Is War “good” for the Economy?

- In modern times, wars are never good for the economy.
- Civil War – it would have been cheaper for the North to have a compensated emancipation
- WWI- We had a booming economy prior to getting into the War and emerged with a large debt.
World War II and the US Economy

- **September 16, 1940**
  - Selective Service Act establishing a draft

- **October 1941**
  - only 1 in 5 Americans favored going to war
The Costs of War

- 10 times as costly in real terms as WWI (4 years vs. 1.5 years)
- 40% of GDP
- 12 million men, mostly conscripts
- 5-fold increase in debt (1941 50 billion to 1945 250 billion)
- 6-fold increase in taxation (1941 7.1 billion, 1945 44.5 billion)
- over 1,000,000 casualties; 400,000 dead, 670,000 wounded
- 154 agencies created, most powerful:
  - War Planning Board and Office of Price Administration (150,000 employees by 1945)
Did World War II bring us out of the Great Depression?

- Conventional wisdom:
  - war is good for the economy

- Good for employment not good for consumption

- How much utility do you get from a Sherman tank?
National Income Accounting

- \( Y = C + I + G + (X - M) \)
- Each of the components (supposedly) measures output of FINAL goods and services at MARKET prices. Some problems with government, and particularly War, expenditures:
  1. Double counting of intermediate goods – GDP does not separately count steel and automobiles. Why? This would double count the steel as it is already counted in the value of an automobile. Is defense an intermediate or final good?
  2. Government spending often does not pass through markets (administrative pricing). Value at price paid rather than market rate.
Some adjusted statistics

<table>
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<tr>
<th>Year</th>
<th>Unemployment</th>
<th>U + Armed Forces</th>
<th>U + A + Defense Employment</th>
<th>Real per capita C 1939=100</th>
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</table>
What Did Bring us out of the Great Depression?

- Pent up consumption following WWII brought us out of the Depression
- Increase in consumption above 1929 levels only from 1946
- 405,000 dead and 671,000 wounded is not prosperity
**Long-Term Economic Effects of WWII Economy**

- **Labor force** – female participation rates: high in WWI, interwar period back to “normal”. Again high in WWII has trended upward since WWII
- **Investment** – Pent-up savings during WWII, high levels of investment and consumption after WWII
- **Distribution of income** – Income inequality went down because everyone was employed.
- **The consumer society** – qualitative change after WWII. Affordable housing. Increased ownership of consumer durables (ex televisions). Over 85% of US housing stock built after WWII.
Long-term legacies

- Belief in ability of government to control the economy
  - 1946 passage of Full Employment Act (Keynesian fiscal policy)
- Selective Service Act of 1948
  - peacetime draft
- Expansion of the tax revenue machine
  - low exemptions, high rates, progressive rates, tax withholding
- Veterans benefits
  - GI Bill
Long-Term Legacies

- Cold War
  - $3 trillion dollars 1945-1990

- Military Industrial Political Complex
  - Business gains, some regions gain (military bases and taxpayers pay)

- Post-communist threat military spending (2013): US spends more than the next 20 highest spenders combined (2nd highest spender China)