourse on military keynesianism, on the basis of my knowledge regarding US and European military-economic policymaking developed over the last twenty five years (2). Here, my reading is that our efforts to theorize have run far behind the evolution in practices by Western governments. For instance, whereas attention in the past has largely focused on the domestic application of the idea of the multiplier via military and military related purchases, - in fact both the US's and European governments have long been aware of the possibility that keynesian *multiplier effects* be generated via the export of armament systems. Again, both in the US and in Europe, ample experience has been gathered showing that it is possible for governments to generate multiplier effects throughout their economies, by *combining* military and civilian spending programs. Therefore, a refinement in

our understanding of the meaning of military keynesianism is urgently called for. This essay aims at promoting a critical debate on keynesianism, at a time when governments are starting to rediscover the value of Keynes' teachings (3).

2.

The Concept of the Multiplier.

John Maynard Keynes and Karl Marx

The first question that should be addressed is that regarding the nature of Keynes' theory of the multiplier. Keynes primarily sought to explain to economic policymakers, that the level of consumption by society's working population is not a matter to be discounted or ignored, but is in fact of crucial importance towards the maintenance of corporate profits, and towards ensuring that society's entrepreneurs can sell their produce. Towards this end, the renowned economist devised a formula which expresses how consumption evolves, as the size of incomes increases. Keynes' formula refers to the *average propensity to consume* stated as the proportion which society's consumers – primarily members of the working class – would likely spend on buying additional means of consumption out of a given increase in their income. If society's workers are likely to spend, say, four-fifth of an additional income towards buying additional articles of consumption, - the remaining one fifth (20 %) of their additional income are likely to be saved, meaning that the proportion between additional consumption and additional savings/investments can be stated to be five-to-one (5 : 1). Inversely, - the multiplier generated by additional investments made by society's entrepreneurs in a simplified way may be stated to be *five* (4).

Now, whereas the concept of the multiplier was used by Keynes to bring out the importance of looking at the behavior of society's low-paid, private consumers, - the concept can be used both towards highlighting the additional investments that result from increased consumption of consumer goods, - or to highlight the additional employment that results from additional social consumption and additional investments. Keynes both spoke of an '*investment*' multiplier, and of an '*employment*' multiplier (5). Whereas the first form of the multiplier obviously referred to the impact which commodity sales have on the behavior of capital owners, - the second form of the multiplier highlighted the impact for workers in terms of job opportunities resulting from additional capital investments by society's entrepreneurs. Like his precursor Karl Marx, Keynes understood that there exist interconnections between additional investments made, - and processes of expansion in production in different sectors/branches of a capitalist economy. Ultimately, a process of balanced expansion of societal production cannot be maintained, unless these interconnections are grasped. And whereas the aggregates which Keynes identified were different from those identified by his precursor Karl Marx, - it is not difficult to see that Keynes understood the functioning of capitalism at least partly in Marx's terms (6).

Further, whereas both Marx and Keynes understood that their theories did not exist in a vacuum, but were *operational* theories - meaning that they offered societal actors the possibility to influence the evolution of the capitalist economy, Keynes' theory of the multiplier especially sought to advise the governments of central capitalist economies. For with the concept and formula of the *multiplier*, Keynes sought to illustrate that governments can intervene to ensure a smoother functioning of the system, by making public investments which help to sustain society's aggregate demand. Advanced as a very practical theory in the context of the unresolved crisis of the 1930s, Keynes' theory aimed primarily at advising capitalist government on ways to overcome inevitable downturns in the periodic business

cycle. Through largescale investment programs such as infrastructural works, and through other measures aimed at supporting both the scope for consumption and the employment opportunities of society's working population, - governments can dampen the negative impact of swings in the business cycle. This is in the interest of both capital owners and of members of the working class in the world's central capitalist economies. In short, the target of Keynes' theory of the multiplier was eminently practical.

3. Blindness of the Concept of the Multiplier – Productive Versus Unproductive Investments

The first critical observation to be made regarding Keynes' theory of the multiplier is that it largely skipped a discussion regarding the varied nature of public investments that may be made by a capitalist state. Thus, in his *General Theory of Employment, Interest and Money*, Keynes briefly noted the fact that deficit financing, i.e. stimulation of demand via state-borrowing, in the past has frequently resulted in 'wasteful forms of loan expenditure' (7). In this context, Keynes referred to the digging of holes in the ground in search of precious metals, and he also mentioned the fact that in the past wars have been virtually 'the only form of loan-expenditure' which statesmen have thought justifiable (8). However, far from theorizing the implications of the state's preferred choice in favor of unproductive expenditures, Keynes merely noted that such choices were made 'failing something better'. He in fact argued that the digging of holes in the earth and the waging of wars and other such activities, since they contributed to accumulation, have played their part in 'progress' (9). Keynes strenuously refrained from theorizing the consequences of unproductive investments by capitalist states.

Now, one way in which a line of demarcation can be drawn so as to limit the state's application of the multiplier exclusively towards activities that sustain human life and other species living on the earth, - is by differentiating between *military* and *civilian* investment programs of the state. Whereas infrastructural programs, such as the construction of railroads and highways, may be ranged under the second mentioned category, - the first mentioned category would include all military and military-related allocations in a government's annual budget. Whether governmental purchases or public investments are directed towards civilian sectors of an economy, or towards the military sector – in each case there would be multiplier effects, in the sense that the government's investments trigger further investments. However, in the case of the military sector which I have characterized as the *non-reciprocal* sector of the economy since the outcome of production here flows largely to the state (instead of towards the market) (10), - all public investments, as also their multiplier effects, represent forms of 'waste'.

