The Peace Dividend Revisited – Again
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After every war since at least World War II we have had a peace dividend as the surge in spending for the war is rolled back. In this paper I will discuss attitudes towards, experiences with, and prospects for a post Iraq War peace dividend.

Generally speaking, if you are one of those engaged in making policy choices in Washington, DC, the idea of a peace dividend is either a refreshing reminder of normal times, or a recurring pain in the neck. It depends upon your policy preferences. If you foresee the winding down or ending of a military conflict or believe that military spending generally is too high, you probably want to reduce the defense budget and shift the resources elsewhere. The resources that would thereby be available for other uses would be the peace dividend. On the other hand, if you support continuing military spending at current or increasing levels, for whatever reason, there can be no peace dividend to declare.

Is there a peace dividend in our future? It may sound counterintuitive, but the best time to think – again – about a peace dividend is precisely when military spending is rising, as it does in war time. Historically, debates about the peace dividend, on a substantive level if not semantically, came about as wars ended or as people began anticipating their end. In the World War II period there were deep concerns about whether the economy could handle the coming massive demobilization. As it turned out, postwar economic adjustment went very well with the help of government programs such as the GI Bill and the Marshall plan and the foundation of public investment programs that was built in the Roosevelt administration.. In fact, the high employment economy did not depend on military spending as was thought by some. Once the resources diverted for the war were put into non-military use as a peace dividend the economy functioned very well. But the phrase "peace dividend" at the time referred narrowly to private corporations who would benefit from the end of hostilities and whose stock prices were likely to rise.

By the late 1960s economists were using the term in a broader sense. In 1968, the annual report of President Johnson's Council of Economic Advisors considered the conditions that would likely prevail after the war in Vietnam ended. The report estimated that defense spending could decline by $15 billion in the first 18 months of peace – about 15 per cent of defense spending, and that the economy could grow during this period by another $15 billion. There could thus be, according to the report, a peace dividend of $30 billion.

As the war dragged on into the Nixon Administration the possibility of a peace dividend was vigorously debated. In the process some confusion was created about the idea. White House spokespersons tried to lower expectations of large new budgetary resources becoming available for new domestic programs. At the same time, President Nixon was advancing several large new domestic programs. At one point, as spending for Vietnam declined in the early 1970s, Nixon's aide John Ehrlichman said one should not expect significant sums to be available for spending at home if the war should end soon because "That process has been going on for the entire four-year period". Of course, such statements miss the point that a peace dividend occurs whenever resources are shifted from military to non-military uses, as occurred during the first several years of the Nixon Administration when defense spending was curtailed.

It will be recalled that the Vietnam conflict took place while the Cold War between the US and the former Soviet Union was in progress. There were those who argued that military spending should not be reduced and should even be increased when the Vietnam War ended because of the overarching requirements of the Cold War. When the Strategic Arms Limitations Talks (SALT) were successfully completed during this period, and it was hoped that spending for nuclear weapons would be reduced, a similar argument was made about such spending. That is, it was asserted that just because the two superpowers had agreed to place a cap on major aspects of their nuclear weapons programs, there was no reason to reduce the strategic weapons portion of the defense budget. It was asserted by some that the agreement was all the more reason to increase defense spending in order to prevent the Soviets from overtaking us with new strategic weapons.

It took Art Buchwald to write about the logical extension of this illogical reasoning. In a 1972 newspaper column Buchwald with his usual tongue in cheek wrote about a conversation he had with an imaginary acquaintance, one Hannibal Stone, president of the Association for a Permanent Military Industrial Complex, soon after Nixon returned from the Soviet Union where an arms control agreement was discussed.

To his surprise Hannibal was ecstatic. I expected you to be depressed because Nixon and the Russians are talking about disarmament, Buchwald says. Best thing that could happen to us, says Hannibal. You mean, Buchwald says, we aren't going to save any money with the agreements? I was hoping for a peace dividend. "Au contraire," says Hannibal. We'll have to spend more money for defense than ever.

