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Special Report 4 **January 2004 by** ***Charles Bell,*** *Westchester People's Action,* ***Sheila D. Collins,*** *Prof., Political Science, William Paterson College,* ***Helen Lachs Ginsburg,*** *Prof. Emerita of Economics, Brooklyn College, CUNY and* ***Mary Malloy,*** *Assoc. Prof. of Economics, The College of New Rochelle, all members of the Executive Committee, NJFAC*

The Permanent War Economy: Real Security or False Promise?

> *Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.* --Dwight D. Eisenhower

Can anyone forget the shock of September 11, 2001? In the wake of the terrorist attacks, the Bush administration announced a new "National Security Strategy" that was supposed to make us more secure.[1] Washington had to do something to assure the American public that it was protecting us. But does a new policy of preemptive war and an escalating military budget—in effect a permanent war economy--make us more secure? Does it really protect our "American way of life?" Does it guarantee our jobs and income security? Will it shield us in ill health and old age? Or is there a connection between the growing military budget, shrinking domestic programs and rising inequality? Where is real security to be found?

The Permanent War Economy and the Threat of Terrorism

The $400 billion military budget for fiscal year 2004 exceeds the combined expenditures of the other 20 largest military spenders in the world and is over half of the world's total military spending. *This figure does not include the costs of the Iraqi war or the rapidly mounting costs of reconstruction, nor, according to one of the Pentagon's leading analysts, is the budget designed for the kind of terrorist threats we face.* Moreover, much of it is subject to waste, fraud, abuse and mismanagement.[2] The military budget already eats up the lion's share of all federal discretionary spending, crowding out vital domestic needs.

Washington not only short changes domestic needs such as education, health care, environmental protection and infrastructure repair. Even homeland security (not part of the military budget) gets short-shrift. We are spending approximately 10 times more on the military than on homeland security.[3] The result: first responders in the nation's most vulnerable areas complain that they don't have the money to cope with looming emergencies. [4] Reservoirs, chemical and nuclear power plants remain largely unprotected; ship and airplane cargo remain largely unscreened. And states are only modestly better prepared to respond to public health emergencies than before 9/11.[5] The Coast Guard estimates that securing U.S. ports would require $5.4 billion over ten years, but astonishingly, the Bush administration has spent only $395 million for that purpose. [6] The country's infrastructure of bridges, tunnels, and dams "remains so vulnerable that it practically invites terrorism," said the head of a Council on Foreign Relations task force on homeland security.[7] And rather than reducing the terrorist threat, the Iraqi war has destabilized that part of the world and expanded the number of terrorist attacks, bogging the United States down in a seemingly unending quagmire.

Military Spending and Jobs

Do wars bring prosperity? There is a widespread belief that wars and military expenditures stimulate the economy, create jobs and reduce unemployment. Some past wars have done that. The most dramatic example is World War II, which finally ended the Great Depression of the l930s. In the Cold War decades, large military budgets were used to prop up the economy. That approach is flawed. *Like any government spending, military spending does create employment, but it actually generates fewer jobs for the buck than equivalent civilian expenditures.* Why? Among other reasons, it uses relatively less labor than other kinds of economic activity. A billion dollars spent on domestic programs like school lunches, health, child and elder care, education, urban transportation or housing generates more jobs than a billion dollars of military spending.[8]

Even if an expanding military budget creates some jobs, it could still lead to a net loss of jobs in the overall U.S. economy if domestic programs--which generate more employment--are slashed. This is the present and likely future scenario, unless a commitment to high military budgets is reversed. Even if our new foreign policy does not lead to more wars, saber-rattling may result in job losses in industries like air travel and tourism, and the possibility of military conflict dampens business investment.

