The Permanent Arms Economy

1 Introduction

Perhaps the most obvious (and certainly the most sinister) difference between the post-war and pre-war worlds was the level of military expenditure carried on by the victorious powers. Disarmament had not been complete even after the First World War, but there was no precedent in the peacetime history of capitalism for the scale of arms spending which was now being undertaken. In 1950 military expenditure accounted for 6.6 per cent of the United Kingdom's GNP, for 5.5 per cent in France and 5.1 per cent in the United States; a decade later the figures were 6.5 per cent, 6.5 per cent and 9.0 per cent respectively.¹ One explanation for this persistent militarism was what the liberal economist James Tobin was later to describe as the 'naive theory' of arms spending, which saw it simply as 'a response to world events'.² However, this is less naive than it sounds. Undoubtedly there were serious political barriers to disarmament after 1945. France and (less desperately) Britain were embroiled in colonial wars, the United States was defending its newly won 'informal empire', and all three were engaged in the long Cold War confrontation with the Soviet Union and China.

Inevitably, though, Marxists found the 'naive theory' lacking, since it ignored several important dimensions of the problem and, in particular, made no mention of the positive benefits which high levels of arms spending might offer the world capitalist system and its component nation-states. The first of these is ideological: militarism promotes national unity against the supposed external threat and reduces the intensity of internal class antagonisms. We shall return to this question at the end of this chapter. Second, there are two categories of indirect economic advantages. Most important are those accruing from the exercise of imperial power, in the form of superprofits from investment in, and trade with, colonies and neo-colonies. In this context military expenditure is a prop for imperialism rather than a significant phenomenon in its own right. (Our separation of the economics of militarism from the political economy of imperialism is to a certain extent
an artificial one, and readers unfamiliar with the latter question should refer to Chapters 9, 10 and 11 below.) Also important are the civilian ‘spin-offs’ from military research and development, ‘ranging from biros through computers to nuclear power.’ We shall have more to say about such spin-offs shortly.

For the most part, however, our concern here is with the direct economic benefits which may result from militarism. Arms contracts are likely to be profitable for the companies which obtain them (the evidence is that they are very profitable indeed). But how could arms spending raise the rate of profit for the system as a whole? Like most liberals, many Marxists deny that this is possible, some suggesting that military expenditure lowers the profit rate and thus represents a net burden for capital. Other Marxist writers, however, argue that armaments expenditure is directly beneficial, for one of two reasons. The first is the stimulation that it provides to aggregate demand, and the corresponding weakening of the underconsumptionist tendencies which would otherwise prevent the realisation of surplus value. This line of argument is central to the analysis of (but by no means confined to) Baran and Sweezy and their followers (see Chapter 6 above). The second argument concerns the production of surplus value, not its realisation. Arms spending, it is maintained, represents the most important of the counteracting forces working against the long-run tendency for the rate of profit to decline. This view was most cogently expressed in the 1950s and early 1960s by the English neo-Trotskyist Michael Kidron, and remains the official position of the Socialist Workers’ Party in Britain.

The remainder of this chapter is organised as follows. In the next section we summarise the somewhat sketchy and inconclusive discussion of military expenditure in classical Marxism. We then examine the underconsumptionist argument, paying special attention to the possibility of testing it empirically. In section IV we analyse the relationship between arms spending and the rate of profit. The following section deals with the economic costs of militarism, the role of the ‘military–industrial complex’, and the suggestion that militarism is a form of economic parasitism. We conclude by considering the methodological implications of the ‘permanent arms economy’ thesis.

II Marxism and Military Expenditure before 1939

Marx wrote nothing on the economics of military expenditure. Engels did little more, despite his strong personal interest in the technical aspects of warfare and the substantial growth of European militarism in the final decade of his life. His pamphlet Can Europe Disarm?, written in 1893, called for the settlement of international disputes by negotiation and the replacement of standing armies by popular militias. For Engels arms spending offered neither direct nor indirect benefits to capitalist states, but only the
prospect of financial ruin.\textsuperscript{5} Both German and Russian Marxists tended to neglect the entire issue. Like Engels, Karl Kautsky did point to the costs of colonial expansion and the military spending associated with it, warning that Germany's attempt to build a strong navy in addition to its expensive army would result in economic disaster. As the world war loomed Kautsky argued that, although militarism did give a boost to consumer demand, it was (like other unproductive expenditures) contradictory. Capitalists benefited from arms spending but, to the extent that it was financed by taxation upon profits, they would necessarily resist it. In consequence there were definite limits to the growth of military expenditure, which could not enable the system to overcome its chronic tendency to underconsumption.\textsuperscript{6} Kautsky claimed that his left-wing critics in the SPD were mistaken when they viewed militarism as a necessary condition for the survival of capitalism. Although it did have economic causes, arms spending was not indispensable, and disarmament was a real – albeit precarious – possibility.\textsuperscript{7}

