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The military-industrial complex as a variety of capitalism and threat to democracy: rethinking the political economy of guns versus butter

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Abstract

This paper examines the military-industrial complex (MIC), which is a prototype widely imitated by other business sectors. Collectively, they constitute a variety of capitalism which can be termed the poly-industrial complex (PIC). Understanding the MIC is critical to understanding contemporary US capitalism, US international policy, and the drift toward Cold War II. The MIC exerts a massive societal impact. It twists economic activity toward military spending; twists the character of technical progress; is socially corrosive via its capture of politics and government; twists societal understanding of geopolitics to increase demand for war services; promotes militarism and increases the likelihood of war; and promotes proto-fascist drift because militarism drips back into national politics. Given those features, the MIC is of first-order significance and the consequences of failure to understand it are likely to be grim. Politics is at the center of possibilities for change. That raises questions whether the demand for change can be mustered, and whether the political system will permit it.

Keywords: Military-industrial complex, war, militarism, Neoliberalism, Neoconservatism, fascism.

JEL references: D74, F51, H56, P10

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1. Introduction

In his televised 1961 farewell from office speech, President Eisenhower coined a new term and explicitly warned of the dangerous new phenomenon of the military-industrial complex (MIC):

“This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence – economic, political, and even spiritual – is felt in every city, every State house, every office of the Federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our

society.

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.

We must never let the weight of this combination endanger our liberties or democratic processes.”¹

Eisenhower was a lifelong military man, Supreme Allied Commander in Europe during World War II, a Republican, and 34th President of the United States of America. His farewell speech occurred at the height of the Cold War. That he spoke in such a manner, on such an occasion, speaks to the importance he and his advisers attached to the concept of the MIC.

Since then, the construct of the MIC has entered widely into ordinary conversation, sociology, and political science.² Yet it remains substantively absent in economics. For instance, the one remaining introductory textbook on my bookshelf is by liberal economist David Colander (2001), and it refers to the MIC just once in the context of industrial policy on p. 367. The multiple intermediate and graduate level macro and microeconomics textbooks I have make no mention at all.

This paper argues economics’ neglect of the MIC is a profound analytical failing. The MIC (and the model it spawned) is a critical organizing construct for understanding and explaining contemporary US capitalism and its political economy.³ It is also critical for

¹ Delivered January 17, 1961, 8.30pm-9.00pm. Source: www.eisenhowerlibrary.gov

² The sociologist C. Wright Mills introduced a concept similar to the MIC in his 1956 book *The Power Elite*, four years before Eisenhower coined the term.

³ Though not the focus of the paper, the construct is also relevant for other countries with large armed forces and defense industries (e.g., UK, France). However, application there is obviously colored by local political and cultural considerations. It is also colored by the fact that those countries are allied sub-hegemons of the US, which affects their choice sets and political positions.

understanding US international policy and the global drift toward Cold War II.

The paper is constructed in stages and builds outward. The first stage (Sections 3 and 4) excavates the economics of the MIC, with a focus on its allocative effects, operational practices, and organizational form. Politics is at the center of the MIC (and other similar complexes), and the MIC cannot be understood without reference thereto.

The second stage of the paper (Sections 5 and 6) is concerned with the economics of war. War is central to the MIC, whose business is providing “war services”. As part of that, the MIC manipulates public understanding of and support for war, which challenges the consumer sovereign assumption of conventional economics. It also has important implications for international relations, and the current state of world affairs cannot be understood without reference to that. In effect, the MIC transforms Clausewitz’s (1833) notion of “war being an extension of politics” into “war being an extension of political economy”.

The third stage of the paper (Section 7) argues the MIC constitutes a proto-type variety of capitalism, and it has spawned an economic model that now dominates contemporary capitalism. That model has profound political consequences. The MIC also poses a threat to democracy and freedom because it promotes militarism as part of increasing demand for war services, and militarism bleeds back into domestic politics. That connects the MIC to concerns about the drift to proto-fascism (Palley, 2021, 2022a). Ironically, the MIC is justified in the name of defending democracy and freedom, yet it is ultimately a dire threat as Eisenhower warned.

1.1 Ideological resistance and the challenge of writing about the MIC

Engaging the economics of the MIC confronts two intellectual buzzsaws. One is the buzzsaw of economics, while the other is the buzzsaw of international politics. The buzzsaw of economics is comparatively simple and easy. Engaging the economics of the MIC leads to criticism of existing

economic theory, which provokes resistance from the mainstream economics profession.

The buzzsaw of international politics is far more challenging. Critiquing the economics of the MIC automatically enjoins controversies about national security and geopolitical threats. That is because the MIC's economic self-interest pushes a particular geopolitical point of view as part of securing large military budgets. In doing so, the MIC exercises a powerful influence in shaping societal thinking about geopolitics and national security, and its views correspond to the conventional wisdom thereon. Consequently, an economic critique of the MIC automatically generates an implicit critique of the conventional wisdom re geopolitics and national security.

In effect, the MIC captures both government and society. However, whereas there is some societal openness to recognizing the MIC's influence on military spending and government (i.e., its resource allocation effect), there is resistance to recognizing its impact on societal thinking about national security and geopolitics (i.e., its ideological impact). It is easy to acknowledge government capture because government is a third party. It is much more difficult to acknowledge societal capture because society is us. That includes readers who may take umbrage at the suggestion they have been manipulated and captured by the MIC.

That makes analysis of the MIC a delicate and difficult task. Mainstream economics seeks to avoid that buzzsaw by "depoliticizing" analysis of the MIC and restricting it to economic allocative and efficiency effects. However, the economic and ideological impacts are inseparable because geopolitical ideology is created as part of increasing demand for war services, and the two reinforce each other. Consequently, denial of the MIC's impact on society's ideology denies a core feature. The effect is to misrepresent the MIC, with consequent perilous misunderstandings regarding its functioning, character, and societal impacts.

1.2 Structure of the paper

The balance of the paper is as follows. Section 2 provides a definition of the MIC and some data thereon. Section 3 explores the economics of the MIC, while Section 4 adds politics into the mix. Section 5 introduces the notion of demand for war services and reframes war as an extension of political economy. Section 6 examines the cost of war and shows how the MIC seeks to lower that cost to increase demand for war and war services. The section also shows how the US has a structurally lower cost, which helps explain its higher demand for war services. Section 7 analyzes the MIC as a variety of capitalism and a threat to democratic freedom. Section 8 concludes the paper.

2. Definition and evidence

The starting point of the analysis is a definition and documentation of the MIC. Wikipedia defines the MIC as describing “the relationship between a country’s military and defense industry that supplies it, seen together as a vested interest which influences public policy.... In the context of the United States, the appellation is sometimes extended to military-industrial-congressional complex (MICC), adding the U.S. congress to form a three-sided relationship...” The definition intimates at the non-market character in that institutions are joined by common interests, share understandings, and may have personnel from each institution embedded in each other. The complex constitutes a whole as much as it is constituted by separate parts.

Table 1 shows data on current US GDP, government spending, and its division into defense and non-defense spending. Government spending is the economist’s definition, meaning purchases of goods and services. In 2023, Federal Government spending was 6.6 percent of GDP, and defense spending was 3.6 percent of GDP. The population of the US (2022) was estimated to be 333 million, which translates into military spending of \$3,333 per person (man, woman, and child).

Table 1. US Federal defense spending and non-defense discretionary spending, 2023.

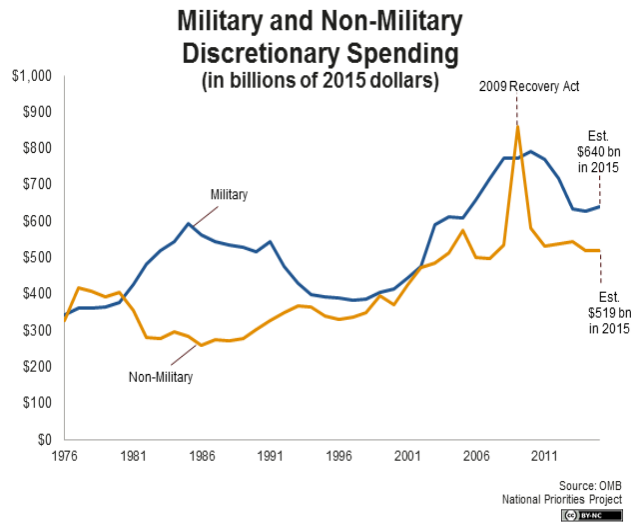
Source: Economic Report of the President 2024, table B-3.

	GDP	Federal government consumption & investment spending	Federal defense spending	Federal non-defense spending
\$ trillions	\$27.4	\$1.8	\$1.0	\$0.8
% of GDP	100.0%	6.6%	3.6%	3.0%
% of government		100.0%	54.5%	45.5%
Ratio of defense to non-defense spending			1.2	

Federal defense spending exceeded total federal non-defense discretionary spending (i.e., spending on such items as education, infrastructure, law and order, consumer safety, commercial regulation, national parks, environmental protection, etc.). That relative division is indicative of the importance attached to defense spending relative to other societal needs, which speaks to the political power of the MIC. Moreover, as shown in Figure 1, that is the historical norm. Military spending exceeded non-military discretionary spending for every year from 1980 to 2015, except for 2009. That year saw the passage of the 2009 Recovery Act which enacted large-scale fiscal stimulus that prevented the 2008 financial crisis becoming a second Great Depression. The scale of military spending makes it of major economic importance. If the steady state expenditure multiplier is three, then defense spending in 2023 explains 10.8 percent of GDP, made up as follows: 3.6 percent from the direct effect of spending, and 7.2 percent from the induced income effects of that direct spending.

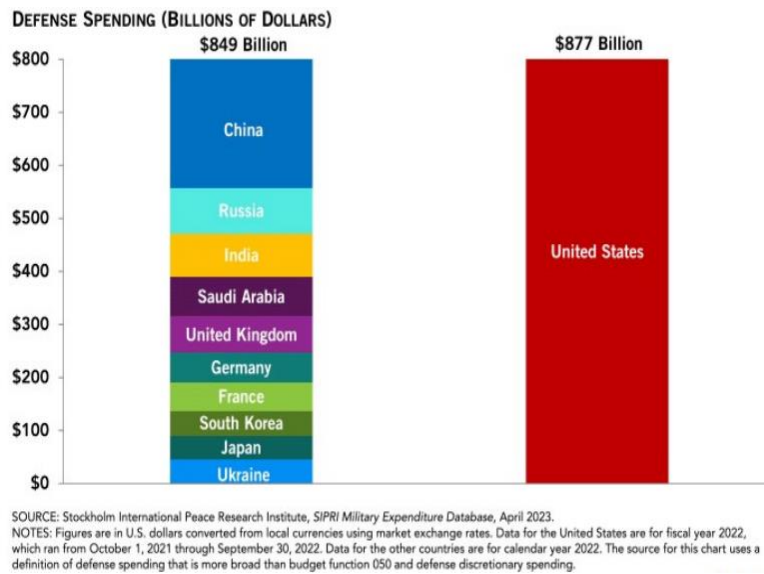
Figure 1. US military and non-military discretionary spending, 1976-2015.

Source: President's 2015 Budget in Pictures, OMB, National Priorities Project, March 19, 2014.



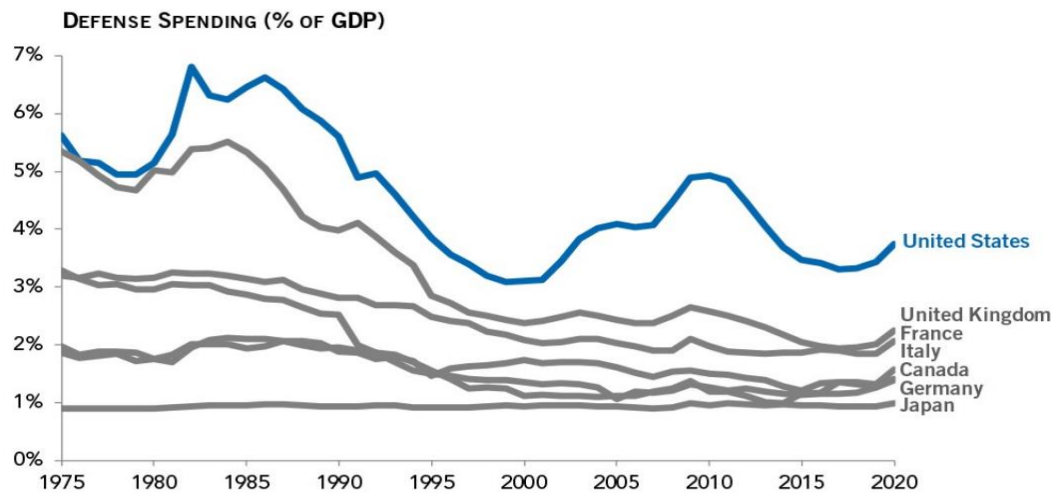
The large scale of US defense spending is also confirmed by comparative data. Figure 2 provides a comparison of US defense spending with the spending of the other top ten largest spending countries. In 2022 US defense spending was \$877 billion, which exceeded the combined spending of \$849 billion of the other top ten largest defense spenders. US spending is approximately three times that of China's and ten times that of Russia.