Hannibal explained: They have agreed to limit anti-ballistic missiles, and to freeze land based and submarine based ICBMs. "This means we will have to work twice as hard to develop new weapons that aren't covered by the arms agreements. Now we can come up with any wild idea, and Congress will have to buy it." Buchwald reflects upon the meaning of this. "President Eisenhower warned me about people like you," he intones.[1]

Nevertheless, military spending was reduced by quite a lot from 1968, the peak year of spending for Vietnam, through 1976. In real terms, the spending went from $510 billion to $326 billion, or just over one-third, in that period (FY 2005 dollars). Not until the end of the Cold War did defense decline so sharply. During the immediate Cold War period, military spending went from $490.7 billion in 1989 when Cold War spending peaked, to $338.4 billion in 1998, or by about one-third (FY 2007 dollars).[2]

There were two important policy debates as the post Cold War cutbacks began. One concerned economic policy, the other was about military policy. The economic debate was whether and to what extent the government should assist in the transition from a Cold War to a peacetime economy. The conservative view was that the economy could absorb the modest industrial transition that was anticipated without government interference. Others urged a more hands on government policy to help former defense workers, defense firms and communities, which were dependent upon defense spending, adjust to new conditions and to make optimal use of the peace dividend. There was an attempt in the first Clinton Administration to put in place something like a post war adjustment plan with programs such as the technology reinvestment project (TRP). Under TRP grants were made for government and industry partnerships to foster dual use technologies that would have both defense and civilian uses. Such efforts were opposed by the major defense industries who successfully lobbied for the right to further concentrate the industrial base through acquisitions and mergers that would not be considered anti-trust violations, and for subsidies to increase military exports.[3]

The military policy issue was how to adjust policies and programs including force levels and structure to the demise of the Soviet Union, and how far to downsize. President Clinton's first Defense Secretary, Les Aspin, initially argued that radical changes in defense policies and programs were needed if the public was to get the peace dividend it deserved. Clinton seemed to support this approach but Aspin eventually took a more traditional approach and failed to recommend either radical or major changes Aspin's successors, William Perry and William Cohen, also had traditional approaches to policies and programs, but they were willing to reduce spending. At the end of the 1990s, US defense forces were smaller but similar in composition to those that existed in the last years of the Cold War.

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[1] Washington Post, June 6, 1972, Art Buchwald, 'It's the Best Thing That Could Happen To Us.'
[2] Center for Strategic and Budgetary Assessments, Table, National Defense (050(Outlays, FY 1946-FY 2011 (April 2006)
[3] Ann Markusen (ed.),America's Peace Dividend, Columbia International Affairs Online, (2000).

For all that, from the late 1980s to the late 1990s defense spending was substantially reduced. The peace dividend that ensued, according to Lawrence R. Klein, "should be considered the major economic achievement of the 20^{th} century."[4] Klein supports this conclusion with the following analysis:

First, he makes the point that economic activity is temporarily distorted during wartime by the use of resources for destructive purposes and by the opportunity costs of not investing in goods and services for the future, an observation that is not original to Klein, as he acknowledges. Adam Smith described it in the Wealth of Nations with regard to England's wars. When the conflict is finally resolved the public expects a peace dividend. A peace dividend was put to good use after World War II but it was short lives as resources were redirected to the demands of the Cold War and the Korean War.

Klein compares this experience with postwar Japan. It enjoyed a "sustained Peace Dividend" that lasted for more than three decades after World War II. He attributes this in large measure to the fact that during the period of high growth Japan followed an unspoken rule that military expenditures should not exceed 1 percent of GDP. Japan experienced very rapid rates of growth in the early postwar years. Then, the annual growth rates slowed from the high rates of the 1950s and 1960s to 4 percent in the 1980s and just over 1 percent in the 1990s. The slowdown, Klein believes, was foreshadowed and accompanied by an increase in defense spending.

Second, Klein shows that in the US the Federal Reserve tried unsuccessfully to increase growth rates after the Gulf War in 1991 by easing monetary policy. But monetary policy alone usually cannot achieve this. Short term rates declined substantially from 1990 to 1993, but the 30-year treasury rate went from 8.6 percent to 6.6 percent, and M2 hardly changed. "Fiscal policy and monetary policy must work in tandem to be effective…." Defense spending hardly changed at all in the latter years of the Administration of George Bush, Sr., when the Cold War ended, although the defense budget did stop growing.

