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The Myth of Wartime Prosperity

by Thomas E. Woods, Jr.

Whenever an earthquake or a tornado causes great damage, some reporter somewhere claims that on net it will boost the local economy since the rebuilding effort will create jobs and increase business for local merchants. Similarly, whenever a war breaks out, the same reporter can be counted on to emphasize the economic stimulus it allegedly confers.

As if on cue, in May the *Washington Post* published an article headlined "Across America, War Means Jobs." Although it acknowledged that the matter wasn't quite so simple, the article nevertheless quoted a great many people who asserted that war was a boon for the economy. "If it wasn't for [Defense Department] contracting," said Brian Smith of Columbia Sewing Company, "we would not be here, and 200 people would be out of a job." Roanoke Mayor Betty Slay Ziglar was thrilled: "These people have grown up sewing in textile plants, and there are so few now. They were desperate to have jobs, and it's going to expand again. I'm so grateful." "The economy is always helped by war," appliance salesman Gary Gayer told the *Post*. "That's just a fact."

It is clear enough that war stimulates certain sectors of the economy. But it is logically and economically unjustified to equate that stimulus with prosperity for the American people as a whole. Ludwig von Mises summed up the correct position when he observed, "War prosperity is like the prosperity that an earthquake or a plague brings."

Frédéric Bastiat exposed the "broken window" fallacy in the mid-nineteenth century. A shop window broken by a man's "incorrigible son" is said to benefit the economy, since the company that fixes the window enjoys a "stimulus," which in turn is passed along to those with whom the window company does business. What this analysis overlooks is that the man with the broken window would have spent his money on other things if he had not needed to buy new glass. The "stimulus" that would have been bestowed on, say, the picture-frame store, where he could have spent his money, now never occurs because he had to replace his window. Had the window not been broken, the shopkeeper would have had a window and a frame. Now he has only a window.

The repair of the window is *what is seen*, and focusing on it leads poor logicians to conclude that the breakage was actually a boon. The lack of a picture frame *is not seen*, but is no less a consequence of the unfortunate incident.

The same kind of analysis can be fruitfully applied to war. The jobs created for the production of weapons and other military equipment, as well as the jobs in the armed forces, are paid for by taxing the private

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economy. Thus financing wartime activities diminishes private incomes—that is, the ability of Americans to buy the goods they need. And because people and capital goods are now producing war-related items and services, fewer are available to produce goods for consumer needs. In short, Americans have less money with which to buy fewer goods. How can this be anything other than economic retrogression?

There are countless other deleterious effects as well. In extreme cases, government rations certain crucial goods to ensure adequate supplies for the military. No definition of prosperity includes restricting the civilian population's ability to acquire goods. But even when outright rationing is not undertaken, government purchases nevertheless distort the economy. For example, large purchases of steel will lead to price increases, making it more difficult for private businesses that use steel to meet their competition in a global market. If the higher prices attract new steel producers, this new production comes at the cost of abandoning other industries, thus further skewing the economy in favor of the government's preferences over those of the consumer.

Some will object that military equipment is fundamentally different from other goods the government might buy, since it is necessary to protect the population against foreign enemies. But even if we assume this to be true, it is still the case that war itself does not create prosperity. Buried in the *Post* article was the amazing statistic that in real terms the cost of the Iraq war will surpass the American share of World War I. To put it mildly, that is a substantial drain on the private economy.

World War II and American Prosperity

Part of the reason that the prosperity-through-war myth persists is that most people have been taught that World War II lifted the United States out of the Great Depression and ushered in a period of unprecedented affluence. But the myth is no more valid for that conflict than for any other.

Historians make much of the substantial production and employment statistics compiled during World War II and triumphantly point to its great economic "stimulus." But most of this increase was due to the construction of armaments and military equipment, and payments to military personnel. This production was not geared toward producing things that ordinary people needed. From a purely economic point of view, the war made consumers worse off by diverting capital and other resources away from civilian production and toward the production of goods that no consumer would wish to purchase. Between 1943 and 1945, some two-fifths of the people who could work—including members of the armed forces, civilian employees of the armed forces, people who worked in the military-supply industries, and the unemployed—were not producing consumer goods or capital goods geared toward the production of consumer goods. That was not all, of course: the tax money from the remaining three-fifths went to fund military production and activities. All of this amounted to a dramatic *loss* of material wealth.*

Unemployment did virtually disappear. But it did so primarily because 11 million people were added to the armed forces, mostly by conscription. As Robert Higgs explains, "During the war the government pulled the equivalent of 22 percent of the prewar labor force into the armed forces. Voilà, the unemployment rate dropped to a very low level. No one needs a macroeconomic model to understand this event."

In the unhampered market, jobs are never in short supply. Since human wants are unlimited, more labor is always needed to produce more goods. The sick economy of the New Deal, however, could address the unemployment problem only by conscripting over a fifth of the labor force into the military.

Meanwhile, the average work week in manufacturing increased by seven hours

*See Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *Journal of Economic History*, March 1992, pp. 41–60; www.independent.org/newsroom/article.asp?id=138.

between 1940 and 1944, and by a full 50 percent in bituminous coal mining. And because of the demands of wartime, people found it more difficult, and sometimes even impossible, to acquire the goods they needed. No one could buy a new car, house, or major appliance, since the government had forbidden their production entirely. A great many other goods were either unavailable or difficult to obtain, from chocolate bars and sugar to meat, gasoline, and rubber tires.

As economist George Reisman writes in *Capitalism*, "People believed they were prosperous in World War II because they were piling up large amounts of unspendable income—in the form of paper money and government bonds. They confused this accumulation of paper assets with real wealth. Incredibly, most economic statisticians and historians make the same error when they measure the standard of living of World War II by the largely unspendable 'national income' of the period."

Common sense is right after all: death and destruction do not lead to prosperity. That should be obvious. But as George Orwell once said, "We have now sunk to a depth at which restatement of the obvious is the first duty of intelligent men." □