Figure 2. US defense spending compared to the top 10 spending other countries, 2022.
Source: Peter G. Peterson Foundation, The facts about U.S. defense spending, 2023



Moreover, that pattern of comparatively large spending is also the historical norm. Figure 3 provides time series data on comparative defense spending, and it shows the US has a long-standing history of devoting a larger share of its GDP to defense spending than do other countries. The peak share for all countries shown was the early 1980s, and defense spending GDP share has since come down in all countries shown except Japan. However, the US share has remained larger and the absolute gap relative to the next biggest spender (the UK) has even increased.

Figure 3. Comparison of defense spending by country as a share of GDP.
 Source: Peter G. Peterson Foundation, The Facts About U.S. Defense Spending, 2023



SOURCE: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, May 2021.
 NOTES: Data for the United States are for the fiscal year that ended on September 30 of the stated year. Data for all other countries are based on calendar years. The G7, or Group of Seven, is a forum for the countries that have the world's largest advanced economies. The source for this chart uses a definition of defense spending that is more broad than budget function 050 and defense discretionary spending.

3. The economics of the military-industrial complex

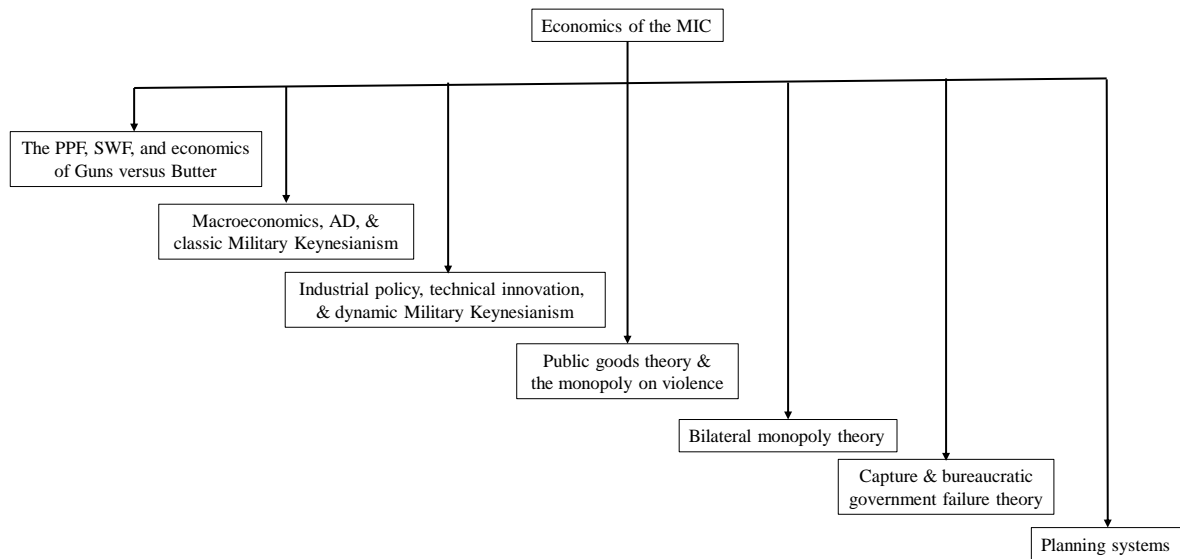
The previous section provided a definition of and some empirical context for the MIC. This section presents an economic analysis of the MIC using standard constructs drawn from the introductory textbook, supplemented by the constructs of “Military Keynesianism” and ‘planning systems”.

3.1 The economics of the MIC: theory and a little bit of history

Figure 4 provides a taxonomy of the major constructs in the introductory textbook relevant for understanding the MIC. The categories are the production possibilities frontier (PPF) and social welfare function (SWF); macroeconomics and aggregate demand (AD); public goods; bilateral monopoly; industrial policy and research and development (R&D) growth effects; capture and bureaucratic government failure theory; and planning systems. The rest of Section 3 analyzes those constructs and how they contribute to explaining the economics of the MIC. That provides a springboard for guiding the inclusion of missing political economic considerations, which is

done in Sections 4 and 5.

Figure 4. Major constructs relevant for the economics of the MIC.



3.2 *The conventional economics of Guns versus Butter: the PPF and SWF*

The PPF and SWF are the central organizing constructs for understanding the “conventional” approach to military spending. They are illustrated in Figures 5.a, 5.b, and 5.c. The economy is subject to resource scarcity which constrains the total output that can be produced. Society has a choice between producing Guns (G) or Butter (B). Figure 5.a shows the PPF which describes all the possible combinations of G and B the economy can produce, with G_0 being maximum gun production and B_0 being maximum butter production. Scarcity imposes a trade-off between G and B, so that producing more G compels production of less B and vice -versa. The terms of that trade-off are reflected in the slope of the PPF.

Figure 5. The PPF – SWF choice mechanism.

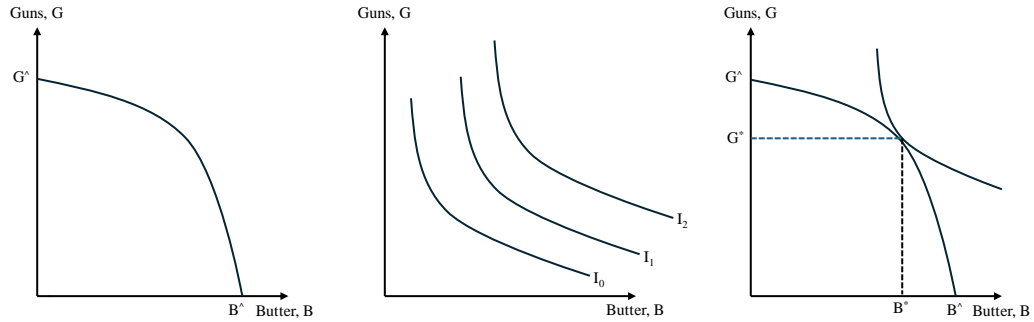


Figure 5.a.

Figure 5.b.

Figure 5.c.

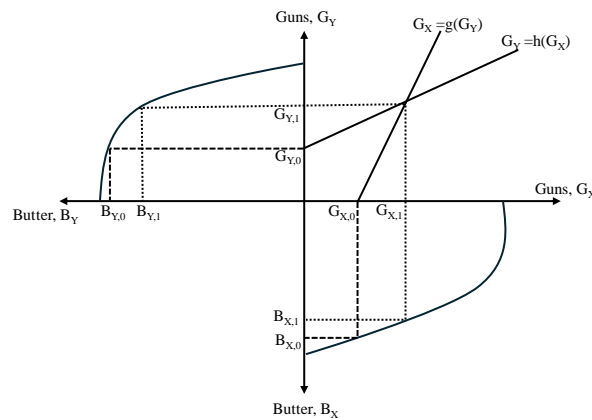
The other side of conventional Guns vs. Butter economics is the SWF which shows society’s preferences for G and B. The SWF is represented in Figure 5.b by the set of social indifference contours (I). Each contour represents a constant level of social satisfaction, so that society is equally happy with allocations on each contour. Higher contours represent higher levels of social satisfaction ($I_2 > I_1 > I_0$). Figure 5.c combines the PPF and social welfare indifference contours to illustrate the determination of society’s choice of output composition. That choice is determined by the tangency of the PPF and indifference, and the choice yields the highest level of social satisfaction given the production possibilities available to society.⁴

That simple choice framework can be expanded to take account of “arms race” rivalries

⁴ Formally, the social choice problem can be described by the following maximization program. $\text{Max } V = U(B, G)$ subject to $G = g(B)$, $G \leq G^{\wedge}$, $G \geq 0$, $B \leq B^{\wedge}$, $B \geq 0$. The function $U(\cdot)$ is the SWF. The function $g(B)$ is the PPF. The signs of partial derivatives are: $U_B > 0$, $U_{BB} < 0$, $U_G > 0$, $U_{GG} < 0$, $U_{GB} = U_{BG} > 0$, $g_B < 0$, $g_{BB} < 0$. The choice variables are B and G.

with foreign countries. Military spending is influenced by a country's own resources and preferences, and by the military spending of other countries also. Figure 6 illustrates a two-country arms race. Countries X and Y each have a PPF. Their military spending behavior is described in the Northeast panel by their spending reaction functions ($G_Y = g(G_X)$, $G_X = h(G_Y)$), which are each a positive function of the other's spending. The slope of the reaction function reflects the sensitivity of a country's military spending to the military spending of the other country. A large response indicates high sensitivity. The responsiveness depends on the value placed on own military spending, the damage done from military spending of the other country, and the cost of additional military spending in terms of butter (i.e., other goods foregone). $G_{X,0}$ corresponds to the spending of country X if Y spent nothing, while $G_{Y,0}$ is Y's military spending if X spent nothing. The intersection of the two reaction functions determines each country's equilibrium level of spending. At that point, each country is content with its level of spending given the other's spending, and each has no incentive to change its spending.

Figure 6. The determination of spending in a two-country (X, Y) arms race.



The result of the arms race is each country spends more on guns ($G_{X,1} > G_{X,0}$, $G_{Y,1} > G_{Y,0}$) and less on butter ($B_{X,1} < B_{X,0}$, $B_{Y,1} < B_{Y,0}$).⁵ Military spending by country j diminishes the defense value of spending by country i , giving the latter an incentive to increase its military spending. The arms race corresponds to a “Prisoners’ dilemma” situation in which individually rational uncoordinated choices of each country lead to a sub-optimal outcome. Arms control can make both countries better off by introducing coordinated decision-making. Thus, it blocks destructive competitive military spending that makes both worse off. Each neutralizes the spending of the other so that there is no security gain, but each is worse off because they have less B to consume. Arms control blocks that dynamic but it requires the right international politics, which the MIC has an economic interest in preventing (about which more below).

Anticipating some of the discussion to come, the reaction function (and the determination of military spending) depends critically on the value a country places on military spending and the perceived impact of increased military spending by others. If a country perceives its effective power and security is seriously diminished by increased spending by another country, that will encourage it to increase its own spending. Those values, perception effects and their rationalization are at the heart of the political economy of the MIC and military capitalism. They are unexplained and unaddressed in conventional economics, which means economics struggles to explain military capitalism and the MIC.

⁵ The framework in Figure 6 corresponds to a situation of “strategic complementarity” (Bulow et al., 1985), whereby actions by one agent elicit an increase in the actions of the other. The equilibrium corresponds to a Nash equilibrium. Formally, the country social choice problem can be described by the following simplified maximization program. $\text{Max } V_i = U(B_i, G_i/G_j)$ subject to $G_i = G^i(B_i)$, $G_i \leq G^{\wedge i}$, $G_i \geq 0$, $B_i \leq B^{\wedge i}$, $B_i \geq 0$, $i = X, Y$, $i \neq j$. The signs of partial derivatives are: $U_B > 0$, $U_{BB} < 0$, $U_G > 0$, $U_{GG} < 0$, $U_{GB} = U_{BG} > 0$, $G_B < 0$, $G_{BB} < 0$. The choice variables are B_i and G_i . The important difference from the program described in footnote 1 concerns the objective function $U(\cdot)$. Military spending by country j diminishes the defense value of spending by country i , giving the latter an incentive to increase its military spending.

3.3 Macroeconomics, AD, and the tragedy of classic Military Keynesianism

Macroeconomics and the theory of AD are also critical to the economics of the MIC. The PPF-SWF framework is a microeconomic analysis that assumes the economy is at full capacity (i.e., operating on the PPF). Consequently, more G implies less B and vice versa. Macroeconomics enters the picture because the economy may have Keynesian “demand shortage” unemployment and be operating inside the PPF, in which case output of both goods can be increased via spending on G.