Yet a differentiation between military and civilian spending programs alone does not suffice to expose all the potentially negative implications of public spending. For instance, since infrastructural programs in the past have often served to expand the sales of cars and other vehicles utilizing fossil fuels as a source of energy, - these programs have indirectly contributed towards the accumulation of carbon dioxide (CO₂) in the atmosphere. Hence, whereas public investments may be a very effective method towards overcoming periodic crises in the economic system and towards generating additional societal demand, in particular in the short run, - without a discussion regarding the typology of public investments many of the longer-term implications for humanity and the earth may be overlooked. To be able to make a critical analysis of the social and environmental

implications of a government's public investment programs, we need to differentiate both between civilian and military forms of government spending, - and between *productive* and *unproductive* forms of government spending (11). We also need to understand that an investment may either have *both* productive *and* unproductive aspects, or be purely destructive in kind. If we don't differentiate, we may end up interpreting 'progress' in the biased manner in which Keynes did.

4.

The 'Ultimate' Form of Unproductive Public Investment: The Various Forms of Military Keynesianism

Towards developing my argument, I will now restrict my discussion to *military keynesianism* only, - i.e. to all unproductive investments made towards supporting the state's military apparatus. For a proper understanding of how capitalist states have utilized their military allocations for macro-economic policymaking, we need to identify three analytical couples or pairs. First, there is the difference between '*pump priming*' and a *longer-term* use of the multiplier (12). A government may undertake a short-term economic intervention by buying weaponry, computers, uniforms or other goods for the army, so as to weather over a recession in the economy. Or alternatively it may opt to get approval for the purchase of fighter planes, war ships or other military commodities through all the years of a given business cycle. The temptation to pull the economy from the slump via a sudden or temporary leap in military spending at the time of a downturn in the economy is reflected in historical decisions to launch a(nother) war (13). However, since the construction of large armament systems requires extensive planning and research, - capitalist states generally prefer to employ the purchases of large armament systems towards *longer-term* macro-economic policymaking and regulation.

A further differentiation that needs to be made, is that between *primary* and *secondary* forms of military keynesianism. In both these cases, a state uses the mechanism of the multiplier in order to stimulate aggregate demand in society. In both cases also, the state engages in wasteful expenditures, and promotes further waste of economic resources. Yet whereas the use of a *primary* form of military keynesianism refers to a situation where the state employs arms' purchases and other military allocations as *principal* means to drive the business cycle, - the use of a *secondary* form of military keynesianism has a more restricted macro-economic significance. Here military allocations also 'contribute' towards generating additional demand in society as a whole, yet they do not do so to the extent that the economy is fully driven by these same allocations. Where a secondary form of military keynesianism is applied, the economy is either driven by private investments made by corporations in the civilian sectors of the economy, - or is primarily driven by civilian spending programs undertaken by the state's government.

There is yet a third fundamental distinction that needs to be drawn towards understanding the enormously large role which military spending plays in the world economy today. This is the distinction between *domestic* and '*externalized*' military keynesianism. Here the point is basically that capitalist economies do not function as closed systems, but rely on foreign trade and exports as outlets for the sale of (a part of) their surplus (14). With regard to the military sector too, it needs to be stated with force that this sector does not operate as a 'closed' sector, selling all its military commodities to the state. Instead, - as the vast amount of data regarding state promotion of armament exports confirms -, capitalist states actively try to ensure that their armament corporations gain access to import orders by foreign states (15). The need to

highlight the influence of 'externalized' military keynesianism is especially important for this reason, that through arms' exports the wasteful effects of arms' production are externalized. Whereas multiplier effects are generated in the economy where the arms are manufactured, - the negative impact in terms of the loss of financial resources is externalized either towards other central economies, or towards peripheral countries in the capitalist world economy.

5.

The *Pump Primer* and the *Longer-Term Multiplier*

I now wish to briefly illustrate the operation of each of the six forms of military keynesianism mentioned above. To start I will take the cases of the *pump primer* and the *longer-term multiplier*, which cases can be highlighted via the example of the policies pursued by the Bush jr. government from the US recession in 2001-2003 onwards. Here, the war launched against Saddam Husain's Iraq itself served as pump primer for the US economy. In the very quarter of 2003 when the war was launched, the US economy picked up momentum, with international press reports indicating that as much as *60 percent* of resumed growth achieved was due to military allocations made by the US government in 2002/2003. To generate the effect of pump priming also, specific military allocations were made by the US Pentagon towards corporations in the economic sector where information technology is produced, - which sector during the previous decade had driven the US business cycle (16). Here again, the role of pump priming which military allocations played is very striking, indeed. Thus, during the recession which hit the US economy at the beginning of the present decade, the US government consciously opted to raise the level of unproductive public military expenditures. Whereas the negative consequences of the given policy were mass slaughter and a prolonged war in Iraq, - for the US economy and US corporations the consequences were the start of a new (be it rather short) business cycle.

However, the expansion in US military allocations turned out to be no short-term or incidental matter. Initiated towards the end of the 1990s, i.e. even before the beginning of the mentioned recession, - consecutive US governments have persistently raised military spending during each year of the last decade. Therefore, for several key reasons the Bush jr. government's budgetary policies may be described as an example of application of a longer-term multiplier. For once, the total increase in the size of the official military budget is huge. Whereas in 1998, its figure was below 300 Billion US Dollars, - the combined figure for the official military budget and all extra-budgetary war allocations by 2008 reportedly is over 700 Billion US Dollars. To the steady and large annual increases in military expenditures must be added the fact that the government's total military-related spending, which comprises at least 300 Billion US Dollars on top of the mentioned 700 Billion US Dollars, hovers around *8 percent* of the US's Gross Domestic Product (GDP) (17). Again, if we add to these hard data the results of the operation of Keynes' multiplier, meaning that the government's military related investments trigger additional investments both in the 'investment industries' and in 'consumer industries', - it may be concluded that the Bush jr. government has used military allocations not just as a pump primer, - but as a longer-term multiplier to stimulate the US economy.