Of all the classical Marxists, it was Rosa Luxemburg who showed most interest in the economic implications of military expenditure, but her analysis, contained in one short chapter of her \textit{Accumulation of Capital},\textsuperscript{8} is remarkably difficult to follow. The fundamental theme of Luxemburg's book is the need for external (that is, non-capitalist) markets if surplus value is to be realised (see Chapter 6 of volume I of this book). She seems to have regarded military expenditure as supplementing the more important external markets provided by overseas colonies and neo-colonies, but her numerical examples of extended reproduction with an armaments sector only serve to obscure her argument. In fact everything depends upon how an expansion in military spending is financed. There are three possibilities. Increased taxes on workers merely alter the composition of output (more guns, less butter), without affecting aggregate profits or the level of effective demand. Higher taxes on profits may or may not increase the overall profitability of capital, depending on what would otherwise have been done with them. Deficit financing will have a stimulating effect so long as demand is insufficient to permit the realisation of all the surplus value which would be produced at full capacity utilisation. And military expenditure has the distinct advantage, from an underconsumptionist viewpoint, that it 'creates no further problem by increasing productive capacity (not to mention the huge new investment opportunities created by reconstruction after the capitalist nations have turned their weapons against each other).\textsuperscript{9}

But this is to suggest only that sense can be made of Luxemburg in Keynesian terms, not that she herself was a premature Keynesian. That would be to give Luxemburg both too much and too little credit. Too much, because \textit{The Accumulation of Capital} simply does not display the necessary clarity of analysis on the issue of effective demand. Too little, because it ignores her wider contribution. Luxemburg highlighted the social and ideological benefits which capitalism derives from militarism, both at home
(reduced class tension, increased power of coercion where needed) and abroad (forced conversion of natural economy into commodity economy, rapid introduction of capital and wage labour in backward regions).

Luxemburg's claims about the economic advantages of arms spending were less supportable when viewed from the perspective of Bolshevik economic theory. Although neither Lenin nor Trotsky dealt specifically with the effects of military expenditure per se, as distinct from their analysis of imperialism, Bukharin did do so. Arguing in terms of Marx's reproduction models, Bukharin recognised in the *Economics of the Transformation Period* that the production of armaments cut into surplus value and hindered expanded reproduction. Indeed, if the value of military production exceeded total surplus value, the system would enter into 'negative extended reproduction'. Bukharin believed that the process might be hidden through inflation of money prices, but such growth was illusory. By implication, then, rather than explicit rebuttal, Bukharin argued that Luxemburg's treatment of the arms economy was the exact opposite of the truth; rather than aiding in the realisation of surplus value, the principal effect was to destroy the production of values. As we argue in later sections, Bukharin's position is the more defensible, but until recently it was that of Luxemburg which proved most influential in Marxian political economy.¹⁰