Permanent War Economy = Rising Inequality

Who wins in the Permanent War Economy? During World War II, President Franklin D. Roosevelt told the American people, "Not a single war millionaire will be created in the United States as a result of this world disaster."[9] But today, things are different. An unrestrained military budget coupled with tax "reforms" that bestow their benefits overwhelmingly on the wealthy will almost certainly worsen the already massive and galloping inequalities that threaten to shatter the very core of our democracy—and that have become a permanent fixture of our economy. Money buys political power and helps shape what we think through control of much of the media and influential think tanks. And with increased concentration of income and wealth, economic policies such as tax "reform" increasingly favor the rich and lead to even greater disparities.[10]

Defense contractors contribute heavily to political campaigns, and these contributions correlate strongly with awards of defense contracts. The earnings of their CEOs, once roughly the same as their counterparts in other industries, are now significantly higher. From 200l to 2002, defense spending rose by l4 percent, but median total compensation of CEOs at the 37 largest publicly traded defense contractors leaped by nearly 79 percent. At the same time, overall CEO pay rose by 6 percent. In 2002, CEOs of major defense contractors raked in an average of $11.3 million, 577 times as much as the annual earnings of an Army private risking his or her life in Iraq—about $l9,600 (including subsistence and extra combat pay).[11] These soldiers are not winners, nor are persons in the reserves and national guard who are called to protracted active duty overseas.

Among the biggest winners are the CEOs of a handful of firms, like Bechtel and Halliburton, with close ties to the Bush administration. These firms used campaign contributions and insider connections to win multi-billion dollar, no-bid contracts to rebuild Iraq and, to make matters worse, are bilking the American taxpayer.[12] This exemplifies what President Dwight Eisenhower, earlier a leading World War II general, warned of in l96l: a nascent "military-industrial-complex" that would "cause military spending to be driven not by national security needs but by a network of weapons makers, lobbyists and elected officials."

Defense expenditures not only create fewer jobs for the dollar than other government expenditures, they produce a different job mix--more concentrated in higher skilled and higher paying occupations requiring at least a college education.[13] Thus, an expansion of the military budget will tend to widen the rising wage gap between more highly educated and less educated workers.[14] And low-wage workers, who also suffer from the highest unemployment rates, will not be high on the list of military job winners—except, perhaps, as cannon fodder. (Enlisted men and women come disproportionately from groups with limited economic opportunities.) Even well-paid blue collar workers will not gain as much from the military budget as in the past. Anti-war trade union leaders have pointed out that military spending once created good jobs for organized labor, but today military contractors also send jobs overseas—Boeing among them.[15] Defense-related jobs are also geographically concentrated, and consequently, not all areas come out winners. By contrast, state and local government expenditures and the jobs they generate are more evenly distributed. And these jobs are threatened by the permanent war economy.

Military Spending +Tax Cuts = Deficits and Debt

Who will pay for these new policies? *The impact of military spending on inequality will be exacerbated by the large and grossly disproportionate tax "reforms" enacted by Congress.* If the goal was immediate job creation, tax cuts and refundable tax credits targeted to lower income and working people would have been more effective than tax cuts for the rich. The reason: poorer people spend a larger share of their income. *The main purpose of the tax cuts--some of the largest in history--was not to create jobs and boost economic growth now, but to permanently change the tax structure and reduce social spending.*[16] And guess who comes out on top?

The wealthiest Americans are now even further ahead than before. Besides lowering the top personal tax rate, the 2001 tax cuts phase out the inheritance tax that applied only to estates worth more than $2 million.[17] Likewise, the 2003 tax cuts sharply reduced the taxation of dividends, a source of income overwhelmingly concentrated in the top 1 percent of the income pyramid. With the 2003 cuts, 50 million taxpayers got no tax cut at all while about half of all American families received less than $100.[18] By the end of the decade taxes on the richest 1 percent of Americans will fall 17 percent while the remaining taxpayers will have an average reduction of 5 percent.[19] According to the Congressional Budget Office, this top 1 percent has enjoyed a 30 percent drop in its income tax burden since 1977.