A more systematic treatment of the differentiation between pump primer and longer-term multiplier would be possible via an analysis of the US government's military spending policies and economic interventions since World War Two. Unfortunately, such a systematic treatment of the subject is not possible in the context of this essay. In order to underline, however, that government decisions regarding the use of the pump primer and of the longer-

term multiplier need not necessarily coincide, it may be mentioned here that Keynes himself in the course of his career reportedly shifted his position - from a belief that pump priming suffices, towards believing that public investments by governments are required throughout the 'trade cycle', i.e. the business cycle. In any case - once we start differentiating between civilian and military forms of keynesianism, it becomes obvious that even if Keynes' position be accepted, this need not necessarily imply that a government rely on military keynesianism throughout the whole cycle. Speaking from a theoretical point of view, a government could shift its mode of economic intervention once the economy has been drawn from the slump via military allocations. Potentially, it could combine reliance on military allocations as pump primer, with reliance on civilian spending towards longer-term multiplier effects. Again, it could also do the opposite, and allocate special funds towards civilian stimulation of consumer demand during a recession, and shift towards pushing military spending at a later date.

6.

Primary versus Secondary Application of the Multiplier. Two Cases, i.e. those of the US and Europe.

I am next going to discuss and illustrate the difference between a *primary* and a *secondary* application of the concept of military keynesianism. First, the classical application of a *primary* form of military keynesianism refers to situations, such as Nazi Germany during the thirties of the previous century and the US during post-World War Two business cycles, where governments of modern states have used deficit spending and state-borrowing so as to stimulate aggregate demand in their economies, but have done so in combination with a heavy emphasis on military spending. Nazi Germany during the 1930s and the US economy during the Reagan era of the 1980s here are pointed instances coming to my mind. It would be wrong, however, to limit our recognition of the phenomenon of military keynesianism to these cases alone. For there are many instances where Keynes' advice with regard to deficit spending is not applied in full, yet where the existence of a military keynesianism does need to be recognized, in view of the fact that multiplier effects *are* generated by a state's armament purchases and other military spending. Here, the case of contemporary European military budgets/allocations come to mind in particular. Europe's form of military keynesianism stands in contrast to the primary form of military keynesianism that has been in vogue in the US.

Let's briefly look at the facts and figures regarding the American and the European economies. The size of the two respective economic entities does not differ greatly, meaning that the size of the Gross Domestic Product of the US economy can broadly be compared with the size of the Gross Domestic Product of the economies belonging to the European Union. Again, both the policies of the American government and those of the European Commission and the EU's constituent member states are characterized by the fact that a part of the respective military allocations is hidden from the public's view. Military/military related expenditures in each case are substantially larger than the figures for official military expenditures bring out. Yet if we simply go by the figures for armaments' purchases and other military expenditures that are stated in official budgets, - the difference between the US and Europe stands out. Whereas the US's yearly military expenditures are above the 700 Billion US Dollar mark, the combined figure for official military expenditures by the states of the European Union is less than half this figure (18). And since the GDPs of the US and the European Union are comparable in size, - the difference between the size of US and of

European official military expenditures concisely expresses the difference between primary and secondary military keynesianism.

Perhaps it is easiest at this point to explain the difference, by elaborating on the operation of *secondary* military keynesianism in Europe. It would be wrong to presume that the European military sector, or more broadly the combined military allocations of the states participating in the European Union, is/are the driving force of the business cycle in Europe. Although the military budgets of Europe's largest states – the United Kingdom, France, and Germany in order of official military budgets – are substantially large, and are equal to roughly two-thirds of the EU states' military spending, - these military allocations are not used as a primary leverage to stimulate Europe's business cycle, or the business cycles of Europe's three main powers. And yet the combined multiplier effect of Europe's military-related expenditures is not insignificant either. Together, these expenditures combine to generate a substantially large impact on the economies of Europe as a whole. The size of the sales by European armament corporations to the main European powers, along with the size of other orders issued by the main European states in connection with the operation/maintenance of their armies, - these illustrate that the given states are keenly interested in the multiplier effects generated by these orders. Thus, although the European business cycle does not depend as heavily on military related state-purchases as the US business cycle under Bush jr. does, - Europe's big powers do seek to gain macro-economic effects from these purchases.

7.

'Externalized' Military Keynesianism A Common American/European Disease

In my above summary on forms of military keynesianism, I have referred to a third pair of 'opposites', being the contrast between a domestic form of military keynesianism, and 'externalized' military keynesianism. Since I have already dealt with the application of the multiplier effects of military related purchases in relation to domestic economies in the previous two sections, I here need to dwell in particular on the question of '*externalized*' military keynesianism. As already stated, the given concept refers to a situation where the costs for production of an armament system are not borne by the domestic state and economy, but in fact by a foreign state deciding to import the armament system, and hence by that state's citizens. This situation is *sui generis*, in the sense that it leads to the transfer of the social consequences of military production, i.e. from the domestic economy to the economy that imports the given arms. This means in fact that a stimulus is provided towards further investments in the *domestic* economy, whereas the *importing* economy is made to bear the losses. For the state which purchases the armament system allocates resources towards arms' imports which could potentially have been allocated towards alleviating poverty, towards strengthening domestic employment, or otherwise improve the welfare of the citizens of the given importing state.