It would have been difficult to maintain that military expenditure was responsible for the relative economic stabilisation of the 1920s, given the very substantial degree of disarmament by all the major capitalist powers. Only after 1933, with the alarming revival of German militarism (and of the German economy) under Hitler, was any serious attention paid to Luxemburg's conclusions. Writing in 1937, Eugen Varga denied that arms spending could guarantee prosperity. The tenor of Varga's argument was, however, distinctly Keynesian, with strong undertones of Luxemburg. If military expenditure were financed by taxing the working class, he suggested, aggregate demand would be unaltered; only its composition would change. Loan-financed expenditures, on the other hand, would expand demand so long as they involved 'the use of capital previously lying fallow'; that is, up to the point at which excess capacity had been eliminated. In a postscript two years later, Varga took a much more positive attitude. The increase in arms spending had 'led to a liquidation of unemployment in Germany', he wrote. 'Armaments offer a tremendous and almost unlimited market for capitalism', which would not be at the expense of civilian activity unless military expenditure continued to increase after full employment had been attained.¹¹ Since Varga wrote with the full authority of the Comintern behind him, it is clear that by 1939 the underconsumptionist, 'surplus-absorbing' approach to military expenditure could be regarded as Stalinist orthodoxy, and to that extent Stalin can be exempted from Natalie Moszkowska's charge that neither he nor Lenin ever came to grips with the new phenomenon of 'war capitalism'.¹²
The resurgence of militarism could, however, be seen from a quite different perspective. As we saw in Chapter 1, Friedrich Pollock maintained (in 1941) that the new state capitalism in the West could not tolerate mass unemployment, for fear of popular revolt. Rising living standards for the masses were no less dangerous, since they implied increased leisure, more time for reflection, and a greater risk of conscious and revolutionary opposition. In terms very similar to those of George Orwell’s post-war novel 1984, Pollock concluded that capitalism could not survive a 'peace economy': ‘As long as one national state capitalism has not conquered the entire earth, however, there will always be ample opportunities to spend most of its productive excess capacity (excess over the requirements for a minimum standard of living) for ever-increasing and technically more perfect armaments’.

III Arms Spending and Effective Demand

In *The Theory of Capitalist Development* Paul Sweezy had described militarism as 'an increasingly important offsetting force to the tendency to underconsumption', which 'provides the capitalist class as a whole with increased opportunities for profitable investment of capital'. But Sweezy devoted no more than a page to its economic effects, and it was only after the war that he and Paul Baran placed military expenditure at the centre of their theory of monopoly capital (see Chapter 6 above). The one disadvantage of the arms economy was high taxation, Sweezy argued in 1953.

Everything else is in its favour. It is precisely the biggest monopolies which benefit most directly from arms spending; there is no competition, direct or indirect, with private enterprise; the atmosphere of hatred and intolerance that goes with war preparations – the witch hunts, the jingoism, the glorification of force – creates the conditions in which the propertied classes find it easiest to control the ideas and activities of workers and farmers and lower middle classes.

None of the alternatives proposed by liberal peace campaigners could succeed. Capitalists would resist the expansion of civilian government spending, and there would be powerful opposition to any attempt to increase consumption by raising wages at the expense of profits. Nor would a simultaneous and balanced reduction in military expenditure and taxation prove effective: 'Profits are so large as to confine the growth of consumption within narrow limits, and if they were largely invested in expanding civilian capacity the result would very soon be a crisis of excess capacity and overproduction.'
Paul Baran’s *Political Economy of Growth*, published four years later, placed less emphasis on the stabilising effects of arms spending, possibly as a result of the relative decline in US military expenditure at the end of the Korean War. However, militarism played a much greater role in *Monopoly Capital*, where it was treated as one of the two major absorbers of surplus, along with the ‘sales effort’. By 1970 it had become an article of faith among American Marxists that ‘the military-industrial complex has eliminated the spectre of secular stagnation’. Baran and Sweezey were themselves more circumspect, arguing that the demand-creating role of military spending was subject to both military and economic limits. Weapons production was becoming so capital-intensive that its effect upon employment was severely constrained, and the lethal irrationality of the nuclear arms race was more and more acknowledged within the military establishment. These limits, Baran and Sweezey suggested, ‘signal the end of the illusion that perpetual prosperity can be assured through the unlimited expansion of the arms budget’, and foreshadowed the return of stagnation and depression. As a matter of brute fact, neither economic nor military logic restrained US military spending in the way that Baran and Sweezey had expected. The arms budget rose (at current prices) from $47 billion in 1961 to $265 billion in 1984, and $299 billion in 1989; even correcting for inflation, the massive increases in the Vietnam and Reagan eras are readily apparent.