That situation is illustrated in Figure 7.a. The economy is initially at point A. An increase in military spending of ΔG raises G production, and it also causes an induced increase in production of B. The outcome is easily explained by the logic of the Keynesian income-expenditure model.⁶ Algebraically, the increase in output is given by

$$(1) \Delta Y = m\Delta G$$

ΔY = change in total output, m = expenditure multiplier, ΔG = change in military spending. The change in total output is given by

$$(2) \Delta Y = \Delta G + \Delta B$$

ΔB = change in B production. Combining equations (1) and (2) yields

$$(3) \Delta B = [m - 1]\Delta G$$

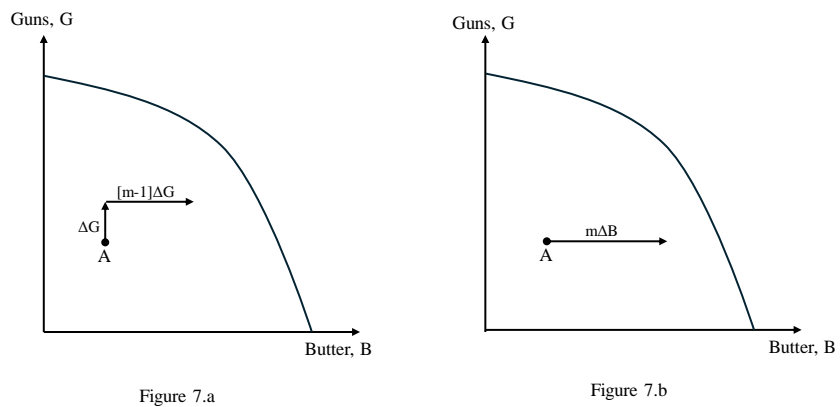
It is also the case that the same increase in total output can be obtained by an equal increase in government spending on B (i.e., $\Delta B = \Delta G$). That is illustrated in Figure 7.b, and the increase in total output is given by

$$(4) \Delta Y = m\Delta B$$

⁶ For simplicity, it is assumed B and G have the same price. That means an equal dollar increase in spending on either good produces the same initial boost to AD and real output.

Government military and non-military spending produce the same stimulus to output. However, absent military need, non-military spending increases public well-being whereas military spending does not.

Figure 7. The simple analytics of military Keynesianism.



The above analysis illustrates the “tragedy” of Military Keynesianism. Military Keynesianism is the doctrine that government should use military spending to promote full employment and growth. It is a form of fiscal stimulus policy rooted in the ideas of Keynes (1936).⁷ Keynes was a committed anti-war public intellectual who believed economic distress was a cause of conflict, and he hoped his ideas about promoting and securing full employment would diminish the likelihood of war. The tragedy of Military Keynesianism is that Keynes’ ideas were captured and used to promote an economic configuration (the MIC) that encourages military spending, which decreases well-being and increases the likelihood of conflicts.

⁷ For additional details see *Wikipedia*, https://en.wikipedia.org/wiki/Military_Keynesianism

The capture of Keynesianism reflects the troubled “inter-war” years in which Keynes formulated his ideas. Those ideas were initially viewed with skepticism, the conventional wisdom of the time being government spending crowded-out (i.e., displaced) an equal amount of private spending, regardless of economic circumstance. That conventional wisdom was disproved by events in the second quarter of the 20th century, but the disproof also led to the capture of Keynesianism and birth of Military Keynesianism. The disproof was driven by the Nazi re-armament boom of the 1930s which restored full employment in Germany; by the 1939-1941 US re-armament boom that massively reduced US unemployment; and by World War II which brought ultra-full employment on the back of full military mobilization. Furthermore, military demobilization in 1946 brought a return of unemployment, which was then reversed by rearmament booms triggered by the Korean War and by the Cold War. The latter sealed the capture of Keynesianism by creating conditions of permanent war that birthed the MIC, and the MIC then created political economic conditions that enshrined its permanence (about which more below).⁸

In sum, the tragedy of Military Keynesianism is rooted in the sequence of historical developments whereby Keynesianism was proven by military spending and war, which infused both with the legitimacy of Keynesianism. That seeded the intellectual basis for the MIC, which then used its institutional power to create sociological and political conditions that protect it and promote its expansion.

3.4 Industrial policy, technical innovation, and dynamic Military Keynesianism

⁸ For further details on and analysis of the political economic history of Military Keynesianism see Cypher (2007, 2022).

The third column in Figure 4 refers to industrial policy, technical innovation, and dynamic military Keynesianism. It is the complement to column two. Classic Keynesian macroeconomics provided the core initial foundation for Military Keynesianism, but Keynesianism had little to say about the sources of technological advance which are critical for growth. Dynamic Military Keynesianism provided an institutional frame which plugged that gap, the argument being appropriately targeted military spending could be the driver of such advance.

In the late 1940s and continuing through today, the MIC became a *de facto* institution of US industrial policy and an engine of technical change (Cypher, 1987, 2022). In that role, it has helped develop existing infant technologies and engaged in “blue sky” research that has generated completely new technology. The key feature is the “dual use” (i.e., military and civilian) nature of those innovations. The list of such is long. The first third of the 20th century saw multiple important technological innovations. In World War II, the necessity of the moment drove military application and further improvement of those technologies. The list included development or improvement of aircraft, jet engines, rocketry, heavy weapons and heavy machinery, computing and codebreaking, radar and sonar, and atomic energy. The subsequent Cold War and beyond saw the MIC intimately involved in the development of additional dual use technologies such as satellite communications, microelectronics, microchips, and the internet.

Noble (1984) documents the important role of the Air Force in the post-war development of computer-based automatic machine tools. That development was a forerunner of AI Robotics technology. The importance of Noble’s work is it shows technological advance does not fall from heaven, and it is the product of socio-political forces. In the case of computer-assisted manufacturing, that technology was specifically designed to reduce organized labor’s power, which means the MIC was enlisted on behalf of Big Business against labor.

As with classic Military Keynesianism, the sequence of historical events was also favorable to the emergence of dynamic Military Keynesianism. World War II provided the launching pad via multiple high-profile developments (including the atom bomb), and the US was also a significant beneficiary of the war in terms of global standing. Together, that contributed to high public esteem of the military. The ensuing Cold War provided justification for continued significant military spending, and the case for dynamic Military Keynesianism was boosted by the technological turn in the arms race. That turn was highlighted by the Soviet Union's successful 1957 Sputnik launch program, and by then-Senator Kennedy's politically opportunistic 1958 claim of a "missile gap" vis-à-vis the Soviet Union. In the 1960s, the "missile gap" became a "bomber gap".⁹

Those conditions and the MIC's technological successes contributed to political and public support for the MIC. Business was also supportive as it benefitted from the military procurement budget with its embedded generous tacit subsidies. Furthermore, the institutional framework fitted with official free market ideology. Thus, channeling industrial policy and R&D subsidies through the MIC obscured the reality of those measures, thereby seemingly adhering to the rhetoric of free market capitalism.

However, though politically expedient, Military Keynesianism's subterfuge industrial policy is socially inefficient as resources are channeled indirectly via military channels rather than directly to those who would use them best. Just as classic Military Keynesianism is socially

⁹ There is an analogue to dynamic military Keynesianism in developing economies. That analogue is associated with Modernization theory which holds economic development (i.e., increased per capita income) is the pathway to democracy. As part of that, the military is identified as a modernizing institution. That line of thinking was popular with US Cold War academics. The classic Modernization theory text is Rostow's (1960) book, *The Stages of Economic Growth: A Non-Communist Manifesto*. Modernization theory legitimized developing country militaries but, instead of leading to democracy, it legitimized military dictatorship in many countries in the 1960s and 1970s. The list includes Indonesia, Turkey, South Korea, Brazil, Argentina, and Chile.

inefficient macroeconomic stimulus, so too dynamic Military Keynesianism is socially inefficient science and industrial policy.

Perhaps worse than the efficiency loss are the socio-economic consequences of making the MIC the fulcrum of technological advance. First, doing so has tilted the path of technical advance towards militarized applications and uses. That follows from Noble's (1984) analysis. Social choices about the institutions of R&D impact the character of technical advance generated. Second, making the MIC the fulcrum has identified the military with technical advance, contributing to a pro-military mentality that has entrenched and augmented the MIC and militarism. In sum, the tragedy of classic military Keynesianism is accompanied by a tragedy of dynamic military Keynesianism.

3.4 Public goods and the monopoly on violence: why government produces military services

The fourth column in Figure 4 is public goods and the monopoly on violence, and it concerns the economic justification for why government produces military services. The default position of Neoclassical economics is that goods and services should be privately produced unless the market is subject to market failure. Production of public goods is prone to such failure, with the failure working as follows. Public goods are jointly consumed, and they are also freely provided to all in the act of production. Consequently, private producers cannot make a profit producing public goods because they cannot withhold those goods from consumers, so that consumers do not pay for them. Military services are the classic public good and, hence, the rationale for government undertaking their provision.

A second, and perhaps more important reason, for government production of military services is the “monopoly on violence” proposed by Weber (1919).¹⁰ If military services are privately provided, those producers can potentially use their military power to impose their will on society. That exposes society to the risk of breakdown of order and fracturing into a “warlord” society. To prevent that, Government monopolizes the means of violence by organizing the production of military services and limiting private production thereof.¹¹ That said, government provision of military services means production is exposed to the political economic pathologies that can affect government activity. That is what Eisenhower warned of in his 1961 speech, and it is at the heart of the MIC problematic.

3.5 Bilateral monopoly.

The public good nature of defense leads to the fifth column in Figure 4 which is bilateral monopoly. It too is a microeconomic construct and concerns the nature of competition in defense industries. As sole provider, government is the sole customer and therefore a monopoly buyer. Side-by-side, defense industry production tends to be highly specialized, subject to increasing returns to scale, and such goods often embody proprietary technology and private technical know-how. That configuration generates monopoly power. The net result is the defense industry market is often characterized by bilateral monopoly conditions which pit monopoly buyer against monopoly seller, and in which competition is absent. Prices and terms of business in such markets are determined by bargaining, and the bargaining outcomes are contingent on the goals of the bargaining parties.

¹⁰ Weber’s construct of the state requiring and imposing a monopoly on violence traces back to the 17th century political philosopher Thomas Hobbes’ book, *Leviathan*.

¹¹ Military coups and civil wars remain a risk, but that is less likely under government monopoly than having multiple sub-contracted private militias serve as defense providers.

The bilateral monopoly problem hints at conflicts within the MIC. The MIC has a unified interest in large military budgets. However, the military wants low prices that increase buying power, whereas the defense industry wants high prices that increase profit margins. That connects with capture theory, which is examined next.

3.6 Capture theory of government failure

The bilateral monopoly problem provides a natural segue to column six in Figure 4 which is labelled the capture theory of government failure. Capture of government enables business to twist the bilateral bargain in favor of business. Capture theory was developed by the Chicago and Virginia Schools of economics, and it explains why policy and programs may be sub-optimal or even counterproductive. It has direct relevance to Eisenhower's 1961 warnings about the MIC, and his words can be viewed as an early statement of the theory.¹²

Capture theory of government failure was pioneered by Tullock (1967), Stigler (1971), and Krueger (1974). It was also supplemented by Niskanen's (1971) theory of bureaucratic failure. The logic of capture theory is that government agencies (including the military) can be captured by the private sector, and thereby made to serve private sector interests rather than the public interest. In the case of the military, suppliers can gain effective control of the buyers (i.e., the Defense Department) and politicians who fund the military budget.

The mechanisms range from the legal to the illegal. The legal includes the prospect of future high-paid employment in the private sector for favors provided to it now, and the "revolving door" whereby persons cycle back-and-forth between government sector defense-

¹² The theory of government failure was developed by conservative economists as a counter to market failure theory. It shows how government interventions to correct market failures can backfire and worsen outcomes. Consequently, optimal policy may be to live with market failure rather than trying to correct it.

related employment and private sector defense industry employment. Politicians are courted with political donations, and both politicians and bureaucrats are lobbied by former military officers working on behalf of private sector military suppliers. On the illegal side, bribes may be paid.

Bureaucratic failure theory is relevant because admirals and generals like large military budgets, which gives them an interest to misrepresent what is needed to politicians and the public. It also gives them an interest to collude with private military suppliers to get increased budgets, which benefits both.¹³

Capture theory and bureaucratic theory are critical elements in explaining the MIC. Capture theory explains how the defense industry gains untoward influence within both the military and the political class, while bureaucratic failure theory explains why the military is open to (and even invites) the approaches of the defense industry. Moreover, the two types of failure are mutually reinforcing, with each deepening the other. Together, they both facilitate each side getting what it wants. The defense industry sells more weapons at a higher profit margin (i.e., by tilting the bargaining outcome), while the military gets the weapons it wants (i.e., via larger military budgets). In terms of the PPF-SWF choice mechanism described in Figure 5, it is as if the combined failures serve to twist the social indifference contour in favor of more G and less B.

3.7 Planning systems

The seventh and final column in Figure 4 is planning systems, which captures the notion that the MIC is a form of planning system. Planning is the affirmative antithesis to government failure theory. Both explain the links between the component elements of the MIC, but planning

¹³ For instance, Admiral Sir Tony Radakin, British Chief of Defense Staff, has publicly declared that NATO would crush Russia in a conflict owing to its overwhelming air, naval, and ground superiority (*Daily Mail*, February 27, 2024). Yet at the same time, the push is on to increase NATO spending as a percent of member country GDP.

attributes those links to positive productive reasons whereas government failure theory attributes them to negative pathological reasons.