In the theory which Keynes formulated in the thirties of the previous century, - neither was the trade in armament systems discussed, nor were the negative effects on the economy of the arms' importing nation mentioned. It is true that Keynes was not entirely unaware of the fact that foreign trade plays a role in relation to the multiplier. But since his attention was largely focused on the operation of the then hegemonic, i.e. British economy, - he primarily focused on the empirical fact that Britain's foreign trade constituted a 'leakage'. Since a significant proportion of Britain's consumer demand (20 percent) went into buying foreign goods; since Britain imported a far larger amount of consumer goods than it exported towards the rest of

the world, - there was, Keynes argued, a negative effect of foreign trade upon the operation of the multiplier in Britain (19). Clearly, Keynes entirely skipped over the significance of Britain's armament exports towards other regions of the world economy (20). These exports in the first part of the past century well exceeded the size of Britain's imports of military or military related commodities. And whereas the implications of these exports were the very *opposite* of what Keynes argued - mainly a 'leakage' for importing states –, the lack of analysis is clearly deceptive.

The need to analyze armament exports further is evident from both the US's and from Europe's contemporary experience. Here, the experiences of the two economic powers may not exactly coincide. As stated before, - whereas military allocations in case of the US have often been used as *primary* leverage to stimulate aggregate demand, in the case of Europe they constitute rather a *secondary* leverage for macro economic stimulation. Again, as a leverage for macro- economic policymaking, military purchases so far have not been employed by the European Union itself, but instead by individual state members of the Union. Yet the evidence collected by international research institutes brings out well that arms' exports by European corporations and their state backers are being employed as a *commercial* device, - just as is the case for armament exports from the US. The governments of France, the United Kingdom and other members of the EU have promoted armament exports, since they know that these exports do play a supplementary role with regard to the domestic operation of the military keynesianism they practice. In short, the critique of '*externalized*' military keynesianism urgently needs to be taken on board. Although these have not formed a part of common discussions on military keynesianism so far, - arms' exports should be addressed when questioning the macro economic implications of military spending. For there are plenty of reports confirming that the governments of the hegemonic and other central capitalist economies do analyze the role of arms' exports in these terms (21).

8.

Transatlantic Capital Concentration and Military Keynesianism

The illustration of the latter, the conscious manipulation of arms' exports towards macro-economic ends, is easily accomplished, if we concentrate briefly on the issue of transatlantic capital concentration in the international military sector. This type of capital concentration has been consciously pursued by the US ever since the late 1990s. It was in the later part of the Clinton administration's rule, that the US government decided upon a strategy whereby it sought to ensure the world hegemony of US armament corporations, via the construction of transatlantic alliances with European arms' producers. These 'alliances' have taken the form of take-overs, mergers, and have also taken the form of joint ventures. Yet whatever the form of alliances built, - the US driven processes of capital concentration in the international military sector have resulted in the forging of cooperation by *all US giant corporations* – with European companies. All the US's five largest armament producers, Lockheed Martin, Boeing, Northrop Grumman, Raytheon and General Dynamics, have engaged themselves (22). And since the relative size of their capitals in most cases is larger than that of their European counterparts – the process of transatlantic capital concentration has strengthened the hegemonic position of US corporations.

Now, a transatlantic alliance can result in expanded orders in either direction – to the benefit of an American corporation, or to the benefit of a European military corporation. From the perspective of '*externalized*' military keynesianism, the results may either be favorable for European economies, where the losses in terms of economic resources relocated fall on the

American economy – or could disfavor European economies. It all depends on where multiplier effects are primarily generated, in which economy. Here, the most important is perhaps to register practical evidence with regard to armament orders that have been issued. Two orders stand out as critically important: an order by the UK Ministry of ‘Defense’, issued to the combine of the American corporation Boeing and the European corporation Thales, in connection with the supply of army vehicles (to the amount of EU 86 Billion Euro): and the order allocated by the US Pentagon to the combine of the US’s Northrop Grumman and the European corporation EADS, in connection with the construction of refueling planes (order amounting 35-40 US Dollars) (23). Whatever the precise distribution of corporate benefits – in both cases *externalized* military keynesianism operates, in the sense that a part of the multiplier effects are spatially separated from the economic losses incurred.

Meanwhile, it is politically important to recognize that the thrust towards corporate transatlantic alliance building in the international military sector, has largely come from the US. It is the US government which first formulated a policy in favor of transatlantic mergers/joint ventures, i.e. in 1998, and it is European corporations, states and the Union that have responded to the US. Again, it is the US which consciously interconnected transatlantic alliance building with the purpose of export promotion, so as to facilitate the use of armament exports as a form of externalized military keynesianism. Whereas armament exports in both cases – in the case of the US and in the case of major European powers – are employed as stratagem towards maintaining military-technological potentials and industrial capacity in the domestic military sector, - it is the US Pentagon which has explicitly embraced the idea of transatlantic alliance building in the military sector, and which has linked this idea with the use of exports towards macro-economic policymaking. Hence, it is correct to state that the combination of transatlantic alliance building and externalized military keynesianism is an American device. Decided upon during the period of the Clinton administration (1998), the policy orientation has been pursued very vigorously during the Bush jr. administration, when the primacy of military keynesianism in government policymaking had been restored.