At the theoretical level, the underconsumptionist argument raises two important issues. The first is whether military expenditure has been consciously pursued as an instrument of economic policy. The second is whether it has actually had the stimulating effects which Baran and Sweezey and their followers have claimed for it. As far as the first question is concerned, it would be very difficult to sustain a case that military spending was deliberately employed as a counter-cyclical or anti-stagnation measure. To do so it would be necessary to establish, first, that the US ruling class was conscious of the need for such a device and united in its determination to use it; and second, that changes in arms spending were governed, in their timing and magnitude, by macroeconomic considerations. Both propositions seem more than a little far-fetched (see below for some rather inconclusive evidence). Neither was endorsed by Baran and Sweezey, who interpreted the post-war growth in military expenditure in more conventional terms: it was the inescapable precondition of the United States’s political and economic dominance over an increasingly hostile world. This is not Tobin’s ‘naïve theory’ of militarism, since it hinges on the indirect economic advantages which accrue from imperialist hegemony. Any direct economic benefits from arms spending, however, were a mere by-product of the United States’s super-imperialist position.

Were the benefits real, or only apparent? Attempts to investigate this issue are bedevilled by conceptual and technical problems. First, it is by no means clear that it is legitimate to force dialectical Marxist theory into the mould of
equilibrium models suitable for formal statistical testing. This leads inevitably to a narrowing of its range, since broad and ambitious historical stories are notoriously more difficult to test econometrically than precise and limited economic hypotheses. Second, published data are invariably in market prices rather than prices of production, let alone labour values, casting some doubt on the pertinence of any such tests from the perspective of orthodox Marxist theory. Third is the question of the level at which analysis is to be conducted: individual states, or the capitalist world as a whole? Fourth comes a clutch of econometric problems, especially that of simultaneity. Merely establishing a statistical relationship between military expenditure and capacity utilisation implies nothing about the direction of causation, which may run from the former to the latter ('rearmament boosts demand') or from the latter to the former ('economic growth allows more to be spent on the military'); and there may, of course, be no causal relationship at all.  

There have been only two serious econometric studies of military spending from a Marxist perspective. In the first, Al Szymanski explored the relation between armaments expenditure, unemployment and economic growth in the 18 wealthiest capitalist countries between 1950 and 1968. His initial observation was that arms spending was so small – less than 4 per cent of national income in all except Britain, Israel and the United States – as to cast serious doubt upon its economic significance. (Much however depends on the strength of international multiplier effects, which are discussed below.) Except for the United States, Szymanski found no correlation between the stage of development, measured by per capita income level, and the share of arms spending. If richer countries did produce relatively more surplus, and suffer more severely from underconsumption, it was not reflected in their military expenditure. Third, Szymanski found a negative correlation between arms spending and the rate of economic growth, contrary to Baran's and Sweezy's expectations. On only one test did the theory succeed: Szymanski did find nations with higher military spending to have lower unemployment rates. On balance, though, the surplus absorption approach was not consistent with observed capitalist reality.  

In the other study Ron Smith cast further doubt on the underconsumptionist argument. Smith noted that military expenditure is unsuitable as a counter-cyclical policy both because of its long lead-time and due to the highly capital-intensive nature of most armaments production. He found no evidence that the timing of increases in US arms spending had been affected by trends in unemployment. Smith also discovered that differences in military expenditure by advanced capitalist countries before 1970 were unrelated to their relative unemployment rates. Like Szymanski, he reported a negative cross-sectional relationship between arms spending and economic growth. Smith too concluded that the underconsumptionist interpretation of militarism possessed little explanatory power.
It might be objected to this that cross-sectional tests miss the point. If US arms spending can be shown to have stimulated demand in Japan and Western Europe, the lower levels of military expenditure there would be irrelevant to the underconsumptionist argument. They have, however, good reasons for believing that this was not so. First, it remains conjectural: no hard evidence has been produced to show that unemployment rates or indices of capacity utilisation in other capitalist countries moved in line with changes in US arms spending. Second, the marginal propensity to import of the United States was too low for such international spillovers of demand to have served as a major engine of expansion, at least in the 1950s and 1960s. Third, and decisively, US military spending in these two decades was funded in large part by increased taxation rather than by deficit finance. The expansionary effect was therefore relatively small. Assuming the expenditure to have had no import content, national income in the United States would have been raised by the amount of the arms expenditure itself (according to the balanced budget multiplier theorem of Keynesian economics), but there would have been no effect on the international economy. If part of the expenditure had involved the purchase of foreign goods, this would have generated international multiplier effects. However, in this case they would have been offset by a reduced expansion of demand within the US economy itself.

