

The background of the image is a dark blue and purple night sky filled with numerous white stars of varying sizes. In the foreground, there is a silhouette of a forest of evergreen trees. The overall aesthetic is serene and nocturnal.

TOPIC OF THE WEEK

OCTOBER'19 (17 to 23 Oct)

Democracies Die, But By Different Means

Putting aside the very real human cost, war has serious economic costs – loss of buildings, infrastructure, a decline in the working population, uncertainty, rise in debt and disruption to normal economic activity. War invariably leads a legacy of debt and an army of demobilized soldiers. However, the aftermath of war is not always so positive. The UK struggled after the end of The Napoleonic war and after the end of The First World War. In the 1920s, the UK struggled with a long period of unemployment – returning soldiers found very poor employment prospects. Yet, after the Second World War, the US and Europe experienced full employment. The German economy was ravaged by the aftermath of the First World War and the demand for reparation payments. Struggling to meet reparation payments, Germany resorted to printing money – leading to hyperinflation. The discord around the German hyperinflation of the 1920s sowed the seeds for political extremism and future wars.

It is possible in theory to distinguish revolutionary parties, which attempt to gain power by violence (conspiracies, guerrilla warfare, etc.), from those parties

working within the legal framework of elections. But the distinction is not always easy to make, because the same parties may sometimes make use of both procedures, either simultaneously or successively, depending upon the circumstances. In the 1920s, for example, communist parties sought power through elections at the same time that they were developing an underground activity of a revolutionary nature. In the 19th century, liberal parties were in the same situation, sometimes employing the techniques of conspiracy, as in Italy, Austria, Germany, Poland, and Russia, and sometimes confining their struggles to the ballot box, as in Great Britain and France.

There are analysts who believe that war is good for an economy and that sometimes an economy will not be able to overcome a depression or a big recession without engaging in a foreign war. They use history to prove that countries with economic prosperity are in fact countries that have fought in the biggest wars. Not only that, but they believe that the seeds of prosperity and growth were planted during times of war. These analysts are supporters of the Keynesian argument of war, a policy which explains how governments sometimes dedicate a large portion of their spending to military spending for

the aim of economic growth. They show the economic effects of such a policy on different aspects of the economy such as the effect on demand, where the direct government spending induces spending by consumers by a multiplier effect, thus promoting industry. Another effect the supporters of Keynes use for war is the effect on the supply side, where the military spending during war on research and development leads to a big increase in productivity by achieving more advanced infrastructure and technology.

On the other hand, there are analysts, who believe that war is not good for the economy, and that this myth was created to serve the War-Party (which includes politicians and military contractors, mainly industries that benefit from war, especially the ones related to weaponry and ammunition). These analysts criticize Keynes' argument about the war, and poke holes in his theory in order to show that it doesn't actually comply with the real world. One central critique they use is The Broken Window Fallacy which explains that if a person throws a rock at a window and breaks it, this act will be beneficial to the whole community surrounding this shop as it would create a new job for the glazier who will in turn buy material from another merchant and so on,

thereby creating an economic activity. What economists analyze here is that this deceptive reasoning as many economists argue ignores the principle of opportunity cost thus although this may seem a push to the economy, what really happened is that the shop owner now has less money to spend, as he is forced to spend it to repair his glass. To apply this to war, we can conclude that if there is money being spent on war it is not spent elsewhere, thus Keynes' arguments for war failed to take into account the concept of opportunity cost, or for example, what would the soldiers have been doing if they were not soldiers or what could have been made by companies instead of war related products.

“War is widely thought to be linked to economic good times. The second world war is often said to have brought the world out of depression, and war has since enhanced its reputation as a spur to economic growth. Some even suggest that capitalism needs wars, that without them, recession would always lurk on the horizon. Today, we know that this is nonsense. The 1990s boom showed that peace is economically far better than war. The Gulf war of 1991 demonstrated that wars can actually be bad for an economy” said by Nobel-prize winning economist Joseph Stiglitz .

There are people who tend to blame someone or something else for causing a communal or cultural conflict every time. These responses do not resolve conflict and may make the situation worse. Military spending is intimately linked to war. In times of peace, few countries spend more than 5% of GDP on their military, choosing instead to maintain their capabilities and make use of their armies in other ways. . Military spending is particularly high in the Middle East, a region that has experienced dozens of conflicts since the Second World War. Saudi Arabia, Israel, Iraq, Lebanon and Yemen all have very high levels of military expenditure relative to GDP and are all either currently engaged in conflict or have been in recent years. Two other countries that rank highly are Eritrea and North Korea, both of which are in perpetual conflicts with their neighbors Ethiopia and South Korea, respectively. It is estimated that North Korea spends roughly one-third of their national income on defense.

The irony is that we are becoming civilized society and more we are spending day by day on military. However, nobody benefits from increased military spending. We are dealing here with the giants of the war industries. Of the ten largest world producers of weaponry, six are US

companies - Lockheed Martin, Boeing, Raytheon Company, Northrop Grumman, General Dynamics, and L3 Technologies. They are followed by the British company BAE Systems, the French/Dutch company Airbus, the Italian company Leonardo (ex-Finmeccanica), now running ninth, and the French company Thales. These are not simply huge factories which produce weapons. Together, they form a military-industrial complex, closely integrated with institutions and parties, with deep and wide-reaching ramifications. This creates a true arms establishment, whose profits and powers increase as international tension and war increase.

For reference:-

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- <https://ritholtz.com/2014/06/top-economists-say-war-is-bad-for-the-economy/>

Additional Readings:-

- <https://economictimes.indiatimes.com/blogs/et-editorials/bravo-abhijit-banerjee-esther-duflo-and-michael-kremer/>

- <https://economictimes.indiatimes.com/blogs/et-editorials/sound-thoughts-on-mortgage-securitisation/>
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