

**THE U.S.-ECONOMY
UNDER THE OBAMA PRESIDENCY -
*BEYOND MILITARY KEYNESIANISM?***

**A Commentary
After Barack Obama's Election
As President of the US**

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- A TENTATIVE ASSESSMENT -

Introduction

1.

After all the excitement over the election of Barack Obama as the US's first black president, the hard question needs to be posed: what options confront him as he gets prepared to lead a US economy which is thoroughly militarized? Below, I wish to list the various positions the new US government may adopt in relation to the military budget and the US military sector, based on the experience which the US has gathered over the last thirty years. These experiences include two business cycles, during which the US government relied heavily on *military Keynesianism* for business cycle regulation, i.e. the Reagan period of the 1980s, and the Bush Jr. period of the last eight years. They also include one period when the US tried to partly move away from *military Keynesianism* but continued to use military allocations to generate multiplier effects: the 8 years of the Clinton administration in the 1990s. A comparative analysis of the options which successive US governments have pursued since the decade of the 1980s helps us, perhaps, visualize to what extent we may realistically expect to see a reduction in the dominance of the military industrial complex over the US economy.

A.

Military Keynesianism over the Past 30 years – Brief Summing Up

2.

The first historical option which may be mentioned, though it obviously is the most *unlikely* to be chosen by the future US president, is the option of a return to the Reagan period of the 1980s. During the 1980s, to recall, the US government vigorously pursued *military Keynesianism*, combining budget deficits with high interest rates, and with importation of large amounts of foreign capital to finance the deficit. This policy was 'effective' in pushing the former Soviet Union towards the brink, but at the same time could be sustained for only a very short period of time. The business cycle started in 1982. By October 1987, in just five years' time, the economy had already ended up in serious trouble, as was revealed by the then *crash* on the New York Stock Exchange. Thus, the policy mix employed by the Reagan government presumably towards business cycle regulation itself resulted in a periodic crisis, meaning that increased reliance on the production of arms, of 'social waste', far from helping to sustain social accumulation, contributed to unleashing a new recession. In view of this, neither the Clinton government of the 1990s, nor the Bush Jr. administration of the last eight years, has followed the pattern of policymaking of the 1980s *in toto*. Both have significantly diverged from the *military Keynesianism* that was pursued by Reagan's Republican administration of the 1980s.

3.

The second hypothetical option which I propose to discuss, is the option chosen by the Republican Bush Jr. government over the last 8 years. It entailed restoration of *military Keynesianism* in a new form. Under the Bush Jr. government, a budget deficit was once again created, largely caused by expansion of the military budget. If we restrict our calculations to the official figures for allocations as stated in the annual defense budget, combined with the

special allocations for the wars in the Middle East, the budget rose from roughly 280 Billion dollars in the late 1990s – to 700 Billion today. Yet *military Keynesianism* this time has not been implemented the way it was shaped in the Reagan period. For the budget deficit was during the first few years combined with a government policy of maintaining relatively low interest rates. Moreover, whereas the policy orientation of the 1980s, which allowed for strikingly high profits by armament corporations, resulted in the shifting of capital away from civilian sectors and in mergers which helped civilian corporations to gain a foothold in the military sector, - the military sector of the US economy then was not much internationalized. Nor did the promotion of exports via transatlantic capital concentration exist then. Both latter ingredients are new ingredients, which potentially can be delinked from the main thrust of ‘full fledged’ *military Keynesianism*.

4.

The third option that an Obama administration could, and is more likely to pursue, is the policy mix of the Clinton years, the intervening years of the Democratic presidency. To recall: during the 1990s, the business cycle was not primarily driven by the government’s military allocations. The defense budget in the given period continued to be extraordinarily high, if spending levels be compared to the levels of spending of other major states. Yet the role of *driving* the economy during this period was fulfilled by the production of information technology, by the so called ‘new economy’. Thus, there was a retreat in the real sense, in the sense of reduced reliance on military allocations as leverage for business cycle regulation. However, we need to keep in mind that several of the policy options pursued by the Bush Jr. government over the last eight years were developed in course of the Clinton government’s time period. This is true on the one hand for the choice to push military corporations towards increased reliance on the exportation of weaponry, which policy the Clinton government took over from Bush sr. who staged the 1991 Gulf war. The same is also true for the policy of transatlantic cooperation, which the Clinton administration initiated after pushing hard for internal consolidation, i.e. for concentration of power inside the US military sector. Whereas transatlantic alliance building between American and European arms’ producers was reportedly launched as policy idea in 1998, - it has largely been implemented during the period of the Bush Jr. administration.