This argument must be qualified. There may well also have been accelerator effects on US private investment, which could conceivably have spilled over into the other Western countries (US engineering companies ordering machine tools from Japan, for example). And this in turn may well have stimulated business confidence (and hence investment) all over the world, although it would be difficult to test this empirically. Finally, it is important to note that neither Szymanski nor Smith deal with the period after 1970, when the US economy became much more open to import penetration, and during which (especially from 1981 onwards) military expansion was accompanied by colossal budget deficits. Their findings might thus be valid only for the earlier period. However, none of these reservations weaken the two, essentially negative, conclusions. The demand-creating effects of arms spending probably did not cause the 'long boom' after 1945 in the manner suggested by Baran and Sweezy; and the decreasing growth rates and rising unemployment levels of the 1970s and 1980s were not the unintended consequence of beating swords into ploughshares.

IV Arms and the Falling Rate of Profit

Even more than Baran and Sweezy, Michael Kidron viewed arms spending as the key to capitalism’s success after 1945 (see also section IV of Chapter 3 above). It was, according to Kidron, a period in which high employment,
rapid growth and economic stability operated as a 'causal loop', reinforcing each other in much the same way as stagnation and instability had done in the 1930s. Kidron rejected several popular explanations of the change. State planning presupposed high levels of economic activity, and would have been unnecessary in their absence. As for the post-war liberalisation of trade and the rapid pace of technical innovation, Kidron argued that both operated inside the causal loop already mentioned. To account for the long boom an autonomous, external factor was required.27

For Kidron this factor was the arms economy. Insofar as it is financed by taxation on profits, military expenditure deprives capitalism of resources which would otherwise be used for productive investment. Their diversion to weapons production slows down the growth of the organic composition of capital in civilian activities, thereby significantly retarding the fall in the profit rate which would otherwise occur. Kidron's analysis relies upon one crucial proposition: increases in the organic composition in military production have no effect upon the rate of profit in the wider economy. Armaments are not consumed by workers; nor are they used as means of production in wage-goods industries, either directly or indirectly. In this they resemble the luxury commodities consumed by capitalists. They belong neither to department I nor to department II, but rather to that third sector which Marx denoted by IIb and Bortkiewicz (followed in this by most later writers) identified as department III. As early as David Ricardo it had been argued that changes in the conditions of production in such industries would affect only the relative prices of the commodities concerned, without influencing the general profit rate. This was demonstrated to be true by Bortkiewicz at the turn of the century, for a simple three-department model of simple reproduction, and was confirmed in a more general context by Piero Sraffa in 1960. Kidron concluded from this that the permanent arms economy was the latest, and easily the most powerful, counter-acting tendency to the falling rate of profit. It constituted the basis of a new stage of capitalist development, superseding Lenin's imperialism, which had proved to be only 'the highest stage but one'.28

Marx himself had hesitated over the validity of Ricardo's analysis of luxury production, on occasion denying it forcefully.29 This has led those Marxists unwilling to criticise the master, like Ernest Mandel, to dismiss Kidron's argument as erroneous. Mandel, indeed, points to the relatively high organic composition in military production as evidence that the arms economy has accelerated the decline in the rate of profit and served as adestabilising influence.30 This, however, is completely wrong. Bortkiewicz's simple model proves the independence of the general profit rate from conditions of production in department III, and the underlying logic of this result is easily understood. Production in departments I and II is 'self-sufficient' in the sense that it does not require inputs from department III. These two departments constitute a self-contained subsystem, and their
internal conditions of production alone determine their own rate of profit. If the rate of profit is equalised throughout the entire economy, that in department III must thus adjust to the rate which prevails in the subsystem formed by departments I and II. An excessive concentration of constant capital in department III might keep the profit rate there so low as to prevent the equalisation process from occurring, but it cannot affect the rate of profit in departments I and II. More recently the same point has been established for the more general, $n$-industry case. Piero Sraffa has shown that only 'basic' industries, which produce wage-goods and means of production, have any influence on the rate of profit. And armament production is clearly a 'non-basic' activity in this rather technical sense.