9. **Military and Civilian Keynesianism - Opposite or Combined Forms?**

I shall now move on to compare military keynesianism and civilian keynesianism, and discuss the ways these are combined. It is *a priori* possible that a deficit in the annual budget of the government either be used exclusively to finance expanded military allocations, - or be used towards increased public expenditures of a civilian or social kind. In the literature there appears to be a tendency to presume that the two are simple opposites, as if a government could not pursue a course combining these two distinct forms of keynesianism, or apply them alternatively. In practice a wide variety of combinations exist. It is for instance possible that a government combines *primary military* keynesianism with *secondary civilian* keynesianism. In this case, military expenditures function as primary leverage towards business cycle regulation, whereas civilian expenditures play a subsidiary role in macro-economic policymaking. Again, the opposite scenario can equally well be visualized, - the scenario where a government relies on public investments and social programs of a civilian kind in order to get a new business cycle going, yet additionally employs arms’ purchases in order to achieve the same end. These different combinations, to my knowledge have been little theorized. Yet the twentieth century experience of central economies amply demonstrates the need to be aware of different possible combinations, of the ways in which governments apply ‘mixes’ in economic policymaking.

The above propositions can once again be illustrated with examples drawn from US and European history. For the US, I would like to cite the contrast between the choices made by Johnson's 'Democratic' government of the late 1960s, and the choices made by 's Reagan 'Republican' government in the 1980s. Both governments are known to have dramatically expanded their respective budgetary allocations for the military, President Johnson from 1965 onwards, President Reagan from 1982 onwards. Yet the two cases of expanded military allocations cannot be equated. In the case of the budgetary expansion proposed and executed under Johnson - from 125 Billion US Dollars to 200 Billion US Dollars over a period of barely three and a half years! - there was a definite choice in favor of both larger arms' purchases towards the war of aggression in Vietnam, and in favor of expanded welfare programs (24). On the other hand, the expanded allocations to the military that were implemented under Ronald Reagan were combined with *reduced allocations* for social programs in the government's annual budget (25). Hence, whereas in the first case, the government sought to combine military and civilian keynesianism so as to stimulate aggregate demand, - in the second case, the government appears to have relied exclusively on military keynesianism to fulfill its purpose of regulating the business cycle.

Again, whereas in the case of the US primary military keynesianism has repeatedly been practiced since World War Two, at times in combination with a secondary form of civilian keynesianism, - in the case of Europe reliance on civilian keynesianism has been far more common, whereas military keynesianism has played a subsidiary role. Although historically, primary military keynesianism here has been applied as well - the case of Nazi Germany once again comes to mind, or that of the UK during World War One -, since World War Two the mechanism of military keynesianism in Europe has taken a backstage, whereas Keynes' prescriptions have largely been used to implement civilian spending programs. The subsidiary application of military keynesianism can easily be illustrated with reference to the budgetary allocations of European states. Here, the practice of making public investments towards business cycle regulation has been widely common during the post-Second World War decades, and at least up to the late seventies and early eighties. Yet the public investment programs have all through been primarily civilian, and only secondarily military in kind. Hence, the case of Europe in the post-Second World War period is the reverse of that of the US. Expressed differently, - the European 'mix' of economic policymaking has been a mirror image of the US's mix.

10.

Beyond Military Keynesianism: Ecologically Oriented Public Investments

In this section, I propose to briefly initiate my discussion regarding the perspective *beyond* military keynesianism. Susan George, the world famous critical economist and director of the Amsterdam based Transnational Institute, in the context of the present world financial crisis, where some Northern states are rediscovering Keynes, has suggested that we need to promote an ecologically oriented keynesianism (26). At first sight, her proposal seems to be both appropriate and very timely, for an ecologically oriented state-policy of keynesianism would obviously have to do away with all forms of military keynesianism, including military-oriented pump priming, longer-term militarist use of the multiplier, primary and secondary military keynesianism, and beyond domestic, the use of externalized military keynesianism. Since capitalist military technologies are destructive, aiming at the elimination of human and other forms of life, - no development of capitalist military technology would be permissible

under an ecologically oriented keynesian state policy. Instead, all public investments would be geared towards promoting *productive* technologies and forms of manufacturing. If ecologically oriented keynesianism targets productive investments, and if these investments are to be productive in an intrinsic sense, as investments which help to sustain life on planet earth, - an ecologically oriented keynesianism is entirely welcome indeed.

The idea of an ecologically oriented keynesianism in opposition to military keynesianism could initially be illustrated, perhaps, by referring to the transformation implied by large scale public investments aimed at preventing a climate catastrophe. Suppose, for instance, that the US's future President Obama would decide to dramatically shift US policy making away from reliance on military allocations as leverage towards business cycle regulation, as has been the case under Bush jr., - towards reliance on public investments in favor of the use of renewable energy sources, such as solar and wind energy. Suppose he were to use his power to promote a radical shift away from the production of automobiles which rely on fossil fuels – towards production of automobiles which rely on the use of renewable energies. Clearly, each of these shifts may be considered healthy re-orientations. And this would be the case in particular, if the US government undertook large scale investments towards a drastic reduction in emissions of greenhouse gases, *in combination* with a drastic decrease in military spending. It stands to be seen of course, how far President Obama will actually go towards reducing the US's reliance on military keynesianism. The advance signs – his announcement that he will send additional troops to fight 'terrorism' in Afghanistan – do not indicate the likelihood of a convincing shift.

Yet even if Obama were to succeed in engineering the described shift in policymaking, this would not necessarily herald the elimination of all unproductive effects of public investments. Here the point is really that all capitalist investments in the mining and processing of raw materials, and in the development of industrial technology and production, do have negative side-effects. They all result in by-products which are damaging to human health and our natural environments. This not only counts for investments in the development of fossil fuels, but also for investments in other energy sources. All capitalist mining and manufacturing inevitably emanates in *non-commodity waste*, i.e. in by-products that in principle are not destined for market sale (27). Hence, we need to be on guard against too easily embracing a partial shift away from military keynesianism – towards partial promotion of alternative energy sources, as truly heralding the beginning of an era of ecologically oriented keynesianism. For if we are to institute a economic policy which eliminates all unproductive effects of (capitalist) production, - we really need to do more than eliminate military keynesianism. Towards this end, we would need to confront all unproductive effects of capitalist manufacturing.

