

Economic impact of wars



The Broken Window Fallacy- Are Wars good for the Economy

It is often considered an enduring myth that wars are somewhat beneficial towards the economy; however in the contemporary world we indeed see a great deal of evidence to fuel this myth. In fact after all World War II came directly after the Great Depression of 1930. A standard explanation that substantiates the validity of the statement that, " war boosts the economy" is as follows: if we assume that the economy has currently found itself in the low end of the business cycle characterised by a period of low economic growth or recession. The unemployment level is on the rise, people are making a considerably less amount of purchases than they did in the years before, and overall output is somewhat stagnant. This country now opts to wage a war. The government must now thereby equip its soldiers with extra arms and ammunition needed in order to achieve victory in war. In this circumstance companies/corporations win contracts to supply war equipment, bombs and vehicles to the armed forces. Many of these companies will be bound to hire an extra amount of workers in order to meet the demand of this increased production. The greater the scale of war the higher will be the necessity of hiring more workers thereby reducing the unemployment rate. This process fosters the economy it results in more spending by the people, an important point to note is that people who had jobs from before will be less troubled about losing these jobs due to low unemployment rates. Hence they will tend to spend more and this extra spending will help boost the retail sector, which will need to hire extra employees causing employment to drop even further. Hence it is clearly observable that a spiral of positive economic activity is created by the

government preparing for war. Economist Henry Hazlitt coined the term (Hazlitt, 1946), 'The Broken Window Fallacy'. In his book titled 'Economics in one lesson', Hazlitt substantiates what his theory essentially implies and how it is relevant in today's time. He takes the example of a hoodlum throwing a brick at a shopkeeper's glass window. The shopkeeper now is induced to purchase a new window from a glass shop for a certain sum of money, say \$100. However, if seen through a certain perspective the broken window may have positive benefits such that the hoodlum who threw the brick is not a public menace but instead is a public benefactor. It will be correct in deducing the consequence that the local glass shop will in fact benefit from this act of vandalism; however it must also be taken into account that the shopkeeper would have otherwise spent the \$100 on something he desired to consume if he did not have to bear the expense of replacing the broken window. It is highly likely that he would have utilized that money to purchase new golf clubs, or to take a vacation, or to buy equipment for business. To put it simply the profit incurred by the glass store is another store's loss, implying that as an overall resultant there has been no net gain in economic activity. On the contrary, there has been a clear deterioration in the economy. Instead of the shopkeeper possessing both a window and \$100, he now has merely a window. The Broken Window Fallacy is persistent on account of the difficulty involved in determining what the shopkeeper would have possibly done with the money. The shopkeeper could have alternated his expenditure of the money by purchasing suits or golf clubs for instance, and now that he has spent it on repairing the broken window, the community to which he belongs has just lost out on a new suit

or golf club from coming into being and is thus poorer in an economic standpoint.

We can see the gain that goes to the glass shop as well as the new pane of glass in the front of the store. However, what we cannot see is the set of golf clubs not purchased or the new suit foregone. Since the winners are clearly identifiable unlike the losers, it's reasonable to conclude that there are only winners and the economy as a whole is better off. Hence the Broken window fallacy essentially goes to show that even though war appears to benefit the economy it actually does no such thing. The parable of the broken window was introduced by Frédéric Bastiat in his 1850 essay *Ce qu'on voit et ce qu'on ne voit pas* (That Which Is Seen and That Which Is Unseen) to demonstrate why destruction, and the money spent to recuperate from destruction, is actually not a net-benefit to society (Bastiat, 1850). The parable, also known as the broken window fallacy or glazier's fallacy, shows how opportunity costs, as well as the law of unintended consequences, affect economic activity in ways that are "unseen" or ignored.

The faulty logic of the Broken Window Fallacy occurs all the time with arguments supporting government programs. A politician will tend claim that his new government program to provide free 'chullahs' or stoves to poor families has been a thriving success, because he can point to all the people who have benefited from these chullahs who didn't have them before. It's likely that there will be several new stories on this program, and pictures of people utilizing them will be on the news. Since we see the benefits of the program, the politician will convince the public that his program was a huge success. Of course, what we do not see is the school medical check-up

proposal that was never implemented to implement the chullah program, or the decline in economic activity from the added taxes needed to pay for these chullahs.

