How Have Wars Impacted the US Economy?
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Increased spending on the military in war time can generate positive economic benefits through the reduction of unemployment and through economic growth. While recognizing these benefits, one must also look at the cost and consequences of military spending on wars. After looking at the US war economies, beginning with World War I, we can see that the good results of military spending on wars were overshadow by negative economic costs. While the temporary effect of increased military spending is linked to increases in economic growth, negative effects show up either right away or later on, through increased inflation, budget deficits, and increased taxes and in lower consumer demand. An Institute for Economics and Peace (2012) suggests that economic factors of war should be taken into account, as the economic considerations help to determine a society's security.

World War I

The US economy was in a recession when the war began. The purchasing of US goods by countries in Europe began an economic explosion that lasted from 1914 to 1918. According to an Institute for Economics and Peace study (2012), between 1914 and 1918, the military and government payrolls grew by over 3 million people. On the whole, unemployment fell from 7.9 percent to 1.4 percent during the war. Per capita income increased by seven percent to $377 in the private sector during the war.

The Institute for Economics and Peace study (2012) puts the total cost of World War I at roughly $32 billion. This translates into 52 percent of the gross national product. On the down side, taxes remained higher than pre-war rates. The additional money was used to service interest on the national debt and for benefits to veterans. A $1.7 billion deficit was incurred after the government nationalized the railroads in 1917. The rise in the stock market in the spring of 1918 did not counter the rise in inflation that happened as a result of the deficit (Rockoff 2008).

World War II

Using data from the Institute for Economics and Peace study (2012), it is obvious that government spending drove growth during the war era. The war was primarily funded through an increase of government debt and increase in taxes. Before April 1942, unemployment was 10.3 percent. Unemployment numbers dropped to 1.9 percent by the end of the war. After June 1946, it jumped to 28.0 percent. Tassava (2008) writes, "In 1941, the national debt of the United States was $49 billion. At the end of the war, in 1945, the debt rose to $258 billion. The war spending contributed to a massive public debt."

Korean War

According to a report for the Congressional Research Service by Stephen Daggett (2010), the cost of the Korean War was $30 billion. The annual spending on the war was equivalent to 14.1

percent of GDP during the last year of the war. In order to raise money, the government raised taxes by a 1.3 percent of GDP. More increases of individual and corporate taxes followed in 1951. The deficits produced equaled 6.5 percent of taxes each month during the war period. The Institute for Economics and Peace study (2012) indicates that the economy had GDP growth in excess of 11 percent in 1951 with inflation growing to 5.3 percent in 1951. The per capita personal income grew during the war to $1,501.00. Price and wage controls were instituted by the government as it tried to lower inflation. There was a short recession in 1954 in spite of continued military spending. As a result, unemployment rate grew to 6 percent.

Vietnam War

Daggett (2010) writes, "The military cost of the war as a percentage of GDP was 9.5 percent in the peak spending year of 1968." The Vietnam War had an enduring economic effect as a result of greater levels of government spending. This spending was backed by increases in taxes. The budget deficit increase was caused by both military and non-military spending on the war. Additionally, the monetary policy during this period led to increased inflation. Consumer demand was adversely affected by both increasing unemployment and increasing inflation. Government attempts to mitigate inflation with price and wage controls kept investment down through most of the 1970s. During the Vietnam War the national debt increased by $146 billion to $23.4 billion. The average per capita income increased to $7,564 (Daggett (2010).

Cold War

1986 was the peak of military spending. It reached 6.2 percent of GDP. Government efforts at the start of this period were the reduction of inflation. Inflation was reduced by 1983, but at the cost of economic growth. A sharp recession ensued in 1980. By 1983, inflation was under control but unemployment was at 10.8 percent. Unemployment stayed above 10 percent for half of the year. According to Higgs (1994), "The US budget deficit increased from 2.6 percent of GDP in 1981 to 6 percent of GDP in 1983. Subsequently, the United States had budget deficits until 1998. Per capita income had risen to $15,757."

Iraq and Afghanistan Wars

The Iraq and Afghanistan Wars started after weak economic conditions and the recession of 2001 to 2003 Iraq war was 4.3 percent of GDP in 2008. The US involvement in the Afghanistan war grew slowly. In 2010 the cost of the Afghanistan war was $297 billion or approximately 2 percent of GDP. Combined wars expenditures, comes to 6.3 percent of GDP (Teslik, 2008). Unlike previous conflicts, debt entirely financed the Iraq and Afghanistan wars. While inflation was low due to weak economic conditions, a large budget deficit loomed. The Iraq and Afghanistan wars will likely cost the US over $4 trillion dollars. The Institute for Economics and Peace study (2012) determined that the amount of debt incurred to date will have a significant impact on the US economy well into the future. The study suggests that the US economy has suffered immeasurably because of the wars in Iraq and Afghanistan.

Conclusion
Military spending can be an important source of positive growth during slow economic periods. Military spending often leads to the development of new technologies and jobs. Unemployment was ended and confidence was rebuilt during World War II due to the huge spending. Consumer spending and savings declined during this period though. A positive effect of spending was the end of excess capacity and the elevated levels of unemployment. However, examination of the economic components of GDP during World War I and in other war periods examined in the study, indicate that increased military spending had adverse economic effects. The US has funded its wars by debt, taxation or inflation. In each case, taxpayers have either directly or indirectly paid the price. Other negative effects include significant budget deficits, increased taxes and inflation. The overall impact of wars on the US economy, no matter how the war is financed, tends to be negative. While some wars may be necessary to fight, the negative economic of war should be carefully considered by the government. The economic impact of conflict should be an integral component of future war planning.

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