11.

Beyond Keynesianism:

The *Stationary State* Briefly Explored

Before concluding this essay, I would like to state my perspective for 'sustainable' economic policymaking, for a future policy orientation which leads us beyond military keynesianism and beyond other forms of public investments that go counter to the interests of humanity and other living species inhabiting the earth. Here, the central issue that needs to be posed is that even a more 'ecological' form of keynesianism may not suffice to ensure the survival of humanity and the earth. For even if we were to try and discard all those investments that are evidently dangerous and risky – such as investments in fossil fuels which may lead to a

climate catastrophe -, we still run the risk of a *global ecological crisis*, i.e. a crisis caused by the very model of capitalist accumulation. Here the problem is not that all forms of Keynesian policymaking are to be distrusted, or that the state need necessarily engage in unproductive investments, but that Keynes' very theory was grounded in the capitalist accumulation model. Structured around the problematic of ensuring an 'adequate', i.e. ever expanding level of aggregate demand, - Keynes' theory presumed an ever rising, and ever rapidly rising level of social production, i.e. the creation of an ever expanding mass of industrial goods requiring market outlets. Since Keynes primarily sought to solve the problems arising from the lack of a sufficient, a guaranteed market for surplus commodities, the theoretical horizon of his theory was a limited one.

An appropriate starting point towards theorizing the future of economic policymaking, is the idea of the stationary state or 'simple reproduction', as originally put forward by political economists in the century after the Industrial Revolution. As a part of their efforts to understand the capitalist system, theoreticians such as Karl Marx and John Stuart Mills in the 19th century not only debated the implications of the industrialists' drive to accumulate capital, - but also spoke about an economic model without accumulation. This was a model in which entrepreneurs do not-reinvest capital towards increasing their production, but instead try to maintain a 'steady state', a level of production that is constant through successive cycles of production. In his second Volume of *Capital*, Marx for instance explored what market equations need to be maintained in order to ensure that social production stays at a constant level (28). Again, John Stuart Mills, one of Marx's liberal contemporaries, too referred to the idea of a stationary economy. However, whereas Marx largely visualized the state of simple reproduction as a hypothetical *past* stage, preceding the state of incessant accumulation, - John Stuart Mills foresaw that the whole capitalist system in the *future* would need to be stabilized (29). Expansion of production could not be sustainable for an indefinite period of human time.

The need for a stabilization of production and consumption at the world level today is, perhaps, most easily understandable to climate scientists, who with an increasing sense of urgency have been warning policymakers that the level of greenhouse gases in the world's atmosphere needs to be urgently brought down, in order to stabilize the world's climate (30). Whereas in the past, most economists – including socialist economists – presumed expansion of production into an indefinite future, - today's climate issue forcefully poses the need for a stable level of social production and human consumption, as the best possible manner in which the relationship between the world economy and its natural surroundings can be regulated, stabilized. Surely, a resumed debate regarding the 'stationary state' cannot by-pass the fact that access to the world's natural resources is highly unequal in today's world economy (31). Hence, a stationary state can only be envisioned as a *global perspective*, as a globally regulated system of production and consumption, which incorporates the need for contraction of economies in the North along with expansion of production in parts of the global South. Nevertheless, the idea of a 'stationary state' guided by the principle of global economic justice, should not remain utopian, but is an idea that should be introduced into public debate, since global stabilization of production is the only realistic alternative to the present, rapid degradation of nature upon which humanity's survival depends.

12. Conclusions

The global financial crisis which has deepened in the course of 2008 has seen a striking resurgence of interest in keynesian policymaking. In order to counter the effects of a recession which threatens to be severe, many of the governments representing the world's most powerful states have opted to implement programs aimed at stimulating overall demand. Perhaps the very most noteworthy is the turn-about in policymaking staged by the government of Great Britain, the country which initiated the 'neoliberal revolution' some thirty years back. Discarding previous dogmas regarding balanced budgets, the British government has suddenly accepted the need for deficit spending. It has chosen to, at least temporarily, reduce the level of the country's value added tax, and raise the level of taxation on higher incomes. These are all measures that remind us of Keynes' prescriptions aimed at sustaining aggregate demand (32). Moreover, the case of Great Britain does not stand alone. All major economic powers – including the US, China and the European Union – have veered towards implementing public investment programs, in order to counter the growing recession, generate multiplier effects, and stimulate consumer demand for goods.

Now, while it is questionable whether the renewed interest in keynesian policymaking can bear fruit, as long as the extraordinarily large disproportion between the international financial system and societal production existing in Western economies has not been removed, - it is also necessary to reject an unquestioned acceptance of all public investment programs as healthy. Against the background of multiple wars in the Middle East and a rapidly growing ecological crisis, - an uncritical re-acceptance of keynesian policymaking would simply be erroneous. Whereas for Keynes any type of public investment would do, - there is today a great need to promote public debate regarding the various social and environmental objectives that can realistically be achieved via public investments. In this connection, the differentiation between productive and unproductive investments is essential. Whereas certain kinds of investments clearly help to sustain life on this planet and therefore may be termed *productive*, - there are other forms of investments which are purely or largely *unproductive* in kind. And whereas the latter category of public investments is not limited to purchases of armament systems and other military allocations alone, - the war allocations and other military-related expenditures of the US and other dominant powers surely are the very most important form of unproductive public investments to be addressed.