Substantial reductions in defense spending were made by the Clinton Administration, as indicated above, and non defense spending increased very slowly after 1993. It was, in Klein's view, a serious step towards World Peace. Ten year and 30 year Treasuries fell substantially, and long-term bond yields stayed down through the 1990s. Debt servicing interest costs declined and capital formation expanded. There were large increases in productivity, capital gains, and tax revenues.

In Klein's words,

> "The process fed on itself once it got started….This was truly a Peace Dividend. The United States achieved full employment, state and local governments went

[4] Lawrence R. Klein, The Peace Dividend, paper presented at meetings of the Latin American and Caribbean Economic Association, Costa Rica, November 4, 2004.

into budget surplus, and the federal government started to retire outstanding debt".

Klein adds,

"The situation lasted a few years but came to an abrupt halt when the successor government made unusual tax reductions and knocked the economy into recession, abetted significantly by the outbreak of terrorism in 2001. We did, however, enjoy brief experience of a Peace Dividend. Let it be noted that economic life became more enjoyable and manageable during the Peace Dividend period."

Klein's findings are reinforced by studies of the international trends during this period. A 1997 study by economists at the International Monetary Fund (IMF) examines data for 130 countries to answer the question, What Happened to the Peace Dividend? The study shows that in the decade since 1985 military spending declined by 3 percentage points of GDP, implying a peace dividend in dollar terms of $720 billion if the 1985 ratio of military spending to GDP had prevailed. The study finds that most countries that cut their military spending also reduced their non-military spending while, at the same time, protecting the social sector and in many instances increasing social spending.[5]

A follow up study at the IMF five years later, is entitled The Elusive Peace Dividend. Given the situation when the report was written – small wars littering the landscape and acts of terrorism proliferating, including the attack on the Twin Towers in New York - it is an appropriate title. The study concentrates on the economic effects of conflict and terrorism and confirms what other studies have shown: war and terrorism are bad for economic growth and finances. Economic thinkers from Adam Smith to our own time have come to similar conclusions. The value of the IMF study is in the contrast it draws between the promise of a Peace Dividend at the end of the Cold War and the more recent reality. The basic conclusion of the study is that "Countries that end conflicts and combat terrorism will realize sizeable economic gains in terms of growth, macroeconomic stability, and the generation of tax revenues. Ending conflict and terrorism and restoring security can result in a substantial peace dividend, freeing up fiscal resources that a country can use to lower its deficit, reduce taxes, or raise the allocation for propoor spending." [6]

Again, as David Gold has written, the Peace Dividend is the sum of resources no longer claimed by the military and available for non-military purposes.[7] There are two questions I will discuss in the remainder of this paper. First, what is the potential value

[5] B. Clements, S. Gupta, and J. Schiff, What Happened to the Peace Dividend? Finance and Development, March 1997.
[6] S. Gupta, B. Clements, R. Bhattacharya, and S. Chakravarti, The Elusive Peace Dividend, Finance and Development, December 2002.
[7] David Gold, Could We Have Done Better? A Retrospective on the 1990s Peace Dividend in the United States, in A. Markusen, op cit.

of the Peace Dividend at this time? Second, is a Peace Dividend possible in the foreseeable future or has it become elusive to the vanishing point?

Just over $500 billion has been appropriated by Congress so far for the wars in Iraq and Afghanistan. By the end of fiscal year 2008 the figure will likely be about $737 billion. However, the key figure is that portion of current outlays that can be expected to be curtailed in the near or medium term. Annual war costs are estimated at $120 billion - $160 billion per year and will remain at that level until US forces are drawn down, or increased for that matter. The largest share of war costs is for Iraq and there is at this time some prospect that US spending for that war will be sharply reduced over the next two years or so. Assuming US combat operations in Iraq are sharply reduced or ended, some portion of the costs of the war will be available as a Peace Dividend.

Much will depend upon the size of the post Iraq defense budget. If the Bush Administration's commitment to Iraq is no longer open ended, its willingness to increase non-Middle East War defense spending appears to be so. Still, a strong case can be made for cutting back the excesses and reducing the inefficiencies and waste in the defense program despite arguments for fully funding what the Administration calls the Global War on Terror and the remaining national security needs.