The real problems with Kidron's treatment are quite different. At the theoretical level, his analysis stands or falls with Marx's theory of the falling rate of profit, which we saw in Chapter 7 to be seriously defective. There is thus no theoretical substance to Kidron's claim that without the permanent arms economy a declining profit rate would have rendered post-war capitalism prone to crisis. Nor, as one would expect, is there any empirical support for his argument; for example, the sharp reduction in arms spending as a proportion of British output from 12 per cent in 1952 to 5½ per cent by 1970 was not reflected in a similar decline in the rate of profit. As we shall see in a later chapter, the fall which did occur can be accounted for by other factors altogether. This is not to deny that military expenditure may affect the rate of profit. Technical spin-offs might cheapen the elements of constant capital in civilian industry, for example, while the ideological impact of militarism might be such as to induce workers to accept lower wages and a higher rate of exploitation. Equally, as will be seen in the following section, there are several ways in which arms spending may reduce profitability. But none of them lends any support to Kidron's thesis, because the way in which arms expenditure affects the economy is very different.

V The Costs of Military Spending

Szymanski had concluded that 'in a very basic sense, military spending, instead of leading to economic growth, actually appears to be a cause of at least relative stagnation'. In fact there are at least three ways in which arms spending could retard growth. Militarism may 'crowd out' investment in productive industry; it may divert scientists, technologists and ancillary resources from non-military research and development projects; and it can foster complacency and inefficiency both in the armaments sector itself and in the wider economy. Although specific vested interests gain from military expenditure, it is − if these factors operate − at the expense of capital as a whole.
Casual observation supports the notion that arms spending has reduced productive investment. To cite the extreme cases, it is unlikely to have been a coincidence that post-war Britain and the United States, with heavy military commitments, had much smaller investment ratios and lower growth rates than Japan, where until very recently the constitutional limitation of military expenditure at 1 per cent of GNP was regarded as binding. Smith's econometric research uncovered a strong negative relationship between the shares in national income of arms spending and civilian investment, for both time-series and cross-sectional data. This presumably reflects the concentration of military production in investment-goods industries (engineering, shipbuilding, electronics), together with the absence of serious deficiencies in effective demand and the resistance of private and public consumption to downward pressure from expanded military expenditure.35

Militarism affects not only the quantity but also the quality of investment, which is heavily dependent upon technological innovation. Again taking the extreme case, more than half of all British research and development resources since 1945 have been directed to military work. This must have been at the expense of progress in civilian industry, unless there were massive and continuing technical spin-offs. Almost all writers agree, however, that military innovation has become increasingly specialised and esoteric, offering fewer and fewer benefits to non-military capitalism.36 And military spin-offs could hardly have had a greater effect on growth than direct expenditures on civilian research.

Finally, and possibly most important of all, there is the intangible but pernicious effect of military expenditure on the efficiency, dynamism and flexibility of the civilian economy. Normal competitive pressures apply not at all, or only in a weak and distorted form, to arms production, for which the only major customer is the state. Profit rates are abnormally high; cost-maximisation (and thus subsidy-maximisation) replace cost-minimisation as the criterion of managerial success. Structural rigidities are engendered when military demand props up otherwise declining industries, and newer sectors like electronics are subordinated to military purposes. Slack and wasteful behaviour is rewarded at all levels of the contracting companies, which become more reliant on arms production as they become less able to survive in civilian markets. In the more heavily militarised states the entire basis of national competitiveness may be seriously undermined.37

Why, then, do capitalists in these economies support the arms economy? The simple answer may be that they do not. Clarence Lo's careful study of attitudes in the (McCarthyite) United States between 1948 and 1953 revealed considerable business opposition to increased military expenditure because of the tax burden, inflation and increased state control to which it was expected to lead. The rearmament programme went ahead anyway.38 Strong support for a high and increasing arms budget does, of course, come from those corporations which benefit directly from it. Liberal critics of militar-
ism, from Cobden and Hobson to Melman, have attacked the vested interests making up the 'military-industrial complex', about which the retiring President Eisenhower (himself a former general) warned the American people in 1960. Writing just after the First World War had run its bloody course, A.C. Pigou denounced the arms producers for promoting 'the explosive material, out of which the flame of war may burst'; and he meant these words in a figurative as well as a literal sense. Many Marxists, too, see militarism as a form of economic parasitism in which a narrow fraction of capital profits while the rest of society (including the majority of capitalists) foot the bill. In James O'Connors's words, the 'defence' contractors 'have established what seems to be a permanent tap on the federal budget and thus have a long-run stake in the arms race itself... Thus, the big military contractors participate readily with defense programs regardless of the rationality of these programs in terms of overall national capital interests.' Militarism bears violent witness to the failure of economic management in the modern capitalist state.