Escalating military budgets, combined with deep tax cuts, have turned federal surpluses into huge deficits—approximately $400 billion as of October 2003. These have pushed the federal debt to nearly $4 trillion, a sum almost unprecedented since the end of World War II.[20]

Federal deficits are not necessarily bad. They can and should be used to stimulate a lagging economy. Normally we would see some job creation from a deficit. The Bush administration projected that with its tax package, misnamed the "Jobs and Growth Plan," which went into effect in July 2003, there would be 5.5 million new jobs by the end of November 2004. In the short run, there would be 1.8 million by December 2003. But only 221,000 had been created by then. Workers were left in a rut, with millions fewer jobs in the economy since George Bush took office and with job growth not even enough to make up for the new people entering the labor force. *In fact, Bush has presided over the greatest net job loss since the Great Depression*.[21]

Public Health Insurance. 18 states cut eligibility for fiscal year 2004; 25 states did so for FY 2003. 21 states imposed new or higher co-payments for FY 2004; 17 states did so for FY 2003.

Child Care Subsidies. At least 32 states have cut eligibility for or otherwise limited access to child care.

K-12 Education. 11 states made cuts in for FY 2004; 9 did so in FY 2003. The effects include new or higher fees for textbooks and courses, shorter school days, reduced personnel, and reduced transportation.

Higher Education. States throughout the country are cutting funding for higher education, the only way out of poverty for millions of poor families. This has lead to double-digit increases in college and university tuition and reduced course offerings.

The kind of deficits we are now facing—fueled by enormous tax cuts for the rich and rising military expenditures—are potentially disastrous for working men and women. Over the long run they could destroy more jobs than they will create and ensure a policy straitjacket for future generations.[22]

Conservatives, who used to rail against deficits, now embrace them. Their aim, as a former chairman of Bush's Council of Economic Advisers acknowledged, is to reduce the size of government--really social spending-- with the military left out of their equation.[23] Hoping to reelect George Bush and to privatize the system, most conservatives also exclude the expensive restructuring of Medicare, described by a leading Senate opponent as a "first step toward a total dismantling of Medicare."[24] If Medicare goes, can Social Security be far behind?

The Military Budget +Tax Cuts = The Fiscal Crisis of the States and Cities

Reduced federal spending has meant a greater burden on state governments to fund domestic needs. Yet while states are required to pick up the tab, they have faced their greatest fiscal crisis since the end of World War II.[25] The National Conference of State Legislatures estimated that between 2001 and 2003 states had to close a cumulative budget gap approaching $200 billion[26] The fiscal crisis of the states was caused by -reduced federal grants, increased costs for homeland security, the general economic downturn, and federal and state tax cuts. Moreover, the weak stimulus of the military budget could hardly offset the combined burden of these policies. Because many state income tax rates are linked to federal rates, state revenues fell in tandem with the federal cuts. But unlike the federal government that can run large deficits, virtually all states are required either by their constitutions or laws to have balanced budgets. Thus, to make up for the shortfalls, states have been forced to dip into reserve funds, slash basic services and/or raise taxes and user fees. Typically, states have cut services and shifted the burden onto cities and towns, adding to the urban crisis that already afflicts many of them.[27]

Hardest hit by cuts in services are vulnerable populations who are often concentrated in urban areas--families with disabled members, single mothers and their children, the working poor and the precarious middle class that is one paycheck or unpaid hospital bill away from poverty. *Moreover, when state and local budgets are cut, not only are vital programs affected, but so is a major source of employment.* State and local governments employ one in seven U.S. workers and have been a major source of job growth.[28] Blacks and women are hurt disproportionately, since they are more likely than others to be government workers. Indeed, these service cuts are likely to undermine the government's much touted welfare-to-work strategy which depends for its success on government as both a source of employment for women leaving welfare and as a provider of the services they need to continue in the workforce--childcare, health care, job training, etc. to continue in the workforce--childcare, health care, job training, etc.

Beyond the suffering they inflict, these cuts also constitute a drag on the weak economy. Many state programs that are funded by the federal government assist families who have lost jobs or income, and this added spending helps cushion the drop in overall demand. Cuts in state spending also have serious ripple effects on local economies, including those in rural areas. Cities have been hard hit. Cutting education or health care, for example, means pink slips that also affect the local tax base. Cutting funds for poverty relief or child care means that cities have to cope with more homelessness, increased crime and unemployment. Moreover, rising military expenditures and reduced federal investment in civilian research and technology, education, training, health and physical infrastructure not only have an immediate, negative impact on employment and living standards but threaten future economic and social security as well.