Planning was a construct that was popular in economics in the first seven decades of the 20th century, but it has essentially disappeared in the Neoliberal era (post-1980 – today).¹⁴ A planning perspective holds planning systems will emerge spontaneously because need for planning is an enduring essential feature of organized economic life, and that need is even more present amidst the complexity of contemporary economies. All societies, always and everywhere, have planning systems even if that is not what they are called. That speaks for intentionally thought-through systems which bring to bear the appropriate skills and resources. Such thinking is represented in Galbraith's (1967) theory of the modern corporation which is viewed as a planning system. The corporation is an institution that assembles the resources necessary for drawing up and implementing plans to meet its goals, as determined by its socially determined purpose.

Viewed in that light, the MIC can be thought of as a planning system. Waging war requires planning in the form of accumulation of effective military resources, which are maintained in a permanent state of readiness to implement the military's plans. The weapons systems used by the military are complex and expensive, and they require significant capital to produce and maintain. Moreover, there is a need for constant innovation to maintain military capability superiority. Efficiently delivering that capability requires planning and coordination across multiple functions.

¹⁴ Planning theory has its origins in American institutional economics (Veblen, 1921), and in Marxist economics with its concern about how to organize production under state ownership of the means of production. Contemporary Neoliberal economics rejects planning, except to the extent the market system plans via prices which send signals about profitable business opportunities that are tacit indications of scarcity and need for additional production (Hayek, 1945).

The MIC constitutes a disarticulated planning system, with its elements under several institutional roofs rather than one. It can also be viewed as a planning system that has gone off the rails owing to government failure. That derailment is the result of failing to adequately attend to Eisenhower's (1961) warnings and implement the needed socio-political checks and protections. Governance is critical for planning systems, which is why it is key for economies as they are also tacit planning systems.

4. Politics and political economy: the elephant in the economist's room

The previous section detailed the economic anatomy of the MIC, focusing on the MIC's impact on economic activity and the organization thereof. This section turns to politics which is the elephant in the economist's room. Politics was tacitly present in both the discussion of capture theory and in the PPF-SWF framework determining the division of economic activity between G and B, but it has not been frontally engaged. Politics is central to the phenomenon of the MIC because the MIC involves political actors, and it is a product of the system of collective decision-making (i.e., politics).

That centrality of politics illustrates why economics is better termed political economy. Anticipating the arguments to come, it suggests why economics as currently constructed struggles to incorporate and explain the MIC. Politics and political outcomes involve ideas and belief systems which need explaining and can change. Economics takes those features as exogenous. That facilitates mathematical modelling, but it short-changes the phenomenon being explained.

4.1 The SWF revisited

The level of defense spending (G) is a political choice and reflects the workings of the political system governing collective choice. The SWF mechanism in Figure 5 aims to plug that analytical

problem. It is simple and superficially appealing in its attempt to parallel the conventional representation of individual choice, which is why it is often invoked. The problem is it is an analytically unsupportable parable. Not only does the theory of individual utility choice have problems of its own, but its extension to societal choices is irreparably flawed. Arrow's (1951) impossibility theorem proves the impossibility of creating a SWF with properties akin to an individual utility function and without imposing the assumption of dictatorship. Consequently, the SWF mechanism cannot explain the determination of military spending and the MIC, and there is need to add a political system of collective choice.

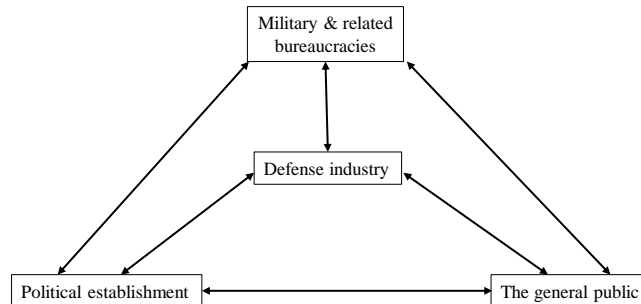
4.2 A simple political framework for the MIC

Figure 8 provides a simple political framework for ordering a discussion of political considerations. The framework is commonsensical and not presented as deep novel theorizing. Instead, its purpose is to provide a hanger for discussion. It consists of four actors: the defense industries, the military and related bureaucracies, the political establishment, and the general public. The public is added as an actor because its views and understandings impact the political establishment, and the MIC devotes great efforts to influencing them.

The defense industry is at the center and consists of an array of suppliers of military and security resources, as well as those engaged in R&D on future weapons systems. It also includes thinktanks partially funded by the defense industry and aimed at shaping society's thinking about and opinions on national security. That includes thinktanks like the German Marshall Fund, the Carnegie Endowment for International Peace, the Rand Corporation, the Atlantic Council, and

the Brookings Institution which tacitly act as purveyors and legitimizers of the MIC's point of view. Viewed in that light, considerable segments of academia also play a similar role.¹⁵

Figure 8. A simple political framework.



The military and related bureaucracy includes the branches of the armed forces, the bureaucrats of the Defense Department, and associated agencies like the intelligence services (e.g., the CIA). The nexus also crosses over into other departments like the State Department (foreign service) and space agencies (e.g., NASA) which deal with military contractors and whose work has explicit national security implications. The political establishment consists of politicians and political parties. The general public refers to the voting public and the institutions of society which participate in influencing understanding and dominant opinion.

¹⁵ One way of thinking about these different institutions is to distinguish between “core” and “satellite”. There is a core defense industry consisting of suppliers of military and military related goods and services. Additionally, there are satellite operations (e.g., thinktanks) that receive defense industry funding, but there is a degree of arm’s-length transacting. The satellites differ in proximity. To the extent the media takes funding, it is also part of that satellite constellation.

All the blocs of the system are connected and impact each other, as indicated by the bi-directional arrows. However, the degree of impact between components need not be symmetric. The impulse for capture is driven by the defense industry which aims to get the other blocs to embrace and support its views by capturing them. Bureaucratic failure has the military and related bureaucracies reaching out to the other blocs of the political system with the aim of getting them to support the bureaucracy's self-interest in a larger military. Self-interest and institutional interest are at work throughout the system, with agents being open to persuasion in exchange for pecuniary benefits and other *quid pro quos*.

An important feature of the system is its positive feedback character. Thus, increased power and standing of the military and defense industry (the MIC) in society contributes to a further increase in their power. The MIC's capture of the political establishment increases the size of the military which increases the power of the defense industry. It also increases the placement of MIC-friendly bureaucrats within the bureaucracy, all of which increases the MIC's capacity to influence public opinion. The same holds for the links between the other blocs. An increase in the political establishment's support for the MIC tilts public opinion in a similar direction, and vice-versa. In varying degrees, a similar dynamic holds for the relation between the other blocs.

In effect, the system is characterized by a matrix of self-reinforcing feedbacks that are "political influence multipliers", which are the political analogue of economic expenditure multipliers. Increased power of patronage begets increased support, and increased support begets increased power of patronage. Increased standing in one bloc generates increased standing in other blocs, which then echoes back to generate further increased standing.

4.3 Rethinking the mechanisms and meaning of capture

Capture theory (Stigler, 1971; Tullock, 1967) is fundamental to understanding the workings of the MIC. The original application was in connection with regulation. The theory explained how regulation could backfire if regulated businesses captured the regulatory authority, and then used the authority to push their own interests. Elements of that logic apply to the MIC, but the mechanisms and meaning of capture are an order of magnitude different.

One mechanism of capture is the infamous “revolving door” arrangement whereby those ex-defense industry executives are placed within the bureaucracy and ex-bureaucrats go to work for the defense industry. In effect, that arrangement serves to establish a tacit single organization that pursues their joint interests. The revolving door system also works with both political elites and the general public. The defense industry assists friendly politicians and political interests with political campaign contributions. Ex-politicians and ex-political staffers are recruited as lobbyists and consultants, while a system of lucrative employment in public relations and media consultancies is available for journalists and other opinion influencers.

Speaker fees are another related tool. Serving politicians are rewarded with well-paid speaking engagements and extra-curricular second jobs. Politicians who have temporarily stepped out of the ring also receive well-paid engagements that are a purchase of future support by the defense industry. The services of ex-political leaders are similarly enlisted with rich speaking fees and *ad hoc* advisory jobs.

Defense industry funded thinktanks are a third critical tool, serving to reward both allies and to shape public opinion on the “guns versus butter” debate. Thinktanks are quasi-subidiaries in that they are funded by but not explicitly owned by the defense industry. They also receive grants from the military and related bureaucracies, so that they are captured by both ends of the MIC. Beyond that, thinktanks provide a placeholder and a stage for friendly out-of-office

politicians, and they reward and embellish the intellectual reputations of friendly talking class professionals.

A primary function of thinktanks is to develop favorable political narratives that are fed into society's larger media echo chamber, which illustrates how pieces of the capture mechanism (i.e., the media and thinktanks) dovetail. Those narratives are backed by pseudo-academic reports that provide intellectual credibility which legitimizes the MIC's ideas. Indeed, thinktanks are often populated with ex-academics, academics who are supplementing their income with side-jobs, academics with visiting-fellow status, and entrepreneurial academics looking to climb the professional ladder and make connections. That gives the reports an academic gloss, even if they are written with pre-conceived conclusions that fit the institutions' ideological identification. Thinktanks that exhibit such characteristics include the German Marshall Fund, the Carnegie Endowment for International Peace, the Council on Foreign relations, and the Atlantic Council.

4.4 Other mechanisms

In addition to direct capture and directly shaping opinion, there are also other indirect mechanisms of capture, and those mechanisms also illustrate the scale of the MIC's capacity to influence politics. One mechanism is employment, and it is illustrated by the infamous B-2 Stealth bomber whose parts were sourced from 48 different US states (Colander, 2001, p.367). In the 1980s, that sourcing pattern helped deliver political support stopping cuts to the B-2 program despite its massive cost over-runs and the planes sub-par operational performance. That is because each of the states would have lost jobs had the program been shelved.

Another mechanism is the formation of political alliances. Thus, historically, the defense industry has been more accepting of labor unions than US manufacturing in general. Though

unionization rates in the defense sector are now falling, they remain significantly higher than the rest of manufacturing and much higher than the overall private sector (Barnes, 2023). That relative acceptance of unions has been an effective way of enlisting “Big Labor’s” support for military spending and the MIC’s political agenda.

In sum, the MIC’s influence over politics and society differs in scale and character from conventional regulatory capture theory. The difference is such as to be a matter of kind, not degree. Analytically, in terms of Figures 5 and 6, the impact of the MIC’s capture of the political establishment is to twist the allocation of resources in favor of guns over butter. It also increases the sensitivity of military spending to the spending of other countries, thereby aggravating the arms race problem. That impact is borne out by Figures 2 and 3 which show US military spending is far greater in both absolute terms and as a share of GDP.

Along with that allocative impact, the MIC also influences and shapes the way society thinks about and understands national security needs. In economists’ language, that is tantamount to shaping individuals’ preferences for military spending. That connects the political economy of the MIC to the long-standing controversy regarding “consumer sovereignty”.

5. The demand for war and war services: war as an extension of political economy, part I

Politics is one elephant in the economist’s room. The other is war, and the two are siblings in that engagement in war is a political decision infused by political considerations and sentiments. War is critical to the existence of the MIC. It is the perceived threat (fictitious or real) of war and the need for capability to wage war that justifies the MIC. Absent that threat, it is doubtful the MIC would exist. *Ergo*, war is of the essence.

This section presents a brief discussion of some aspects of the economics of war, with specific application to the MIC. The MIC engages in the supply of war services, and simple

economic logic implies it has an incentive to increase demand for its product. As discussed in Section 4, one way of doing so is through the multiple mechanisms of political capture whereby politicians and bureaucrats push increased military budgets. Another is by increasing society's demand for war and war services. That can be done by cultivating aggressive nationalism, or by cultivating national security paranoia that creates and exaggerates foreign threats. Two important implications of a "demand for war and war services" perspective are (i) it makes war an issue of political economy, and (ii) it is radically corrosive of conventional economic theory, with its "consumer sovereign" assumption.

5.1 Clausewitz and the MIC: war as an extension of political economy

The German military historian Carl von Clausewitz wrote of war being an extension of politics:

“We see, therefore, that war is not merely an act of policy but a true political instrument, a continuation of political intercourse, carried on with other means.... The political object is the goal, war is the means of reaching it, and means can never be considered in isolation from their purpose (Clausewitz, 1833 [1976, p.87].”