5.

Now, to take my analysis forward, it is here necessary to differentiate between two types of *military Keynesianism*. One of these types was implemented during the Reagan and Bush Jr. periods, the other one was chosen by the Clinton administration which covered the intervening 8 years between the Reagan- and Bush Jr.-rules. For on the one hand, we can speak of a *military Keynesianism* in a partial sense, namely in those cases where a government uses military-related purchases in order to stimulate investments in the military and civilian sectors of the economy (‘multiplier effect’) , but does not employ these purchases as principal mechanism to stimulate aggregate demand. This is the case of a ‘partial’ or ‘secondary’ *military Keynesianism*, such as was employed during the Clinton years. On the other hand, there is the case of a ‘full fledged’ *military Keynesianism*, where a government does not just rely on military allocations in order to stimulate investments in military and civilian sectors, but employs these military allocations as principal leverage for business cycle regulation. This is, of course, the case of *military Keynesianism*, as it was implemented during the Reagan and Bush Jr. eras. In both differentiated cases, a capitalist government does aim at generating macro-economic effects.

B.

The US Economy and Militarism in the Future

6.

Let's then initiate a discussion regarding the likely course of action of the Obama administration, that will take office in a few months' time. The new tenure starts at a time when the US economy has once again entered a periodic crisis, a recession, and when it is obvious that the policy mix of the outgoing Bush Jr. government has become quite untenable. The given policies have resulted not only in another serious 'overproduction' crisis, as in the past, - which is reflected for instance in the losses incurred by American automobile corporations in 2008. The crisis was preceded, and is accompanied by, a financial crisis which to all accounts is of a specially dangerous kind. Further, the US's longstanding debt problem - in the form of rising public debts in combination with rising external debts - by now has escalated far beyond the level which this debt problem had reached when Reagan left office. In spite of a temporary reduction in these debts during the Clinton era, - the debt problem of the US has now reached proportions it never obtained in the past. With a public debt of some *9 Trillion* (Thousand Billion) US Dollars, and with an external debt of perhaps *3 Trillion* US Dollars, the Obama administration will be forced to make major adjustments in policymaking, if it wishes to restore the US's imperial leadership, as Barack Obama states he intends to do.

7.

Further, Obama's election program includes both tax relief for families who have an annual income that is less than 250 thousand Dollar, - and improvements in social services provided by the US state. These programmatic propositions demand financial resources, - resources which he reportedly hopes to collect via increased taxation on corporate revenues (a rise in corporate profits, taxation of oil corporations). However, not unlikely Obama will also opt in favor of a *relative* reduction in military allocations (which now amount to over *1 trillion* US Dollars, including numerous hidden expenditures), so as to free money resources towards implementation of his agenda of civilian spending and to reduce the budget deficit (now at 438 Billion US Dollars). Cancellation of war plans against Iran, along with a withdrawal of US troops from or reduction of the US military presence in Iraq, would no doubt contribute to freeing a substantial amount of the government's financial resources. To what extent exactly the future administration will bring down military expenditures would seem to partly depend on whether the shift away from the waging of war in the Middle East is a *determined* shift. Expansion or continuation of the war in Afghanistan, and the further maintenance of troops in Iraq, would only limit the scope for adjustments, for scaling down 'defense' expenditures. However, a relative reduction in the military budget's size, in line with what Clinton did during the decade of the 1990s, seems to be imposed by the realities which the US economy faces today.

8.

The above data and estimates lead me to make an initial assessment as to how *military Keynesianism* may potentially be structured in Obama's governing period. Previously, I have differentiated between 'full fledged' and 'partial/secondary' military *Keynesianism*. What possibly will happen is that the second mentioned option, that of 'secondary' *military Keynesianism*, will be combined with a civilian form of *Keynesianism*, such as through the implementation of social and infrastructural programs. Both forms of *Keynesianism* would aim at generating *multiplier* effects from US government purchases and allocations for the economy as a whole; both would have a macro-economic aim. Whereas the last mentioned form of *Keynesianism*, the civilian form, would target investments in civilian sectors alone, - the first mentioned form, the military one, would target investments in both the military and

the civilian sectors of the US economy. Macro-economic effects could be achieved through the combination of both, as long as the multiplier effects are sufficiently large in each case. In any case, it is important to note that the issue of *military Keynesianism* would not durably have been solved. Military allocations would merely have been relegated from a primary to a 'secondary' position with regard to regulation of the US's business cycle.