VI Capitalism and Peace

To return to the categories used in the first section of this chapter, it appears probable that the direct economic effects of military expenditure are negative (or were negative, up to the end of the 1970s: the 'military reindustrialisation' of the United States during the Reagan presidency has yet to be fully assessed). Acceptance of this conclusion implies that the important limits to growth of output in post-war capitalism have been set by supply constraints rather than deficient demand, or at least that any shortfall in effective demand resulting from disarmament could have been quickly corrected by increased civilian (including government) expenditure. This repudiation of Keynesian ideas leads to what has sometimes been termed, not entirely facetiously, 'supply-side Marxism' (see Chapter 16 below). For the United States the initial indirect economic effects of arms spending may have been sufficiently positive to outweigh its direct costs, since its military might did help the United States to dominate the international economy for a quarter of a century after 1945. It was, however, a contradictory position, since the ensuing balance of payments deficits and crowding-out of productive investment contributed greatly to the destruction of the very economic hegemony that the arms spending began by defending. For the other Western powers with substantial military expenditure, like Britain and France, the balance sheet is overwhelmingly negative. The permanent arms economy, then, was not responsible for the long boom, nor were cuts in arms spending implicated in its demise.
There remains the ideological impact of militarism, in terms of increased social cohesion and enhanced legitimation of capitalist class relations. These effects cannot be measured and may at some points have been negative (especially during the Vietnam War). Assuming them generally to have been positive, however, a significant methodological issue arises. Is it legitimate to argue, from the fact that military expenditure makes capitalism run more smoothly, that this is the reason why arms spending has been so high since 1945? Are functional explanations of this kind acceptable in Marxist analysis, or must causal statements be framed in terms of rational decisions taken by individuals? These questions have wide ramifications (for example in the theory of the state and of the labour process) which will be considered in Chapter 17 below.

Another, closely related, issue has a bearing on a more traditional controversy in Marxist theory. This concerns the extent to which high military expenditure was caused by economic factors, as against ‘relatively autonomous’ political, strategic and other superstructural determinants. Mary Kaldor has suggested the existence of a sort of weapons fetishism,

in which the weapons system as a piece of separate independent hardware, a thing, appears to dictate its own patterns of consumption and production to weld together the military and industrial components of the mode of warfare. It could be that our own awe of the Bomb makes us victim of this fetishism, unable to identify a meaning in the social system that produces it and therefore apparently helpless in the headlong momentum of modern militarism.\(^45\)

It is not necessary to go as far as E.P. Thompson, for whom a self-propelled ‘exterminism’ has replaced capitalism and socialism at the centre of world history,\(^46\) to realise that military competition does possess a deadly momentum of its own.

This leads us to the final, and by far the most important, point. Modern militarism is after all a product of capitalism, however convoluted and contradictory the production process may have been. Can it, then, be overcome within the confines of capitalism? This is the question which exercised Karl Kautsky on the eve of the First World War. He cautioned against confusing the claim that militarism is the creation of capitalism (which he accepted) with the proposition that militarism is a necessary condition for the existence of capitalism (which he denied). There is nothing in the logic of capital, Kautsky concluded, to prevent disarmament and the onset of peace.\(^47\) Given the remarkable resilience of the capitalist mode of production, we can only hope that he was right.
Notes

3. Smith and Smith, Economics, p. 94.
18. Baran and Sweezy, Monopoly Capital, pp. 211–4. This argument is suspect because it ignores the capital–intensity of the sectors producing the inputs used in arms production, those which produce their inputs, and so on (see Ch. 13 below on this question).
32. P. Sraffa, The Production of Commodities by Means of Commodities (Cambridge: Cambridge University Press, 1960), pp. 7–8; see also Ch. 13 below. In joint production systems, however, there is no such simple intuitive definition of 'basic' commodities. Moreover, the causal importance of the conditions of production of basic commodities depends on the validity of the surplus approach in economic theory; see Ch. 15 below.
34. Szymanski, 'Military Spending', p. 6.
36. Kidron, Western Capitalism, pp. 63–4; Smith and Smith, Economics, pp. 93–6; J. Cekota, 'The Military Sector and Technological Change', Peace Research 19,


43. Smith and Smith, Economics, pp. 86–7.