With this essay I hope to promote an active public debate on the theme of military keynesianism. Towards this end, I have set broader parameters towards understanding the given thematic than has been common in the past. The term military keynesianism so far has mainly been employed to pinpoint the relationship between deficit spending and the building of an armaments economy, such as was the case under Nazi rule in Germany, and during specific periods of the business cycle in the US in the post-World War Two period. The key argument put forward in this essay has been that the parameters of military keynesianism should be set differently, so as to include a variety of forms of policymaking which dominant states in the world system practice today. In order to evaluate the policies pursued by the Pentagon, and by Europe's most powerful states, - it is necessary to differentiate between pump priming and longer term application of the multiplier via military spending, between *primary* and *secondary* military keynesianism, as also between *domestic* and '*externalized*' military keynesianism. For unless we succeed in *refining* the debate on military keynesianism, in the manner as suggested, - it will be very hard to comprehensively question the unproductive public investments to which all central capitalist economies are prone.

Dr. Peter Custers

Author, *Questioning Globalized Militarism. Nuclear and Military Production and Critical Economic Theory* (Tulika Books, New Delhi/Merlin Press, London, 2007)

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Website: www.petercusters.nl

Email: antimil@hotmail.com

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(1) see Michal Kalecki, 'Stimulating the Business Upswing in Nazi Germany (1935)' (in Michal Kalecki, *The Last Phase in the Transformation of Capitalism*. - Monthly Review Press, New York, 1972, p.65);

(2) for my theoretical views on arms' production/military allocations and the business cycles of hegemonic economies, see Peter Custers, *Questioning Globalized Militarism. Nuclear and Military Production and Critical Economic Theory* (Tulika Books, New Delhi, India/Merlin Press, London, UK, 2007), Part Two;

(3) see below under (12); the rediscovery of Keynes is particularly striking for the United Kingdom where the neoliberal 'revolution' started some three decades ago; see eg. Virginie Malingre, 'M. Brown Tourne le Dos au New Labour' (*Le Monde*, Paris, France, November 29, 2008);

(4) for Keynes' theory of the multiplier, see John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Harvest/ Harcourt, Orlando, Florida, USA, 1964), Chapter 8 – 10, p.89; and Dudley Dillard, *The Economics of John Maynard Keynes. The Theory of a Monetary Economy* (Crosby Lockwood & Sons Ltd., London, 1956, Chapter 5); Keynes estimated the average multiplier for the US's and Great Britain's economy to be from 2 ½ to 3;

(5) John Maynard Keynes (1964), op.cit., Chapter 10, p.113 ; and Dudley Dillard (1956), op.cit., Chapter 5, p.75;

(6) Keynes' conceptualization with regard to categories of industries was close to Karl Marx's regarding Departments of Production; he spoke of the two categories of 'investment industries' and 'consumption industries' - see John Maynard Keynes (1964), op.cit., p.118, p.122; and Dudley Dillard (1956), op.cit., p.99; for commonalities between Keynes' and Marx' theory of money, see also Prabhat Patnaik, *The Value of Money* (Tulika Books, New Delhi, India, 2008);

(7) John Maynard Keynes (1964), op.cit., p.129;

(8) *ibid*, p.130;

(9) *ibid*;

(10) for my analysis of the military sector as a *non-reciprocal* sector of the capitalist economy - non-reciprocal since the sector's owners of capital purchase commodities from entrepreneurs located in other market sectors, but do not sell their military commodities to any of these same actors -, see Peter Custers (2007), op.cit., Chapter Ten, p.147;

(11) my conceptualization of 'productive' and 'unproductive' activities differs notably from that of the classical economists, since I insist on the criteria of the sustenance of life as a condition required to consider industrial activities as 'productive' – see Peter Custers (2007), op.cit., Chapter Six, p.82;

(12) see notably Dudley Dillard (1956), op.cit., Chapter 5, p.75 and Chapter 6, p.102; according to Dillard, 'The multiplier theory is not pump priming, The latter rests on the assumption that a *temporary* new expenditure will have a lasting tendency to raise the level of economic activity, whereas the multiplier theory assumes that the income generating effects of the new expenditure will continue only as long as the expenditure is present, working with some time lag. Although Keynes did at one time believe in the pump priming hypothesis, he passed beyond that stage when he wrote his *General Theory*.' (p.106); thus, Dillard 's differentiation between pump priming and (longer term) multiplier effects is relevant for my discourse on military keynesianism;

(13) see e.g. Peter Custers, 'The 2008 US Recession, Military Keynesianism and the Wars in the Middle East' - <http://www.countercurrents.org/custers301008.htm> ;