9.

Yet even if the future administration succeeds in implementing a partial shift, there will be several elements, aspects of policymaking shared by the (later) Clinton administration and the Bush Jr. administration, which likely will be continued. For these policy elements are to some extent independent from the implementation of *military Keynesianism* in the full fledged sense. These elements after all were included in the policies of past US governments, precisely in order to guard against the danger that the US military industrial complex be undermined or weakened via military-driven business cycle regulation. One of these elements is the policy of transnational alliance building, aimed at ensuring a hegemonic position for the US's military sector over the military sectors of other imperialist countries/blocs. In consequence of this particular policy, all the five giant corporations of the US military sector (Lockheed Martin, Boeing, Raytheon, Northrop-Grumman and General Dynamics) have built joint business ventures or have otherwise gone for capital concentration with European armament corporations. In the name of a new era of peace and international cooperation, the Obama administration will likely want to ensure the continued international hegemony for the US's military sector, via the given type of transatlantic alliance-building, between US and European military corporations.

10.

The second common element in the policy of the Clinton and the Bush Jr. administration that will likely be continued, is the vigorous promotion of exports by US military corporations. Such exports will be channelized both towards other Northern powers, and towards countries of the world's global South. In the past, in particular since the late sixties of the previous century, - successive US administrations have regularly sought to employ weapons' exports as a so called 'replacement' strategy, as a strategy aimed at protecting the production capacity of armament corporations in periods when the state needed to (temporarily) scale down its purchases of arms. During the governing period of Bush Jr., the growth in arms' exports has been very successful in the eyes of the US Pentagon. Witness the euphoric statements made in the *Annual Industrial Capability Report* for 2006. Examples of the way in which the scope for arms' exports has meanwhile been expanded are, for instance: the well known *Joint Strike Fighter* (JSF) program for construction of a new military plane; the purchases by the British government of army vehicles produced by the Boeing/Thales (US/European) combine; and the *US-India nuclear deal* with its backside of expanded arms' sales by US military corporations to India. The drive for exports is not likely to decrease under a new Democratic presidency. Thus, an understanding of the economic role of arms' exports will be critically important towards assessing what role militarism will play during a prolonged recession, or during a future new business cycle of the US.

11.

On the basis of the above observations it is possible to *sharpen* my analysis regarding the possible significance of *military Keynesianism* in the new governing period of the US. Previously, I have indicated that we may witness a shift away from 'full fledged' towards a 'secondary' form of *military Keynesianism*, and towards a situation where the US government relies simultaneously on *civilian* and *military Keynesianism*. So far, I have been speaking primarily about the US's domestic economy, and have largely ignored the impact of US

policy choices for other economies of the world. For Europe, in particular, it is important to keep in mind, that the constant push in favor of transatlantic alliance building, in favor of the formation of joint ventures and other forms of cooperation between US and European armament corporations, may well strengthen 'secondary' *military Keynesianism* as practiced by Europe's most powerful governments. Thus, not only is promotion of multiplier effects via military allocations set to persist in the US, - armament purchases by European governments of weaponry built by US corporations or US/European combines would add to generating such multiplier effects in both the US and in Europe. In other words, we may not see the disappearance of military Keynesianism under the Obama presidency, but even an expansion in the application of this type of Keynesianism - through promotion of equivalent practices by European governments.

Concluding Note

12.

The above analysis underscores the need for a more precise analysis regarding the structuring of US military-economic policymaking, beyond the broadest statements regarding *military Keynesianism* and regarding the exceptionally high level of US arms' expenditures. Throughout the period of history when US rulers have relied on military allocations to undertake macro-economic policymaking, i.e. since World War Two, - they have learnt to employ a variety of policy mixes, including a full fledged *military Keynesianism* that is identifiably anchored in ideas of John Maynard Keynes, such as deficit spending and stimulation of aggregate demand. However, in the course of defending its position as the world's hegemonic power, the US has also and alongside this used various other Keynesian devises which do not aim at business cycle regulation, but may surely be termed macro-economic policy devises borrowed from Keynes. Clearly, the experience of the recent past brings out well, that it is crucially important to identify these devises, precisely because they can both be combined with full fledged military Keynesianism, but can equally well be implemented in combination with a 'secondary' form of military Keynesianism. Now that the US is going to re-orient itself away from the policies of the Bush Jr. era, - it is important that the policies which US governments have pursued during the past 30 years, be discussed in depth.

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