.An obvious place to begin is what Franklin C. Spinney refers to as "the high cost cold-war turkeys in the modernization pipeline."[8] This is a reference to the fact that many billions of dollars are being spent on weapons designed to counter the former Soviet Union. As this threat no longer exists, it makes little sense to continue the programs designed for it. Cold War era weapons programs such as the F/A22 fighter aircraft, the Virginia Class submarine and the DD(X) destroyer should be canceled along with operationally inefficient programs such as the V-22 Osprey tilt rotor aircraft and the C-130J transport aircraft. Additional savings can be achieved by cutting back programs such as Missile Defense, which has not yet been demonstrated to be feasible, the bloated arsenal of strategic and nuclear weapons, which the US and Russia agreed to reduce early in the present Administration, and the Offensive Space-based Weapons program, which is likely to lead to a space weapons race with other nations. Annual savings from these and other high cost, low value programs, conservatively estimated, would be in the $60 billion range.[9]

In the tradition of not appreciating something until it is lost, the Peace Dividend of the 1990s looks better today than it did when it was taking place. While defense spending was in decline, experts were slow to realize the benefits to the US economy from defense reductions and quick to criticize the Clinton Administration for not cutting back more or for not planning better for economic conversion. Although the period of defense cutbacks was brief and ended in the late 1990s, only in the aftermath of the responses to the attacks against the twin towers in New York and the Pentagon building in Washington, DC did it become clear that there would be a new Reagan type sustained

[8] History News Network, http:/hnn.us/roundup/entries/30345.html. September 29, 2006.
[9] A Unified Security Budget for the United States, Foreign Policy in Focus and Center for Defense Information, May 2006.

military buildup. The terms Long War and Global War on Terror used by the Administration suggest an Orwellian open ended, worldwide view of permanent war.

Ever since the invasions of Afghanistan and Iraq, the Administration's defense budgets have included increases in funds and startup funds or programs and activities not related to military operations in those countries. In other words, the wars have been used as an excuse to beef up other parts of the budget. This past Fall, in October 2006, the practice was put in writing and made official. A memo prepared by the office of the Deputy Secretary of Defense was sent to the military services stating that the ground rules for the 2007 Supplemental budget request,

> "are being expanded to include the Department's efforts related to the Global War on Terror and not strictly limited to Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF)."

That is, the services were told that the portion of their budget requests to be incorporated in the supplemental request for the wars in Afghanistan and Iraq could include items unrelated to Afghanistan and Iraq.[10]

As Steven Kosiak points out, this would be like telling the services at the peak of the war in Vietnam that their requests for war funding could include anything needed for the Cold War with the USSR. The policy is a formula for providing misleading figures about the costs of the war, and given the reluctance of Congress to cut funds for a war involving the US, it is a way to assure approval of funds for virtually anything without the inconvenience of true congressional oversight. And it undermines the possibility of a Peace Dividend for the end of a conflict like Iraq by increasing the non-Iraq size of the defense budget.

The facts about the war in the Middle East, the Global War on Terror, and the budgetary gimmicks employed by the current Administration would seem to reduce the likelihood of a Peace Dividend for the foreseeable future. But there is hope. A year ago the political changes that occurred in the recent elections seemed out of reach and almost too much to hope for. The idea was hardly thinkable that Congress, which has been little more than a rubber stamp for six years, would start acting like a co-equal branch of government, that there would be strong opposition to a decision by President Bush to add more troops to Iraq, and that there would be major calls for an end to the war.

Depending upon who is elected President in 2008, and who ends up in control of Congress, it is no longer out of the question that the war in Iraq will soon end, or that US involvement will be dramatically reduced by 2008. Because of its length, the loss of life, the extremely large dollar costs, the fact that the conflict has largely morphed into a civil war, and the waste and corruption that have been exposed, it is widely seen as an unnecessary drain on US resources.

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[10] Steven M. Kosiak, The Global War On Terror (GWOT): Cost Growth and Estimating Funding Requirements, testimony before the US Senate Budget Committee, February 6, 2007.

To answer the question I began with - Is there a peace dividend in our future? - I would say that there actually 2 separate dividends that can reasonably be attained. In the near future some substantial portion of current annual expenditures for the war should become a Peace Dividend. Secondly, there is a potential for large savings in the remainder of the defense budget even assuming reasonable measures to fight terrorism and to pay for our other legitimate security needs.