Real Security Means Economic Security

In 1944, toward the end of a devastating world war that followed a decade of deep depression, President Franklin Roosevelt called for an "Economic Bill of Rights" to guarantee jobs at living wages and other forms of economic security such as

health care and decent housing. Linking economic security and freedom, Roosevelt declared: “Necessitous men are not free men. People who are hungry and out of a job are the stuff of which dictatorships are made.” Roosevelt’s Economic Bill of Rights was never enacted, but over the years, legislative reforms moved at least partially in that direction. Tragically, the truth that people in want are not free people seems to have eluded our current policy makers.
Even as we go to war in the name of bringing democracy to countries such as Iraq, our own security—and with it, our democracy--is eroded by massive tax cuts for the rich and a military budget that has no end in sight. History tells us that nations forced to defend their empires at the expense of their domestic economies may be doomed to decay.[29] The bedrock of real security lies, not in a unilateral policy of permanent war, but in a policy of *collective* military and economic security abroad. At home, real security requires jobs for all at living wages and an adequate safety net--fueled by a fair tax system. These policies will not happen unless **we** make them happen.

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[1] *The National Security Strategy of the United States of America*, September 2002. http://www.whitehouse.gov/nsc.

[2] Most of the money in the military budget is devoted to the production of high tech weapons that are the legacy of the Cold War, and some, like Missile Defense technology, may not even work at all. Such weapons are useless against the kind of terrorist threat posed by 9/11. Moreover, there is tremendous waste in the military budget. Since 1995, the General Accounting Office has ranked the Pentagon’s financial management as one of the worst in government. In FY 2000, for example, the Pentagon’s own Inspector General noted that $1.1 trillion couldn’t be accounted for. Comments of Bill Moyers and Franklin (Chuck) Spinney in interview on Bill Moyers’ show, NOW, PBS. Aired on December 5, 2003. Transcript available at: http://www.pbs.org/now/transcript/transcript245_full.html.

[3] Since 9/11 we have spent $151 billion on homeland security. The homeland security request for FY 2004 represents no significant increase in spending over 2003. Steve Kosiak “Funding for Homeland Security and Combating Terrorism Since 9/11, ” September 24, 2002; and “Homeland Security: Administration’s Plan Appears to Project Little Growth in Funding,” March 12, 2003. Center on Strategic and Budgetary Assessments. http://www.csbaonline.org/

[4] Philip Shenon, “Two Studies Cite Confusion on Terrorism,” *New York Times*, August 21, 2003, A14; “Emergency Responders: Drastically Underfunded, Dangerously Unprepared,” Report of an independent Task Force, Sponsored by the Council on Foreign Relations, http://www.cfr.org/pdf/Responders--TF.pdf.

[5] Ceci Connolly, “Bioterror Preparadness Still Lacking, Health Group Concludes,” *Washington Post*, December 12, 2003. The full study of America’s lack of public health preparedness from Trust for America’s Health at: http://www.healthyamericans.org

[6] “Are We Safer?” *U.S. News and World Report*, Sept. 15, 2003, p. 26.

[7] Stephen Flynn, quoted in ibid., p. 29.

[8] Defense projects tend to have high employment in administrative, accounting, marketing and lobbying activities in addition to the more readily recognizable concentration of scientists, engineers and other technical specialists. David Gold, “Implications of Ballistic Missile Defense for National Security, Defense Industries, and Labor Markets,” in Richard F. Kaufman, ed., *The Full Costs of Ballistic Missile Defense* (Washington, D.C.: Center for Arms Control and Non-Proliferation and Pearl River, NY: Economists Allied for arms Reduction, 2003, 96-97. Telephone interview with Jeff Gruenert, U.S. Department of Labor, Washington, DC by Helen Ginsburg, June 27, 2003.

[9] Sidney Ratner, *American Taxation: Its History as a Social Force in Democracy* (NY: WW Norton, 1942, p. 35) , quoted in Sam Pizzagati, *The Maximum Wage: A Commonsense Prescription for Revitalizing America-by Taxing the Very Rich* (Apex Press, 1992), p. 57.

