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# Aggregate Demand and Defensive Spending in the United States from the Second World War to the End of the Twentieth Century

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Aggregate Demand and Defensive Spending in the United States  
from the Second World War to the End of the Twentieth Century

In his 2011 book, *The Better Angels of Our Nature*, Steven Pinker, a noted professor of psychology at Harvard University, puts forth the proposition that, over the course of civilized history, the incidence of aggression has declined, and that we, due to this trend, are presently living in the most peaceable period in human history (Pinker, p. xxi.). Pinker makes many compelling arguments, citing numerous statistics, recounting the rise of rationality in modern times, and specifying the psychological underpinnings of the trends he identifies (Pinker, p. xxiii.). Despite the optimism these arguments engender, if society is to be fully purged of violence, it will be necessary to identify and modify the values and institutions which sustain it. This is especially true on the level of the state, defined by the German sociologist Max Weber as an institution which holds a monopoly on the legitimate use of aggression (Pinker, p. 158). One of the most egregious cancers ailing modern society is the militarism of American foreign policy (*The Good Society*, p. 97). The interventionist outlook can be traced back to the Second World War, which taught economists that high military spending can be advantageous to capitalism.

The advantages of a high defensive budget were first described by John Maynard Keynes (appointed Lord Keynes in 1942), the foremost theorist of macroeconomic policy of the first half of the twentieth century. Keynes proposed his policies following the onset of rampant and severe depression in the United States, United Kingdom, and other Western countries during the 1930s (Hunt and Lautzenheiser, p. 402). The Depression was the direct result of the barbaric conflicts and unchecked cycles inherent to uninhibited capitalism, convincing many that the

spheres of production and consumption could not be fully trusted to rule themselves. Keynes attributed the frequency of depressions in the capitalist mode of production to a disproportion between heightened levels of saving, on the one hand, and lowered rates of investment, on the other (Hunt and Lautzenheiser, p. 411). The high levels of saving reduced the aggregate demand of the economy, engendering a surplus in the production of goods for consumption (Hunt and Lautzenheiser, p. 411). Thus, businesses were compelled to lower production, reduce wages, and lay off workers in order to keep a tight profit (Hunt and Lautzenheiser, p. 412). In the words of John Kenneth Galbraith, “A new economic equilibrium was thus established, one with a lot of people out of work -- the underemployment equilibrium” (*A Life in Our Times*, p. 65). The structure of capitalism showed its deficiencies, rotted from its interior by those very forces of supply and demand that erected it.

The cure for the depression, Keynes believed, was for the government to raise aggregate demand by spending money (Hunt and Lautzenheiser, p. 412). Keynes thought it possible for the government to play a benevolent role in the economy, where others had suggested that only the forces of free market capitalism could rule effectively. The perfect opportunity to put Keynes's policies to the test arrived with the beginning of the involvement of the United States in the Second World War. Just as Keynes predicted, as the call went out for workers in the production of armaments, the “underemployment equilibrium” soon disappeared, and was substituted with a nagging deficiency in the number of workers (Gordon, p. 358). While the Second World War was being fought, the United States produced 296,400 airplanes; 86,330 tanks; 64,546 landing craft; 6,500 battleships, subs, and other naval vessels; 3,500,000 jeeps, trucks, and vehicles; 53,000,000 tons of cargo vessels; 12,000,000 rifles, carbines, and machine guns; 47,000,000 tons of shells, in addition to the countless numbers of other items required when fighting a war

(Gordon, p. 353). Germany and Japan, confronted with the full productive capacity of the American economy, didn't stand a chance. It appeared that Keynes's theories were vindicated, and a strongly Keynesian orthodoxy arose among American economists (Hunt and Lautzenheiser, p. 415).

The United States was left with a problem, however. In order to maintain the appropriate level of aggregate demand through a high defensive budget, the government was pressured to justify its financial decisions to the taxpayer (Hunt and Lautzenheiser, p. 420). Thus, like Atlas resting the sky upon his mighty shoulders, the government was forced to adopt a disagreeable position to uphold its commitment. The United States was compelled to be an aggressive power, perpetually seeking threats to justify military intervention. Happily enough, following the Second World War, the U.S.S.R. positioned Marxist-Leninist governments to uphold its power in the Eastern European countries of Romania, Poland, Czechoslovakia, Hungary, and Bulgaria. Through the skillful use of propaganda, the government of the United States convinced its people -- and, at times, perhaps, even itself -- that the latter half of the twentieth century was defined by the struggle between capitalism and communism, two ideologies, two narratives of history, both convinced of their own righteousness, and both willing to spend billions of dollars to defend their interests throughout the world, wherever the opposition decided to strike.

This retelling of the late twentieth century may sound rather disingenuous, for it denies that ideology or belief played any substantive role in America's involvement in the Cold War, which cannot be entirely true. It is not within the scope of this paper to judge how severe or persistent paranoia about the rise of communist ideology proved to be in the decision of the United States to engage in the proxy wars of the late twentieth century. It is merely our concern to suggest that ideology was not the only force that made itself felt in these decisions, to peer

intently behind the drapery of rhetoric, to better see the true motor forces driving the movements of men and governments. The influence of capitalism is persistent at every level of the society in which it is the entrenched mode of production, and the egocentric instincts which it marshals are common to every person. Thus, it is not illogical to hold that the crimes and follies of the late twentieth century were prompted by greed, as well as fear. However, the time for heedless belligerence and blind jingoism is over. It is now the duty of everyone to turn censorious eyes onto the policies and decisions of their government, and to energetically check the corruption engendered by avarice.

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