Clausewitz's insight is enduring, but if war is an extension of politics, the political impetus to war will depend on the type of politics a society has. In the era of the MIC, politics is significantly driven by the MIC, whose goal is securing its interests. For the military, that interest is a large defense budget. For the defense industry, it is profits. According to Clausewitz's logic, that implicitly makes war an extension of political economy, even if other factors are also in play.¹⁶

5.2 Marxist vs. Neoclassical approaches to the economics of war

¹⁶ Moosa (2019, chapter 2) argues war is always and everywhere driven by the pursuit of economic interests and the pursuit of economic gains is primary.

The MIC has an economic interest in promoting war, be it the threat of war or actual war. To understand that interest it is worth distinguishing between the Marxist and Neoclassical approaches to the economics of war. The two emphasize different lines of argument, with some overlap.

The Marxist approach dates to the beginning of the 20th century and is rooted in the economics of imperialism. Principal contributors include Hobson (1902), Luxemburg (1913), Kautsky (1914), and Lenin (1916). For Marxists, imperialism is the product of nation state capitalism's drive for economic surplus and gain. That search ultimately leads to imperial conflict over the division of colonial surplus or over conflict for colonial markets that can provide a vent for excess domestic production.

The theory was developed in the age of imperialism and was therefore cast in terms of colonies and imperial conflict. Below it lies a theory of capitalism as a cause of war. If that logic is right, the Marxist view continues to have relevance and application today.

The Neoclassical approach is more parochial and identifies the MIC as directly fomenting war. The logic is the defense industry supplies war services from which it profits, giving it an interest in promoting war as that increases demand for such services. Increasing the demand for war services is the MIC's ultimate objective, and actual conflict may result as part of achieving that goal.

The logic of the Neoclassical approach is captured in the opening paragraph of Major-General Smedley Butler's (1935) pamphlet against war:

“War is a racket. It always has been. It is perhaps the oldest, easily the most profitable, surely the most vicious. It is the only one international in scope. It is the only one in which the profits are reckoned in dollars and the losses in lives.

A racket is best described, I believe, as something that is not what it seems to the majority of people. Only a small “inside” group knows what it is about. It is conducted for the benefit of the very few, at the expense of the very many. Out of war a few people make huge fortunes.”

Butler’s “racket” analogy resonates with the MIC. Both the defense industry and military benefit from preparation for war, and both have a common interest therein.

That said, there are also differences of interest regarding actual war since the military bears the casualties and destruction of equipment. That makes the military more cautious about war. Balancing that, war leads to immediately increased military budgets, part of which may be a permanent ratchet up.¹⁷ Furthermore, war also serves to prove the case for having a large military, which makes the military open to periodic conflicts.

5.3 Increasing the public’s demand for war services and war: some preliminaries

The MIC’s ultimate objective is to increase the demand for war services. As noted above, the politics of capture and political alliances are one way of doing that. Another way is by increasing the public’s demand for war services and war. That involves multiple different channels of social engagement and manipulation, some of which are briefly reviewed below.

Before analyzing those channels, there are some important preliminaries to note regarding the distinction between war services and war, and regarding differences of interest in war between the defense industry, the military and the public. First, the distinction between war services and war is important. War services concern the size of the military. War concerns the engagement in combat. Both are relevant for the MIC, but the distinction has significant analytical implications.

¹⁷ This was the case with World War II and the Korean War.

Second, the MIC consists of the military and the defense industry. They share a common interest in increased demand for war services, but they have a different position on demand for war. The defense industry likes war because equipment is destroyed and needs to be replaced. The military is much more cautious about war because it bears the cost, in deaths and destruction of equipment. That said it realizes war also proves the need for a military.

Third, the public also bears the costs of war, via increased military expenses, and via any collateral economic damage that comes with war. *Ergo*, its interests are slightly differentiated.

Fourth, the MIC operates to increase demand for war services and war within a cultural historical context. That context is very important and impacts the public's receptivity to the MIC's activities and messages. History is important because the US has enjoyed a favorable historical experience of war, which has likely influenced the public's understanding of and attitude to war.¹⁸ Culture is important because it also affects attitude to war. For instance, to the extent the US public believes in the narrative of "US exceptionalism", whereby the US is viewed as a special country with unique global rights of interventionism in the name of promoting democracy, that will induce crusading self-righteousness which contributes to a societal predisposition toward the military and war. As discussed below, the MIC has an interest in fostering the "exceptionalism" narrative which is supportive of interest in increased demand for war services. It is also tactically useful for the US as the narrative provides a rhetorical cloak for military interventions abroad that are motivated by pure national self-interest.

¹⁸ In the 19th century the US benefitted from its conquest and colonization of the North American continent, its military conquest of Northern Mexico (now Texas, New Mexico, Arizona, Nevada, and California), its conquest by coup d'etat of Hawaii, and its victory in the Spanish-American war of 1898. In the 20th century, it was a huge beneficiary from World War I and II, which are discussed further in Section 6 below.

The rest of this section details some of the ways in which the MIC increases public demand for war services and war. That includes measures used for political capture (see Section 4). For instance, thinktanks are used to reward politicians and friendly media personnel, and their activities and publications may also be directed to fostering a public sense of national security paranoia that drives increased demand for war services.

Lastly, viewing the MIC's public relations activities through a demand for war services perspective is corrosive of conventional thinking. That is because conventional thinking views preferences, understandings, and points of view as given by nature, whereas the argument below is the MIC manipulates those features. That argument is resisted by mainstream economists who subscribe to the consumer sovereign assumption. It is also resisted by the public who dislike being told they may have been manipulated.

5.3.1 The military-entertainment complex (MEC): fostering a culture of militarism

A first way in which the MIC works to increase public demand for war services is by fostering a culture of militarism that looks favorably on the military and is comfortably disposed to war. At the center of that is the military-entertainment complex (MEC) which has the MIC and the entertainment industries collaborating for their mutual benefit.

Many countries have MECs. In the US, the MEC has historically been centered on Hollywood, but it now extends into the worlds of video games, sports, etc. The military band can be viewed as one of the oldest of such cultural interventions. As documented by the *Wikipedia* page "Military-entertainment complex", the US MEC came of age in World War II when the government started using entertainment as a form of propaganda.¹⁹ *Wikipedia* provides a long list

¹⁹ See https://en.wikipedia.org/wiki/Military%E2%80%93entertainment_complex.

of major film collaborations with the military that include commercial successes such as *Red Dawn* (1984) and *Black Hawk Down* (2001), and blockbusters such as *Top Gun* (1986) and *Indiana Jones and the Last Crusade* (1989). The collaboration continues with the recent blockbuster *Top Gun: Maverick* (2022).

Another area of engagement is sporting events. Thus, the military sponsors NASCAR racing, and there is frequent pro-military presence at collegiate and professional sporting events. That presence includes military bands, parachute drops, and military fly-overs. Those activities can be given a dual rationale. One goal is to promote a pro-military attitude and identification with the military. A second goal is to promote recruitment.

5.3.2 The military-media complex (MMC): good guys vs. bad guys

A second way of increasing the public's demand for war services is via the media, with which the MIC has a close relationship that is sometimes referred to as the military-media complex. While there is warranted need for media management regarding military combat engagements and classified national security matters, the military-media complex goes far beyond that with the relationship exhibiting hallmarks of manipulation and incest.

The website of the NGO *Fairness and Accuracy in Reporting (FAIR)* has a library of articles detailing instances of biases in media reporting about the US military and national security policy. Those biases foster a “good guys - bad guys” view of the world. They include placing all the blame on and attributing all aggression threats to US opponents; denying the US bears any blame and denying the existence of any US aggression threats to geopolitical

opponents; downplaying the extent and cost of US military engagements; and non-reporting of developments that negatively implicate the US military and national security policymakers.²⁰

The military and defense establishment have powerful levers to co-opt the media. Uncooperative journalists risk exclusion from briefings and tips, which can harm their careers. That exclusion tactic has leverage throughout the media chain of command, with newspaper editors valuing their “insider” contacts with top officials. Additionally, there is always the background financial mechanism of defense industry advertising dollars which can be dialed up or down to reward or punish. The media also plays along via its employment of former senior military officers as national security consultants (Grim et al., 2021).

The social science of media manipulation is complex. There is evidence that, barring outright falsehood, public opinion cannot be manipulated significantly at a moment in time (Mueller, 2021). However, public opinion can be shifted over time, and the media can then cement that position. Moreover, the media is a for-profit business and has an incentive to do so. That is because it has an interest in selling its product (i.e., news stories), which is best done by slanting those stories to fit potential readers’ existing tastes and understandings. Consequently, a profit-seeking media has a systemic incentive to reinforce the existing societal consensus rather than challenge it. That is not a product of conspiracy, but rather a product of market incentives.

In sum, the MIC has an interest in using the media to manipulate public opinion, has the power to do so, and the evidence suggests it does. The media also has an incentive to both play along and stick with the party line once it has become societal consensus.

²⁰ The *FAIR* webpage on “War & Militarism” is <https://fair.org/topic/war-military/>.

5.3.3 The military-thinktank complex (MTC): managing society's thinking about national security

A third way of increasing the demand for war services is by changing society's thinking about national security and geopolitics. Here, the critical mechanism is the military-thinktank complex (MTC), which extends deep into academia and might also be called the military-thinktank-academia complex (MTAC). The academic component is important as it confers an added element of intellectual pedigree.

The list of such thinktanks is international and long, and several major national security related US thinktanks were identified in Section 4. There, the discussion focused on political capture, and included a focus on patronage, conferring intellectual legitimacy, and assisting the professional advancement of those allied with the MIC. Here, the focus is how thinktanks influence how society thinks about national security and geopolitics, thereby increasing the public's demand for war services.

That involves a steady stream of widely disseminated newsletters, op-eds, reports, articles, and books. It is accompanied by in-person large and small conferences, accompanied by a convening function that brings together policy makers, academics, and public opinion influencers. The thinktanks also provide expert opinion to the media and government bodies which seek their expertise. The goal is to shape public thinking about national security and geopolitics in ways that conform with the MIC's interests.

However, though the MIC partially funds these thinktanks and there is a revolving door between the two, the MIC does not directly control them. Consequently, there is room for a chink of difference of opinion between the two. Indeed, that difference is tactically valuable as a degree

of distance confers a patina of intellectual independence, whereas the structural reality is tightly knit alignment.

The MTC provides the dominant narratives about national security and geo-politics. The unanswerable question is to what extent such narratives are the product of objective assessment versus self-interested partisan alignment. What can be said is that the MTC narrative will always fit the MIC's interest to the extent conditions permit. There are also always critical counter-narratives, but they are ignored by the MTC, thereby denying those counter-narratives exposure and legitimacy.

The system is illustrated by the evolution of geopolitical narratives over the past eighty years. In the Cold War era (1945-1990), the Soviet Union was widely viewed as both a military and ideological threat. That consensus was bi-partisan and served the MIC's interests, justifying the huge arms race of the era and the spread of US military bases around the world. The post-Cold War era (1990-today) has proven more complicated. The US emerged as the sole super-power, and Russia was decisively weakened. That environment proved counter-productive to the MIC as the US's over-whelming military superiority spoke against need for more war services, and it prompted a search for new justifications of militarism and military spending. In the 2000s that was provided by the "War on Terror" and the notion of a "clash of civilizations" between Western and non-Western cultures (Huntington, 1996). It was also supplemented by the notion of the US as global defender and promoter of democracy which, in turn, drew on the idea of "American exceptionalism" whereby the US believes it is exceptional compared to other countries. The "clash of civilizations" appealed to Republicans. Democracy promotion appealed to Democrats. Together they established a renewed bi-partisan consensus for foreign interventionism and increased military spending.

Furthermore, those two narratives have now been supplemented by the new narrative of “Autocracy Inc.” (Applebaum, 2021) whereby the US faces an existential threat from autocratic regimes in Russia, China, and Iran which are threatened by the success of democracy. That existential threat means the US is now engaged in another global struggle akin to the Cold War, which warrants military spending and foreign military interventions on a similar scale.

The Autocracy Inc. narrative is important because it adds China into the mix, along with Russia (unrepentant Cold War adversary) and Iran (clash of civilizations adversary). Moreover, since democracy is universally flawed and elections often contested, the US can add any country which crosses it to the list (e.g., Turkey, Venezuela). The net result is the ground has been laid for huge military budgets far into the future, and there is no clear criterion for determining an end to such spending.

There is also a clear counter-narrative which says there is no clash of civilizations; there is no Autocracy Inc. conspiracy to rule the world; the US is not exceptional; and the US does not promote democracy, but only uses it as rhetoric to cloak its self-interested foreign interventions and as a weapon to attack its rivals. Those rivals are undemocratic because they have no history of democracy, and democracy would not work because of that. They also have neither the power nor the interest for engaging in a global struggle with the US. Instead, they are responding to the US’s attempts to block them developing into powerful countries that stand on par with the US in the global order.