From the Broken Window Fallacy it is pretty easy to apprehend why war will not benefit the economy. The additional money spent on the war is money that will not be disbursed elsewhere. The government usually follows a policy of increasing taxes, increasing debt and an increased spending on arms and ammunitions instead of other important sectors in a manner to fund a war. Increasing the tax rats inevitably reduces the spending of the consumers hence resulting in reduced aggregate demand in the economy. Then again if government spending on social programs are reduced then it will result in the reduction of the benefits derived from those programs. The principle of increasing debt will result in the reduction of spending in the future or the increase in government taxes in addition to the interest payments in the meantime. A prime example of how the fallacy takes its form in the contemporary world is in the case of the United States who have waged war post the September 11, 2001, terror attacks by Al-Qaida. The attacks were meant to damage the United States, and they did, but to such extent that the terrorists probably would have never imagined. The then President George Bush's retaliation to the attacks compromised US's basic principles, undermined its economy and weakened its international relations. The subsequent attack on Afghanistan post 9/11 was somewhat justified, but what followed in the form of the military invasion and occupation of Iraq in 2003 was entirely unrelated despite how much Bush tried to establish a link. This war of choice became extremely expensive and bore a massive financial

burden on the US economy. When a conservative tally of the war expenses was calculated it figured to about \$5 trillion and moreover since then (Baker, 2007), the expenses have mounted further with almost half the troops returning eligible to receive some level of disability compensation. In estimating the future costs for healthcare the amount exceeds the \$600 billion mark. The social costs as well in terms of veteran suicides and family breakups are incalculable.

Even if Bush were to be forgiven for taking America, and much of the rest of the world to war under false pretences along with misrepresenting the cost of the misgivings there is no possible excuse for how he had chosen to finance it. This war 'on terror' was the first of its kind in history to be paid for entirely on credit. As bush lead America into war, with deficits already soaring high from his 2001 tax cut, he went a step further on to implement a highly criticized tax 'relief' for the wealthy in an attempt to win their support.

Today, the United States is focusing all efforts on unemployment and the deficit. Wherein both these threats to America's economy can, in no small measure be traced to the wars in Afghanistan and Iraq. The economic consequences of increased defence spending, together with the Bush tax cuts, is a prime reason why America went from a fiscal surplus to a fiscal deficit today. The wars have inevitably contributed to America's macroeconomic burden. The disruption in the Middle East has led to higher oil prices, forcing Americans to spend money on oil imports that they otherwise could have spent buying goods produced in the US. This

demonstrates the broken window fallacy wherein waging war has resulted in expenses for importing oil and has reduced the spending on domestic consumption thereby aggravating the economic slump in the United States. Interestingly the US Federal Reserve hid these drawbacks by famously engineering a Housing Bubble that led to a consumption boom. With real estate prices soaring and people using their houses as mortgages the economy was on a path to recovery but as soon as the housing bubble burst in 2008, America was in financial doldrums yet again with investing banking giants like Lehman Brothers and AIG in a condition of bankruptcy. In the late summer of 2008, the U. S. government committed up to \$200 billion to save Freddie Mac and Fannie Mae, two giant mortgage lenders from collapse who were also victims of the subprime mortgage disaster (US subprime mortgage crisis) The federal government seized control of these private, yet government-sponsored, enterprises and guaranteed \$100 billion in cash credits to each of them to prevent their bankruptcies. It will take years to overcome the excessive indebtedness and real-estate overhang that resulted. The deficits to which America's debt funded wars contributed so tremendously are now forcing the US to face the reality of budget constraints. America's military spending still equals that of the rest of the world combined, nearly two decades after the conclusion of the Cold War. The prime expenditures of the ' Global war on terrorism' were wasted on weapons that don't work against enemies that don't exist giving stress to the saying that it pays to think before acting. The biggest economic impact of the War on terror was how the extremely high defence spending led to the US Debt crisis. The war ensured that fewer funds were available to boost the country out of its condition of economic downtrend and with fewer jobs

created there was less tax revenue further enhancing the debt (Trotta, 2008) this high Debt levels became a crisis in 2011, where instead of cutting military spending the US government called for severely limiting Medicare benefits. This effectively resulted in the first ever downgrade of US debt by Standard and Poor (S&P) credit rating agency. In 2013, the Republicans refused to raise the debt ceiling, or fund the government leading to 16 day shutdown and global fears that the US would default.

It is often believed that wars and military spending surges are beneficial for the economy. This is not generally true in most standard economic models. In fact, most models show that military spending diverts resources from productive uses, such as consumption and investment, and ultimately retards economic growth and reduces employment. Military spending drains resources from the productive economy. For this reason, it will typically lead to slower economic growth, less investment, higher trade deficits, and fewer jobs. It is important that the economic costs of military spending, such as that associated with the war in Iraq, be recognized in assessing the policies being debated. While the economic costs may not be the primary factor in determining policy, it is important that the public understand the economic costs that they are likely to bear by a decision to engage in a war or any other major increase in military spending. The ' War on Terror' waged by America is a perfect example which substantiates how the broken window fallacy comes into existence in the contemporary world wherein the economic consequences of war are so deep rooted that even now and for many years to come the US economy is in a state of downtrend due to the vast and unnecessary amounts of military expenditure they incurred which

could have been utilized elsewhere for fostering the recovery of the United States.

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