- (14) for Rosa Luxemburg's critique of economic science's narrow view of the capitalist system as a 'closed system', see Rosa Luxemburg, *The Accumulation of Capital* (Monthly Review Press, New York, USA, 1964);
- (15) see Peter Custers (2007), op.cit., Part Three, 'Arms Exports and the Structure of World Trade: International Circuits of Capital', notably Chapter Twenty, p.324, and Chapter Twenty Three, p.369;
- (16) see e.g. Eric Leser, 'Les Commandes Publiques, une Manne Inesperee pour la Silicon Valley' (*Le Monde*, March 19, 2003, p.21); according to Leser's data, the share of the Pentagon's orders in the portfolio of IBM had risen to 25 percent, and Silicon Graphics' sales to the Pentagon had within a year's time increased from 20 to 35 percent of the company's sales' total;
- (17) see e.g. Chalmers Johnson, 'The Economic Disaster That is Military Keynesianism. Why the US has Really Gone Broke' - <http://mondediplo.com/2008/02/05military>; and 'Going Bankrupt. Why the Debt Crisis Is Now the Greatest Threat to the American Republic' (January, 2008) - <http://www.tomdispatch.com/post/174884> ; Johnson includes several major allocations which are overlooked by other American observers, such as allocations under the Department of Energy (DoE) for development of nuclear weapons (\$ 25.3 Billion), the fund for war veterans (\$ 75.7 Billion), the army retirement fund (\$ 38.5 Billion), and interest payments on government bonds issued to pay for past deficits relating to military expenditures (\$ 200 Billion);
- (18) see e.g. Wikipedia overview - http://en.wikipedia.org/wiki/Military_of_the_European_Union.
- (19) for Keynes' view that foreign trade in the case of the British economy constituted a 'leakage' on the operation of the multiplier, in view of the large share that (early 20th century) imports partook in British consumption – see John Maynard Keynes (1964), op.cit., 120; and Dudley Dillard (1956), op.cit., p.115; on the export surplus of the US in relation to Europe in the later part of the 19th, and the first part of the 20th century, see Paul Kennedy, *The Rise and Fall of The Great Powers. Economic Change and Military Conflict from 1500 to 2000* (Vintage Books, New York, 1989), p.245;
- (20) for data regarding the share which British exports of war ships held in the world trade in war ships at the beginning of the 20th century, see Clive Trebilcock, *The Vickers Brothers. Armaments and Enterprise. 1854-1916* (Europa Publications Limited, London, UK, 1977), p.123-124;
- (21) see e.g. Office of the Undersecretary of Defense, *Annual Industrial Capability Report* (A.I.C.R.), the US Pentagon, Washington DC, February, 2006: 'Defense exports play an important economic role in strengthening the US defense industrial base'; 'about 20 percent (sic) of US weapon systems items are exported...'; and 'sales to foreign customers have frequently been critical to keeping entire production lines open...';
- (22) the US giant *Lockheed Martin* has amongst others developed a partnership with BAE Systems in connection with the US's Joint Strike Fighter (JSF) program and in connection with the US's missile defense system; *Boeing* has clinched a joint venture with Thales; *Northrop Grumman* has taken over the Germany based constructor of submarines Howaltswerke, and has developed a joint venture with EADS; *Raytheon* has also linked up with a European armament corporation in a joint venture, i.e. with Thales; and *General Dynamics* has taken over the Austrian company Steyr-Daimler-Puch and Spain's Santa Barbara;
- (23) for details on the order provided by the British Ministry of Defense to the Boeing/Thales combine for construction of army vehicles, see e.g. http://www.boeing.com/news/releases/2008/q1/080206b_nr.html ; for details regarding the Pentagon order to Northrop-Grumman/EADS towards production of refueling planes, see e.g. 'Le Choix d'Airbus par le Pentagon Fait Polemique' - *Le Monde*, March 4, 2008;
- (24) see e.g. Michel Aglietta, *A Theory of Capitalist Regulation. The US Experience* (New Left Books, London, 1979), p.239; according to Aglietta, the US Federal government's combined military/civilian budget expenditures climbed as indicated (from 125 to 200 billion US Dollars), between the fourth quarter of 1965 and the first quarter of 1969;
- (25) a source which described the concomitant increases in military expenditures and decreases in social expenditures during the Reagan years, is Mike Davis, 'The Pathology of Reaganomics' (*New Left Review*, no.149, January/February 1985);
- (26) see Susan George, 'We Must Think Big' (*New Scientist*, October 15, 2008 – www.tni.org/george/); see also the very concrete suggestions on climate policy contained in the document of the EuroMemorandum Group, 'Democratic Transformation of European Finance, a Full Employment

Regime, and Ecological Restructuring – Alternatives to Finance-Driven Capitalism’ - www.memo-europe.uni-bremen.de ;

(27) see Peter Custers (2007), op.cit., Chapter Four, ‘The Conceptualization of Waste in Critical Economic Theory: Discourse on Non-Commodity Waste and Waste in a Social Sense’, p.51;

(28) Karl Marx, *Capital. A Critique of Political Economy. Volume Two* (Progress Publishers, Moscow, USSR, 1967), Chapter XX, ‘Simple Reproduction’, p.396;

(29) John Stuart Mills, *Principles of Political Economy. Books IV and V* (Penguin Books, London, 1988), Chapter VI, ‘Of the Stationary State’, p.113;

(30) a climate expert who advocates a rapid stabilization of the level of greenhouse gases (GHG) present in the earth’s atmosphere is James Hansen, the director of the NASA/Goddard Institute for Space Studies – see eg. James Hansen, ‘Twenty Years Later: Tipping Points Near on Global Warming’ (*The Huffington Post*, 25 June, 2008);

(31) a book which resumes the discussion on ‘stationary state’- or ‘steady state’-economics, is the book edited by Herman E. Daly and Kenneth N. Townsend, *Valuing the Earth. Economics, Ecology, Ethics* (MIT Press, Cambridge, Massachusetts,/London, England, 1993), in particular the Chapters 13, 15 and 19;

(32) see e.g. Virginie Malingre (2008), op.cit.; Valerie Malingre, ‘Crise. Londre Annonce un Plan de Baisse d’Impots de 15 Milliards de Livres’ (*Le Monde*, November 5, 2008); also the editorial published in the Dutch daily *NRC Handelsblad*, ‘Keynes Kijkt Mee’ (November 10, 2008); and the article by Floris van Straaten published in the same daily, ‘Britse Overheid Wil Geld Uitgeven om Economie Vlot te Trekken. De Theorie van Keynes’ (November 1, 2008).