There is no algebra that can prove which narrative is right. However, the facts are consistent with the hypothesis that the MTC produces narratives that support the MIC’s interests, and those narratives are pushed to become societally dominant. Side-by-side, the MTC dismisses and blocks counter-narratives.

5.3.4 The MIC and resistance to arms control

Section 3.2 analyzed the economic logic of country arms races, showing they are economically costly and rational in an uncoordinated world. Arms control is the necessary way to prevent them. The above analysis shows why arms control is likely to be a lost cause in an economy dominated by the MIC. That is because the MIC has a fundamental institutional interest in blocking arms control, which strikes at the heart of its business.

The defense industry is the most hawkish in its opposition as it profits from both war and the demand for war services. The military is inclined to be less hawkish as it bears some costs of war. In principle, the public should be supportive of arms control, but that is where political capture and the demand increasing activities of the MIC kick in. Those features work to suffocate the public's support. The channels of suffocation are multiple. Funded by the defense industry, the thinktank world (MTC) casts intellectual doubt on the safety and viability of arms control. So too does the media (MMC). The defense industry enlists the support of shareholders, financial institutions, industry suppliers, employees and unions, local communities, and politicians. And the military enlists the support of current and ex-service personnel and their families. Moreover, the bigger the MIC, the more powerful that opposition.

Ironically, a stronger push for arms control may come from countries with state-controlled defense industries (Autocracy Inc.) as the profit motive is diluted, and state ownership creates an institutional format which may fold in more elements of public interest. However, the MIC (and its client thinktanks) stands to reject such overtures from others on grounds that they are a subterfuge, evidence of weakness, and a sign that current strategy is working.²¹

²¹ The same logic holds for overtures for peace in conflicts, especially proxy wars.

6. Increasing the demand for war by lowering the cost: war as an extension of political economy, part II

Section 5 examined how the MIC seeks to increase the public's demand for war services by shaping both the public's and politicians' understanding of national security and geopolitics. That complements its capture activities (discussed in Section 4) which also increase the demand for war services by twisting decision-making inside government.

There is another way of increasing the demand for war services, which is by lowering the cost of war. Borrowing from Marshallian demand theory, preference manipulation and political capture shift out the demand curve for war services and war, whereas cost reduction is akin the moving downward along the demand curve.

Demand cost is usually thought of in terms of market price, and there is an element of that regarding the demand for war services and war operating via the price of military equipment. That price was discussed in connection with the economics of bilateral monopoly and capture theory. A lower market price of military equipment stands to increase the demand for war services and war. As regards war services, it means the military can purchase more equipment. As regards war, the lower price means the military will be larger and the budget cost of war will be lower. A larger military will tend to increase the likelihood of war on the principle of "If you build, you will use it." A lower budgetary cost will decrease resistance to war from top military brass, politicians, and society on standard economic grounds.

However, the more important cost is that of death and destruction (henceforth d&d), which is borne by the military and society. That d&d cost introduces an important difference between the military and the defense industry. Since the military bears some of those costs, they discourage the military from going to war. In contrast, the defense industry bears none of those

costs and only benefits from war, which makes it even more hawkish and dangerous. As discussed below, the military seeks to manipulate and lower d&d costs. The US is also structurally privileged with a far lower d&d cost than other major powers, which helps explain its proclivity for conflict.

6.1 The economic cost of war

As regards the d&d cost of war, the empirical consensus is that war has a significant negative impact on the level and growth of GDP per capita (Thies and Baum, 2020; Koczin and Chupilkin, 2022). However, assessing that impact is complex owing to different types of war (e.g., interstate versus civil) and differences in war duration. The destructive effects work via destruction of human and physical capital. Koczin and Chupilkin (2022) report GDP per capita for wars on territory drops by 7 percent, and the losses are larger for interstate wars and for the losers. There are also other costs related to post-war inflation and post-war debt burdens (Barthalon, 2022). Additionally, there is growing realization of war's climate costs (Weir, 2024).

6.2 The US as a special case

The US's experience of war is singular and helps explain the MIC, the extraordinarily large US military budget, and the US's willingness to engage in foreign wars. US political economist Paul Poast (2006, p.3) writes in his textbook of an "iron law of war" whereby "war is good for the economy". That iron law applies exclusively to the US, and stems from the US experience of the two World Wars and the Korean War.

The US emerged from the two World Wars as the world's dominant military and economic power. In 1914, Western Europe was the center of the global economy and home to the dominant global military powers. By 1945, Europe's power had been swept away and transferred to the US. The US stayed out of both World Wars for a significant period after their beginning,

and the US mainland was protected from war damage by the Atlantic and Pacific Oceans.²² In both wars the US acted as military supplier to the Allies, and its economy benefited massively from the resulting economic stimulus and enhanced manufacturing investment incentives. Additionally, the US received much of Britain's accumulated financial wealth in return for those supplies. By the end of World War II, Britain was a net debtor to the US, so that a significant portion of two centuries of British imperial exploitation ended up in US coffers. Moreover, as part of the war effort, Britain transferred huge amounts of scientific know-how and human capital, enabling the US to become the global scientific leader.²³ By 1945, much of Europe also lay in ruins, with its industries degraded by destruction and forced wartime under-investment, whereas US factories were intact and modernized. Consequently, the US was also the global industrial power.

The above thumbnail history speaks to how the US has benefited from war in the 20th century. The economic logic is illustrated by the matrix shown in Table 2, which shows the principal factors determining the net costs of war. The rows identify the state of the economy as having "Unemployment" or being "Near-full employment". An economy with unemployment gains from war via the Military Keynesian stimulus multiplier effect discussed in Section 3. Contrastingly, an economy near full employment is prone to the adverse effects of inflation. Additionally, there may be some temporary and permanent positive supply-side effects.²⁴ Those

²² World War I began in August 1914 and the US joined in April 1917. World War II began in September 1939 and the US joined in December 1941.

²³ The transfer of know-how was organized through the September 1940 Tizzard Agreement, which Winston Churchill approved to prevent that know-how falling into German hands were Britain defeated.

²⁴ The temporary effects reflect the response of workers and business to patriotic appeals for stepped up effort, while the permanent effects reflect the impact of necessity driving innovation.

combined supply and demand effects explain part of the large benefits to the US of World Wars I and II, in which it was a late entrant and it also had unemployment at the wars' start.

The columns identify the war's location, and the key distinction is between "On-territory" and "Off-territory" wars and conflicts. On-territory wars result in destruction of the domestic capital stock, making them hugely more destructive. The US is structurally advantaged with a lower d&d cost of war due to the Atlantic and Pacific Oceans, which have ensured its wars are "always" fought off-territory. Consequently, even when the US loses a war or is stalemated, the costs are relatively small. It is that feature which explains the so-called "iron law of the war" and why it applies uniquely to the US.

Table 2. Factors influencing the net costs of war and why the US is special.

		US war locations (20 th century)			
		On-territory wars	Off-territory major wars	Off-territory military engagements	Off-territory proxy wars
US economic conditions at start of war	Unemployment		World War I World War II Korean War		
	Near-full employment		Vietnam War Gulf War Iraq War	See Wikipedia "Timeline of United States military operations"	African Cold War conflicts, Afghanistan 1980s, Former Soviet republics (Ukraine, Georgia)

The Atlantic-Pacific cost reduction effect cannot be overstated. Not only does it mean wars are not fought on US territory, but it also means that wars are not fought close to US territory as the US is hegemonic in the Western hemisphere. There is none in the hemisphere

who can challenge the US or viably host a challenger.²⁵

In addition to off-territory major wars, Table 2 shows there are also off-territory military engagements and off-territory proxy wars. Those latter two types of war are even less costly. Military engagements involve short-duration combat missions by US forces against minnow opponents, while proxy wars are fought by others who the US supplies as the war advances US interests.

6.3 The lower structural cost of war and the demand for war

The lower US structural cost of war is of paramount significance, increasing the US demand for war by both the military and the public. In doing so, it also increases the demand for war services, which increases the size of the MIC. The attitude toward and decision to go to war can be viewed through the prism of a complex benefit-cost calculus. The US's lower structural cost tilts that calculus in favor of war, as it knows that war will be off-territory and very distant from its borders. Other countries' benefit-cost calculus is conditioned by knowing war may be on their territory or close to their borders. Even if the war is not directly on their land, they will confront the backwash of war in the form of refugee flows and increased likelihood of non-standard assault (e.g., terrorist attacks). Moreover, war is always risky and may spin out of control, so that wars begun elsewhere may shift to the homeland. That possibility has increased with technology, first by the introduction of aircraft, then by missiles, and now by drones. The Atlantic and Pacific provide the US with a massive geographical protective buffer against that.

Usually, economics separates cost (supply) and preferences (demand), but the uniquely low US structural cost of war may alter the public's deep feelings (i.e., preferences and demand)

²⁵ Cuba came close to changing that equation in 1962.

about war, making it more supportive thereof. Protected from the adverse effects of war, war may come to be viewed more lightly and the public may even derive satisfaction from the feelings of dominance and exercise of national power. Experience shapes understandings and preferences so that the US's lower structural cost of war seeps in to influence its preferences for war. That then begets a militarist political multiplier dynamic whereby preferences for war beget a bigger MIC, which increases the power of the MIC and its ability to shift public opinion and politics further in favor of militarism.

6.4 Reducing the cost of conflict by changing the type of conflict

Major wars are costly to the US even if they are off-territory. That gives the military reason to shift to off-territory military engagements and proxy wars, which can accomplish its mission and serves its interests at lower cost. Proxy wars may be the best of all. Military lives are not at risk; the defense industry gets to sell equipment; and the sense of potential national security threat is kept visibly alive which maintains (or even increases) the demand for war services. That is illustrated by the Ukraine - Russia conflict (2022 -) which the US has turned into a proxy war. It has been opportunistically used by the MIC to justify a large increase in the US military budget and has provided a large stimulus to the US defense industry (Gutierrez, 2023).

Such considerations help explain the accelerating drift toward "military engagements" in which the military publicly displays and uses its firepower against a declared enemy but stops short of full-blown actual conflict. Technology may also be promoting that drift via use of aircraft, missile, and drone strikes.

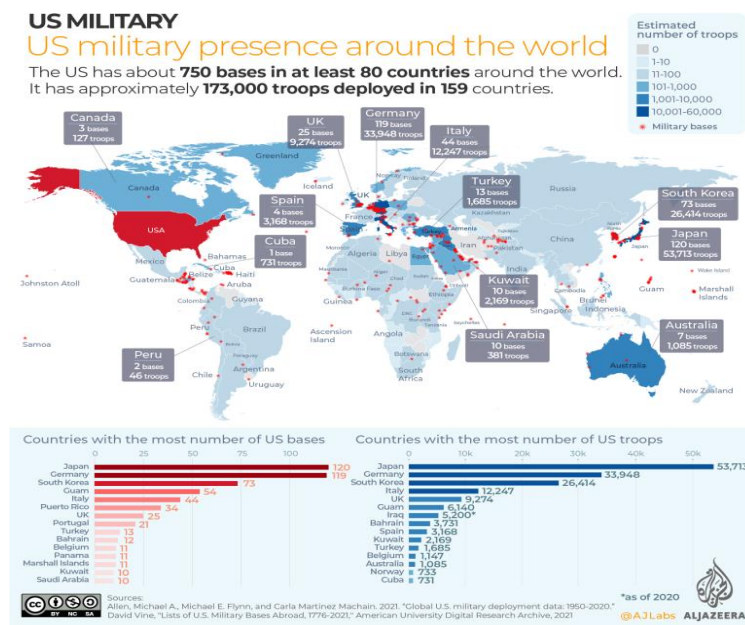
Assessing those features is complicated as what is good for the MIC may be considered bad for society. Thus, lowering cost increases the proclivity to and frequency of conflict, with attendant risks that each conflict could have unintended consequences. That is bad for society,

but the MIC may benefit because increased frequency of minor conflicts may increase the sense of national insecurity, which increases the public's demand for war services.

6.5 Evidence re US off-territory wars and conflicts

The above logic re off-territory conflict and changing the type of conflict is supported by evidence. Earlier, Figures 3 and 4 showed how the US spends massively more on military as share of GDP. Figure 9 shows the scale of US off-territory military activity. It shows the global distribution of US military bases, facilities, and troop deployments in 2020. The US had around 750 bases in over 80 countries, with approximately 173,000 troops deployed in 159 countries.