[10] For an analysis of the role of big money in politics, see, for example: Dan Clawson, Alan Neustadtl and Mark Weller, *Dollars and Votes: How Business Campaign Contributions Subvert Democracy* (Philadelphia: Temple University Press, 1998).

[11] Chris Hartman, and David Martin, “More Bucks for the Bang: CEO Pay at Top Defense Contractors,” (Boston: United for a Fair Economy, April 28, 2003). Available from http://www.inequality.org/bucksforbang.pdf
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[12] Neela Banerjee, “New Information May Bolster Questions on Halliburton,” *New York Times*, October 22, 2003. http://www.nytimes.com/2003/10/22/business/worldbusiness/22hal.html.

[13] David Gold and Jeff Gruenert, op. cit.

[14] Only in the late 1990's boom did wages for those at the lowest end of the economic ladder begin to rise.

[15] Bob Muhlenkamp, “Guns or Butter,” *The Nation*, May 28, 2003 http://www.thenation.org; Leslie Wayne, “Butting Heads With the Pentagon, *New York Times*, July 23, 2003, C1.

[16] “Ten Nobel Laureates Say the Bush Tax Cuts Are the Wrong Approach,” published in the *NY Times* February 1, 2003. Available from cc.

[17] The 2001 tax-cut legislation lowers the top estate tax rate to 45 percent by 2007, increases the estate tax exemption to $3.5 million ($7 million for a couple) by 2009 and then repeals the estate tax altogether in 2010. The repeal expires at the end of 2010, as part of the general expiration of all provisions of the 2001 tax law.

[18] Paul Krugman, "The Tax-Cut Con," *New York Times*, November 14, 2003; Citizens for Tax Justice, "Final Tax Plan Tilts Even More Toward Richest," June 5, 2003. http://www.ctj.org/pdt/sen0522.pdf.

[19] "Effects of the First Three Bush Tax Cuts Charted," Citizens for Tax Justice, June 4, 2003.

[20] These figures, however, are artificially low, as the government included the Social Security fund surplus as part of the budget, masking what would otherwise have been a $560 billion deficit. Howell E. Jackson, "It's Even Worse Than You Think," *New York Times*, October 9, 2003, A37.

[21] Even in November 2003, during what was described as an economic "recovery," four million fewer jobs had been created than were needed just to keep up with working age population growth since November 2001. Most states were facing troubled job markets. In every state, the unemployment rate was still higher than when the recession started. In 32 states, at least a full percentage point more of the labor force could not find work than at the official start of the recession in March 2001, and in eight of them there was at least a two percentage point increase in the unemployment rate. This and data in text from Economic Policy Institute, "Job Watch," http://www.jobwatch.org for November and December 2003.

[22] Joseph E. Stiglitz, "Rumors of War," syndicated column. Available from: http://www.project-syndicate.org/commentaries/commentary_text.php4?id=1083&m=series; Paul Krugman, "Jobs, Jobs, Jobs," *New York Times* April 22, 2003.

[23] David Firestone, "Conservatives Now See Deficits as a tool to Fight Spending," *New York Times*, February 11, 2003, A24.

[24] Sylvia Saunders, "Medicare Drug Plan," *New York Teacher*, December 3, 2002, 6.

[25] From 1994 to 2001, some 44 states enacted significant tax cuts. The economic boom of the late 1990s, and in particular the large increase in capital gains during those years, temporarily offset the revenue loss resulting from those tax cuts. Those temporary economic conditions have ended. Yet most of the tax cuts of the 1990s remain in place and are costing states some $40 billion or more per year. Center on Budget and Policy Priorities, "A Brief Overview of State Fiscal Conditions and the Effects of Federal Policies on State Budgets," October 23, 2003. http://www.cbpp.org.

[26] Ibid.

[27] Ibid.

[28] For example, in l979, 8 million more people worked in manufacturing than for state and local governments. By 2002 manufacturing had shed 5 million jobs, while state and local governments gained 5.5 million and employed l8.5 million people, compared to l6.7 million in manufacturing.

[29] Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, Knopf, 1989.

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