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Military Spending
Box: 16

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Lack of U.S. Will Isn't Economy's Fault

By Herbert Stein

One of the favorite themes of pundits these days is that America is losing hegemony because of its economic weakness. (Hegemony, pronounced *heh-JEM-a-ne*, means leadership or dominance, especially that of one state or nation over others. If you can't say hegemony you can't play in this league.) The U.S. is being analogized to Imperial Rome, Imperial Spain and Imperial Britain, all of which lost world leadership or dominance because of economic decline.

The most tangible of the links between our alleged economic decline and our loss of hegemony is found in our inability to carry out Mr. Reagan's defense program. Thus, Flora Lewis reported in the New York Times this month that "a number of European opinion and policy makers are convinced that the U.S. will draw back from its commitment to the defense of Europe, if only for budget reasons, no matter what Washington pledges." Some see our failing ability to lead in nonmilitary fields as well. We are said to be losing our ability to get the rest of the world to accept our ideas of the way the world should be organized economically, for example. The main evidences of our economic weakness usually cited are in the budget deficit, the trade deficit, the foreign debt and the declining dollar.

A Misleading Argument

This argument is misguided and misleading. I could give reasons for thinking that America is in decline. I might point to functional illiteracy, drug abuse, family instability and other psychological or moral problems. In a sour mood I might compare the Federalist Papers or the Lincoln-Douglas debates with the TV debates among presidential candidates as evidence of the decline of America. But the last place where I can see the decline of America is in the economy.

The economics of the defense budget is so obvious that one would be embarrassed to repeat it, if it were not so regularly neglected. We are now spending about 7% of the gross national product on defense. During the period of the defense buildup—since 1979—annual defense expenditures in 1982 dollars have increased by $100 billion. In the same period, personal-consumption expenditures increased $500 billion. Real per-capita consumption expenditures rose 15%, or 1.8% a year.

If defense expenditures were now in line with President Reagan's earlier program, and if all the additional resources came out of consumption, real per-capita consumption would now be 13.4% higher than in 1979, and the annual increase would have been 1.6% a year. That additional two-tenths of 1% in per-capita consumption is what we have gotten in return for the cuts in military personnel and equipment that we are now experiencing. I doubt that many people are capable of telling the difference between a 1.6% and a 1.8% rise in per-capita consumption. Certainly inability to forgo this two-tenths of 1% does not really require this defense cutback and weakening of American leadership.

Of course, when people say our ability to maintain defense forces is limited by economics, they are not thinking about the GNP or total consumption; they are thinking about the budget deficit. But that is simply the wrong way to look at the matter. Anything we can afford in real terms, out of the GNP and consumption, we can finance in the budget—if we want to.

To say that the budget keeps us from having a larger defense program only means that we do not want to cut the transfer payments or raise the taxes that would reduce per-capita personal consumption in 1987 from $12,200 (in 1987 dollars) to $12,000. And it is not as if that would require an extraordinary amount of taxation, if we chose to do it that way. The U.S. is the most lightly taxed of all the OECD countries, except for Japan, and Japan is close to us in that. Federal taxes in the U.S. (excluding social insurance contributions) are lower now relative to GNP than they have been at any time between 1942 and 1982, except for the recession year 1975-76. It is not the economic resources that are lacking; it is the will.

The trade deficit, the foreign debt and all that, are not signs of weakness either—as the president correctly pointed out in his Cleveland speech recently. We have the trade deficit and the foreign debt because a lot of foreigners, now including a lot of foreign central banks, would rather invest their money here than at home. We don't need the trade deficit and the capital inflow to finance that small fraction of our resource use that is devoted to national security and international leadership. We can meet all of our needs and much more without them.

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As for the decline of the dollar, the main victims of that have been European and Japanese investors who acquired dollar assets when the dollar was much higher. We can chalk that up as their contribution to the costs of the U.S. defense program that is defending them as well as us. The real significance of the declining dollar, in terms of the real resources available to us, is trivial. To think that the hegemony of the U.S. rises and falls with the yen price of the dollar is just silly. Gibbon never quotes the exchange rate between Rome and Thessalonica.

Insofar as economic resources provide or limit "hegemony," I suppose it is relative resources that count. And what should count the most would be our resources relative to those of our potential adversary. And despite the recent Gorbachev festival in Washington, I suppose that would be agreed to be the Soviet Union. But our national output was already far ahead of the Soviets' 10 years ago and has risen faster than theirs in the past 10 years. If economics underlies hegemony, it should be the U.S.S.R. that is the leading example of the fact that a little will can substitute for a lot of GNP as far as leadership and dominance is concerned.

Talk about the relative economic decline of America often refers to a comparison of the U.S. with the other non-communist industrial countries. But there is not much to that either. National output has risen faster in the U.S. than in Europe in the past 10 years. The case people have in mind is Japan, where output has been rising faster than in the U.S. But the excess of Japanese growth over ours is diminishing. In 1987, real per-capita output in Japan was about 70% of ours, and their population about half ours. And the Japanese show no inclination to "wrest" leadership from us. Indeed, the problem has been to get them to act up to the responsibilities that their economic capacity suggests they should have.

This brings up a key question. If the U.S. is the leader of a team, is it a stronger leader if the other members of the team are weak than if they are strong? The answer depends in part on whether the other members share our goals or whether they have to be bribed or coerced into cooperation. As I see it, our "leadership" in the past 40 years, at least in economic matters, has not been coercive and has not been used to induce our allies to do what they did not want to do. Our leadership has been more of the Little Red Hen variety than of the hegemonic variety.

Bearing Our Burdens

At Bretton Woods we undertook the burden of providing a stable international currency. We mainly financed economic assistance to the underdeveloped world. We kept our markets open while the rest of the world was slowly crawling toward liberalization. We encouraged the formation of the European Economic Community, even though that might have been to our commercial disadvantage. Our economic strength has not allowed us to dominate our allies: It has permitted, and in a sense required, us to bear burdens that others did not. And if we would now like others to take on more of these burdens it is not because our weakness makes that necessary but because their strength makes that possible and fair.

How little economic limitations have to do with leadership in the world is shown by the cases of Afghanistan and Nicaragua. We are apparently able to project enough power halfway around the world to assist Afghan freedom fighters and make the Soviets willing to consider withdrawal. But we are unable to project similar power in our own back yard in Nicaragua. That is not because our economic resources are adequate for Afghanistan but inadequate for Nicaragua. It is simply because American national will is present in one case and absent in the other.

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