Figure 9. Global distribution of US military bases and facilities in 2020.
 Source: American Geographical Society, <https://ubique.americangeo.org/map-of-the-week/map-of-the-week-mapping-the-global-u-s-military-bootprint/>



As for US off-territory wars and conflicts since the end of World War II, the US Congressional Research Service (2024, p.2) lists the US as having been engaged in 6 major wars (Korean War, 1950-1955; Vietnam War, 1955-1975; Persian Gulf War, 1990-1991; Afghanistan War, 2001-2021; Iraq War, 2003-2011; and Syrian Islamic State War, 2014-2020) and 3 selected military operations (Lebanon, 1982-1983; Grenada, 1983; Panama, 1989-1990). In addition,

there have been multiple foreign military engagements and foreign deployments such as the bombing of Serbia (1999), the bombing of Libya (2011), and the deployment of troops in the Sahel since 2013. The list of US military engagements over the last two decades is long and growing. *Wikipedia* has an entry “Timeline of United States military operations” that documents them.²⁶

6.5 Other ways in which the military lowers its cost of conflict

The military has an institutional interest in increasing the public demand for war and war services. That can be done affirmatively by increasing popular support, as described in Section 5. It can also be done by reducing popular opposition, and the US military does that too. One small example of this is the “Dover ban” put in place in 1991, whereby the US military bans the media from covering the return of dead US soldiers at port of entry or interim stops. That ban was put in place to hide the cost of war and retain public support for war.

A second more substantial example is the US switch to an all-volunteer military in 1973, which was adopted because opposition to the draft spurred mass resistance to the Vietnam War. Friedman (1967) advocated for a volunteer military on economic efficiency grounds, arguing it was both more operationally cost effective and also more socially efficient to allocate labor according to the principle of opportunity cost.²⁷ Friedman’s logic suits the military (and the elite), but it may be very sub-optimal because it undermines the political process whereby society keeps a check on the MIC’s pushing of war services and war. The net result is society is worse off because the cost of additional war services and wars owing to lack of political

²⁶ See https://en.wikipedia.org/wiki/Timeline_of_United_States_military_operations.

²⁷ The logic is those who are very productive in other occupations should not serve. Instead, those who are less productive and paid less in civilian life will volunteer, and they will be paid by from the taxes of those who are more productive and remain in civilian employment.

opposition exceeds the benefit from shifting to a volunteer army. That constitutes a form of second-best policy failure.²⁸

7. The MIC as a proto-type variety of capitalism and threat to democracy

The third and final stage of the paper addresses the MIC as a variety of capitalism and threat to democratic freedom. The term varieties of capitalism (VoC) was introduced by Hall and Soskice (2001). Since then, it has been used to frame a vibrant discourse about the foundations of contemporary capitalism and the possibility of alternatives. That literature is surveyed by Palley (2022b).

7.1 The poly-industrial complex (PIC) with the MIC primus inter pares

The MIC constitutes a variety of capitalism, understood as a form of institutional organization. That institutional form was illustrated in Figure 8, and it has now come to dominate contemporary capitalism. At its core is the relationship between the military, related bureaucracy, and the defense industry. Considered more broadly, it involves a three-sided matrixed relationship between the military and related bureaucracy, the defense industry, and the political sector. In the US, the latter is the U.S. Congress, which is why the MIC is sometimes also called the Military-Industrial-Congressional Complex (MICC).²⁹

The MIC was the prototype of this organizational form, which is widely imitated so that the economy is now organized around an array of complexes. Those include the medical-industrial complex, the Wall Street financial complex, the Big Oil complex, and the Silicon Valley technical complex.³⁰ Galbraith (2008) terms that form of capitalism the “Predator State”.

²⁸ Former Representative Charles Wrangel persistently sought to restore the draft on both political failure grounds and because poor and racial minorities disproportionately serve in a volunteer army.

²⁹ In other countries, the third leg is the parliament or national assembly.

³⁰ The framework model in Figure 8 is easily applied to explain the different elements of the poly-industrial complex by relabeling the blocs to fit different business complexes. For instance, the Wall Street complex would place the

An alternative label might be the “Poly-Industrial Complex (PIC)” or “Poly-Industrial-Congressional Complex (PICC)”. Sticking with Galbraith’s colorful terminology, the label would be the “Predator-Industrial Complex” or “Predator-Industrial-Congressional Complex”. As with the MIC, the construct of the PIC also applies to other capitalist countries, and it too is colored by local conditions (political, cultural, and economic).

A strength of the model described earlier in Figure 8 is it integrates politics into the economic system. PIC capitalism is fundamentally a political creation, with the PIC (and especially the MIC) being a product of the system of collective choice (i.e., politics). Politics is “foundational”, not “superstructural”. It is not an appendage sitting atop a “natural” economy. Instead, politics is embedded in the making of the economy so that the economy is fundamentally a political creation. As argued in Palley (2022b), VoC are always significantly constructed via political actions in political spheres, and the economic ideas informing those actions are also politically informed. That holds for the PIC VoC, and it illustrates again why economics is better understood as political economy.

A distinctive theoretical feature of the model is its characterization of capitalism as a socio-economic institutional formation, which challenges existing economic theory. The PIC and MIC bond firms and different branches of government as one, and the public is also supportive and involved. That institutional frame is inconsistent with existing economic theory which benchmarks analysis by reference to an asserted imagined ideal of a competitive market economy, which is also ontologically impossible because many of the necessary conditions can never be.

financial sector at the center and the bureaucracies would be the Treasury, the Federal Reserve, the Securities Exchange Commission (SEC), the Federal Deposit Insurance Commission (FDIC), the Commodity Futures Trading Commission (CFTC), etc.

Instead, the PIC formulation sees capitalism as constituted by socially formed complexes, which places the PIC (and MIC) in opposition to existing theory's schema. Economies are always webbed socio-economic institutional complexes. Even when those systems are pushed to look like a market economy, behind the scenes are rules and regulations that have been forged within the complex.³¹ Economists emphasize the price system as the dominant economic mechanism. The above logic suggests it is better viewed as a subsidiary mechanism, in the sense of operating within the system given by the PIC.

The MIC is first among equals for multiple reasons. First, it spawned the organizational form that has since spread and come to dominate contemporary capitalism. Second, as shown earlier in connection with the discussion of Military Keynesianism, the MIC significantly impacts the level and composition of economic activity. It also affects the rate and pattern of economic growth because it plays a fundamental role in shaping both the direction and rate of technological progress. Third, the MIC has multiple huge impacts on the character of politics, the economy, and society. As regards politics, its impact is most visible in the composition of government spending, with military spending exceeding total discretionary non-military spending. In effect, the MIC crowds out social sector activities government might otherwise undertake. That crowding-out effect twists government's character, what it provides, and what it sponsors. Since government is key to the economy, re both character and composition of output, that twisting affects the entire economy. As regard society, the MIC has an interest in promoting militarism and national security paranoia to increase the demand for war and war services. That militarism and paranoia drip back into back into society to implicate freedom and democracy, as

³¹ As noted in Section 3, the toolkit of mainstream economics remains useful. It is the encompassing vision of mainstream economics that is problematic.

discussed below. Most importantly, the MIC inclines society to war, with the death and destruction that brings. In the extreme, it potentially threatens the survival of humanity owing to the existence of nuclear weapons. Those are hugely significant aspects of the MIC which implicate the overall character of contemporary capitalism, making the MIC *primus inter pares*.

Lastly, the above observations about the economy's character speak to weakness in the existing VoC discourse, which is in danger of becoming narrowly economic. Hall and Soskice (2001) focused on the microeconomic institutional differences re the organization of firms across polities. Since then, the discourse has abandoned that focus in favor of a growth focus, which speaks of growth regimes characterized by different macroeconomic determinants of growth (see Stockhammer, 2022). Whereas the recognition of the significance of growth is welcome, the turn to characterizing VoC in terms of growth regimes is questionable. Capitalism is much more than growth. It also concerns the composition of output, the character of technology and technical progress, the character of social relations, proclivity to military conflict, the character of political life and political freedoms, and psychological outcomes concerning happiness, alienation, and social solidarity. Framing capitalism exclusively in terms of macroeconomic determinants of growth misses most of that. The macroeconomic determinants of growth are also more akin to policy regime choice variables, rather than being defining ontological characteristics of the system. Furthermore, growth theory is highly contested, which jeopardizes the growth regimes taxonomy.

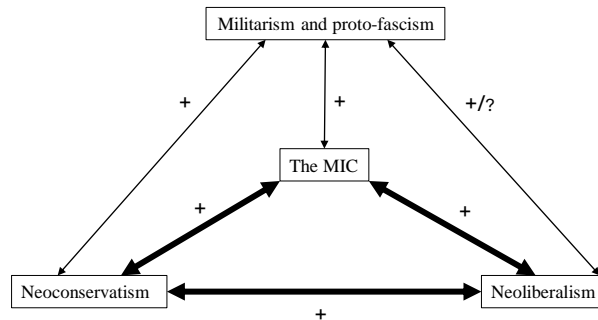
7.2 More on VoC: the MIC, Neoconservatism, and Neoliberalism

The MIC constitutes an organizational form that now dominates capitalism. However, that organizational form exists within different political economic regimes, which are also relevant to characterization of capitalism. Using an analogy with computers, the MIC is akin to “hardware”,

while the regime type is akin to “software”. The hardware corresponds to institutional and market form: the software corresponds to political economic ideology. Those ideological regimes are often characterized in terms of “ism”. This section and the next address the MIC’s relationship to today’s dominant isms of Neoconservatism and Neoliberalism, plus militarism and proto-fascism.

Today, the US economy can be described as a Neoconservative Neoliberal poly-industrial complex with a Neoconservative Neoliberal military-industrial complex. There are also indications the country is drifting toward militarism and proto-fascism. The relationship between those components is illustrated in Figure 10 which shows a triangle with the MIC in the center. The vertices of the triangle are connected by double-arrowed lines to each other and the MIC, with the arrows representing bi-directional effects. Those bi-directional feedback effects are positive as indicated, so that the elements are all mutually reinforcing. The MIC reinforces Neoliberalism and Neoconservatism, and vice versa, and they all reinforce militarism and proto-fascism. The one exception is the relation between Neoliberalism and proto-fascism, about which more below. This section details the relationship between the MIC, Neoconservatism, and Neoliberalism, which is demarcated by the heavy bolded lines. Section 7.3 details the relationship with militarism and proto-fascism.

Figure 10. The MIC in relation to other isms.



Neoconservatism is a US ideology that was birthed at the end of the Cold War and became ascendant in the 1990s. It holds never again shall there be a foreign power, like the former Soviet Union, which can challenge US global hegemony. The doctrine gives the US the right to impose its will anywhere in the world, including on the borders of rivals such as Russia and China. It is formally identified with the Project for the New American Century (PNAC) which was launched in 1997.³² That Project sunset by 2006, whereupon it was replaced by the Center for New American Security (CNAS) which was founded in 2007.³³ The Neocon doctrine initially seeded itself among hardliner Republicans like Dick Cheney and Donald Rumsfeld, and

³² The co-founders of PNAC were William Kristol and Robert Kagan. The latter is married to Victoria Nuland who has played a leading role in pushing NATO's eastward expansion and the Ukraine Policy of the Obama and Biden administrations. PNAC founding supporters dominated foreign policy in the G.W. Bush presidency (2001-2009). They include Dick Cheney, Donald Rumsfeld, and Paul Wolfowitz, who were instrumental in driving the 2003 invasion of Iraq. See *Wikipedia*, Project for the New American Century, https://en.wikipedia.org/wiki/Project_for_the_New_American_Century.

³³ See *Wikipedia*, The Center for New American Security, https://en.wikipedia.org/wiki/Center_for_a_New_American_Security. Victoria Nuland is a former CEO of CNAS.

Republicans dominated PNAC. Subsequently, it was adopted by Democrats like Hillary Clinton and Barrack Obama, which is reflected in Democrats dominance of CNAS. Neoconservatism has therefore captured both major US political parties, reflecting its hegemonic standing.³⁴

Neoliberalism is a political economic philosophy that argues laissez-faire economics is the best way to promote individual freedom and economic efficiency. The argument about economic efficiency has its roots in 19th century liberal economics. The argument about freedom was developed by Hayek (1944) as part of a response to the political turn toward socialism in the inter-war years. His argument was embraced with especial enthusiasm by the US business community and its academic allies. They saw Neoliberalism as a counter to both the Cold War ideological threat from the Soviet Union and the threat posed by Roosevelt's New Deal (see Burgin, 2012; Carter, 2020, Chapter 13).

The lower triangle in Figure 10 shows a positive feedback system involving the MIC, Neoconservatism, and Neoliberalism. The MIC is supportive of Neoconservatism and Neoliberalism, and they are supportive of it. The logic of the MIC – Neoconservatism link is

³⁴ An interesting tension concerns the relationship between US Neoconservatism and US allies like the UK, Germany, and France. By implication, the US claim to be globally hegemonic renders those countries subservient. They live with that inferior status via several mechanisms. The first, and most important, is the creation of a common enemy (e.g., China, Russia). That worked well in the Cold War when there was logic to it, but it is now increasingly strained by lack of logic. Second, there is the rhetoric of "special relations" beloved by the UK, which mitigates injured sensibility with verbal balm. Third, there is the rhetoric of NATO as an alliance of democracies, which is a mix of verbal balm plus an attempt to create a common enemy. Fourth, there is an economic interest. After World War II, there was the Marshall Plan and the GATT. The former gave grants and cheap finance to devastated European economies, while the latter gave Europe export access to the US market. Today, a major carrot is allowing European weapons producers to sell to the US military. Fifth, and increasingly important, European elites are gradually abandoning Europe in favor of the US via their private portfolio investments, which tie their wealth and well-being to the US rather than their own economies. That identifies them psychologically with the US and diminishes the burden and stain of subservience. That said, the current reality is an international relations system of sub-imperials whereby the US is the imperial power and its big allies are sub-imperials with some foreign policy autonomy of their own, but still answerable and beholden to the US (Fernandes, 202x).

clear. The MIC is interested in providing war services, and the Neocon project rests on a permanent ramp up of military power. Consequently, they support each other's interests. That is reflected in the funding of CNAS whose major donors include the major defense contractors such as Boeing, Lockheed Martin, Northrup Grumman, and Raytheon.

The logic of the MIC – Neoliberalism link is more complicated. Here there is need to distinguish between “idealized Neoliberalism” and “real world Neoliberalism”. Idealized Neoliberalism is skeptical of government, which includes the MIC, and is therefore suspicious of the MIC and inclined to limit military budgets. That skeptical position is reflected by the Cato Institute in Washington, DC. Real world neoliberalism is a pro-corporate policy program which aims to weaken labor, increase the power of business, and increase the profit share at the expense of the wage share (Palley, 2004). The defense industry is fully supportive of that agenda. The military's position is a little more complex. On one hand, it is a governmental organization which might make it antipathetic to Neoliberalism. That said, Neoliberalism espouses the anti-Soviet economic ideology of the Cold war which the military supports. Additionally, as discussed earlier, the military is captured by the defense industry via the “revolving door” system, which also inclines it to support Neoliberalism.

The same logic explains the positive feedback loop between Neoliberalism and Neoconservatism. Additionally, there are economic reasons why Neoliberalism is supportive of Neoconservatism and the MIC. Neoliberalism has driven the push for economic globalization which has seen increased trade, increased foreign real investment, increased cross-border financial portfolio investment and financial lending, off-shoring and foreign out-sourcing of production, and the establishment of long international supply chains. Protecting those investments, supply chains, and trade routes calls for a global military presence, which creates a

shared interest between the three elements of the lower triangle.

Lastly, the above consideration of the relationship between the MIC and today's dominant isms yields insights about the broader theory of VoC. First, VoC are combinations of institutional form (hardware) and political economic ideology (software). Second, the institutional form changes through time with changing technology and changing modes of organizing production and business. Third, as argued in Palley (2022b), politics is central to VoC as it shapes both institutional form and selection of ideology. Fourth, that centrality of politics creates space for societal choice re type of VoC.

7.3 The MIC as threat to democratic freedom: militarism and the drift to proto-fascism

The top half of Figure 10 concerns the relationship to militarism and proto-fascism. Militarism is a belief in military virtue and values that expresses itself in support for a large military, military preparedness, and high social esteem for members of the military. Proto-fascism is early-stage fascism, with politics beginning to display the characteristics of fascism. Those characteristics include intolerance, authoritarianism, and use of political violence. More specifically, the hallmarks are a belief in triumph of the will; triumph of the Big Lie; politics as total war; a sense of purpose above the law; and the death of aspiration to truth (Palley, 2021). Militarism and fascism are closely related in that fascism has historically always been infused with militarism.

Today, there is widespread concern that US politics have evolved in a proto-fascist direction, and that concern also extends to Western Europe.³⁵ The drift to proto-fascism is driven by multiple forces, and it is not the intention to review those forces here which would go far

³⁵ In the US, that concern is embodied in the political standing of Donald Trump, but it runs deeper and concerns the transformation of the Republican Party into an extreme right-wing and potentially fascist party. In Western Europe, traditional right-wing parties have either become more right-wing or they have been diminished by politically significant new parties that have emerged further to the right.

beyond the paper's scope.³⁶ Instead, the purpose is to add new arguments regarding the role of the MIC in promoting the drift.

The business of the MIC is war and provision of war services, which creates a direct business motivated link to militarism. Additionally, the military is a hierarchical authoritarian organization, and its culture fits with the hierarchical authoritarian culture of fascism. Likewise, the military specializes in the use of violence, and that also echoes with fascism. Lastly, the military seeks to assert its will by force of strength in combat, and that too echoes with fascism.

Beyond those obvious similarities, there are several more subtle socio-economic channels of promotion. First, society's admiration of the military involves tacit admiration for what the military does and how it goes about it, which impacts society's views re authoritarianism, violence, and achieving political goals via violence. The military's violent imposition of its will abroad seeps back into domestic attitudes.

Second, and more directly, there is a large cadre of current and ex-servicemen who are loyal to the military and embrace its hierarchical authoritarian structure and belief in violence (i.e., war) as a legitimate way of achieving political goals. That proto-fascist leaning in the military is evidenced by fears about political extremism within the US military, and by the involvement of former and current military personnel in the January 6, 2021, insurrection.³⁷

Third, society's embrace of the military may also have contributed to political and social

³⁶ Initially, the political establishment sought to deny the drift by identifying it with populist personality politicians, but now there is a growing admission of something systemic. That admission is reflected in acknowledgment that Donald Trump is a "symptom", though he is also causal in his capacity to politically channel the forces driving the drift.

³⁷ See "Extremism in the U.S. military: problems and solutions," American Defamation League, March 9, 2021, <https://www.adl.org/resources/blog/extremism-us-military-problems-and-solutions> and "Veterans and extremism: what we know," American Defamation League, June 16, 2021, <https://www.adl.org/resources/report/veterans-and-extremism-what-we-know>.

willingness to embrace the militarization of domestic policing. In the US, that process of militarization appears to have intensified over the past thirty-five years with the 1033 Program initiated in 1990, which established the Law Enforcement Support Office within the US Department to oversee transfers of excess US military equipment to the police. Those transfers are authorized under the National Defense Authorization Act.³⁸ The MIC has a strong logical interest in police militarization as it constitutes a significant business opportunity. The military trades-up in quality of equipment, and it also appears to be doing a service to civil society. The defense industry gets to supply the military with replacement new equipment.

According to similar logic, albeit less explicitly, Neoconservatism also likely fuels the drift to militarism and proto-fascism. First, it emphasizes the importance of a large and strong military, which is essential to its goal of making the US globally hegemonic and unchallengeable. Second, that aspiration involves the US forcefully imposing its national will on the rest of the world, which dovetails with fascist politics and culture.

Lastly, “real world” Neoliberalism also contributes to the drift to proto-fascism (Palley, 2022a). Here, there are two channels. The first, which is increasingly widely recognized, is via the economic resentment it creates among workers who have suffered from Neoliberal policy. That goes beyond income losses and disappointed expectations. There is also the effect of “social dis-embedding” resulting from deindustrialization, a phenomenon which Polyani (1944) emphasized in his explanation of the rise of inter-war fascism. The second channel, which is not recognized, is Neoliberalism’s effect on culture and psychology. Thus, Neoliberalism views economic activity through a Social Darwinist lens that emphasizes winners over losers, with

³⁸ See *Wikipedia*, “Militarization of police,” https://en.wikipedia.org/wiki/Militarization_of_police#:~:text=Military%2Dstyle%20tactics%20used%20by,especially%20common%20for%20drug%20searches.

winners exercising their will in the marketplace. That construction echoes fascist thinking. However, though Neoliberalism may encourage proto-fascism, it is not clear how proto-fascism impacts Neoliberalism. Hence, the ambiguous signing in Figure 10.

In sum, the MIC has promoted the drift to proto-fascism directly and indirectly. The direct effect is via celebration of militarism and the activities of the military. The indirect effect works via the MIC's promotion of Neoconservatism and "real world" Neoliberalism. That dark political effect has not been recognized in assessments of the MIC, and it supplements the adverse concerns identified earlier.

7.4 The MIC as threat to democratic freedom: civil liberties and the surveillance society

One way the MIC directly threatens democratic freedom is via its promotion of militarism and the socio-political blowback therefrom. A second way is by pushing the case for a surveillance society with curtailed civil liberties. Moreover, the two are connected in that the MIC's promotion of foreign wars and military engagements spurs terrorist activity and insecurities, which are then used to justify curtailing civil liberties.

That latter syndrome is illustrated by the 2001 9/11 attack by Al-Qaeda on New York City and Washington DC which prompted the Patriot Act (2001). The act was passed within seven weeks of the attack and authorized significantly expanded domestic and international surveillance powers. Those powers were supposed to expire in 2005 but were repeatedly reauthorized, until eventually expiring in 2020. However, they were significantly restored in the 2024 reauthorization of the Foreign Intelligence Surveillance Act (FISA, 1978) which was strongly supported by the national security apparatus. Not only did the reauthorization grant some warrantless surveillance of US citizens, thereby reaffirming the principle, but it also requires information technology (IT) providers to surrender the data records of citizens. That

extends the scale of surveillance by tacitly compelling IT providers to spy on behalf of government.

The push for a surveillance society comes from within the military and the national security apparatus, but it is supported by players in the defense industry for which it is potentially another profitable line of business. The push extends the MIC into the information technology and artificial intelligence sector, which is already enormous and will be a vitally important sector of the economy for the foreseeable future. That extension expands the size of the MIC as the “Silicon Valley high tech” complex becomes increasingly enmeshed within it.

In sum, the tension between civil liberties and national security is ever-present, and would exist with or without the MIC. That said, the MIC’s promotion of foreign wars increases the tension and has contributed to erosion of US civil liberties. That erosion is characterized by a ratchet process, whereby liberties lost are not easily restored. The MIC benefits from the process institutionally and economically, and it provides the political muscle that drives it.

The grave danger is surveillance powers granted in the name of national security can easily be used domestically, thereby facilitating a proto-fascist domestic political order. Like militarism, the logic may also drip back into domestic policy, so that the rationale for national security surveillance is enlisted to justify domestic policing surveillance. The danger therefrom has grown over time owing to the increased capability for surveillance resulting from increased reliance on IT and the rise of the internet.³⁹ Thus, by putting its heavy self-interested thumb on

³⁹ Technology and technological change are massively implicated and they have amplified the danger of a surveillance society. That is because advances in and increased use of IT mean far more of societal life is readily surveilled. More of conversational life is capturable via telephone calls, text messaging, and e-mail. Side-by-side, the turn to computing means much more of private life (including thought life) is easily surveilled as electronic documents have substantially replaced paper, and that trend development continues with the growth of internet cloud computing. Additionally, e-commerce means economic transactional life is also easily surveilled. Surveillance of space and mobility is also becoming easier with intelligently wired buildings and homes, vehicle monitoring

the policy scale and tilting it toward surveillance, the MIC again becomes a potential threat to freedom in the name of protecting freedom.

8. Conclusion: summing up and some implications

This paper examined the political economy of the military-industrial complex (MIC), which is a prototype widely imitated by other business sectors. Collectively, they constitute a variety of capitalism that can be termed the poly-industrial complex (PIC). Understanding the model spawned by the MIC is critical to understanding contemporary US capitalism and its political economy. It is also critical for understanding US international policy and the global drift toward Cold War II.

The MIC has a massive impact on the economy and politics. It twists the composition of activity toward military spending; twists the character of technical progress, has a corrosive societal effect via its capture of politics and government; twists society's understanding of geopolitics and national security as part of increasing demand for war services; promotes militarism and increases the likelihood of wars; and promotes proto-fascist drift because militarism drips back into national politics.

It also implicates international relations, which cannot be understood without reference to the MIC. The establishment US narrative constructs geopolitics in terms of a "good guys/bad guys" morality play. That narrative may be true. However, it is also true the MIC has an incentive to create and promote such a narrative and the power to have it accepted, and it may be exaggerated or even false.

Given those features, the MIC is of first-order significance as President Eisenhower

technology, and internet video streaming technology. Putting the pieces together, it is becoming possible to surveil almost the totality of life.

warned, and the consequences of failure to understand it are likely to be grim. The MIC is a political system, which places politics at the center of possibilities for change. That raises questions about the character of the social and political system, regarding whether the demand for change can be mustered and whether the political system will permit it.

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