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Swords, Plowshares and Jobs

How does it happen that government spending devoted to healthcare, education, environmental sustainability and infrastructure can generate up to twice as many jobs per dollar as spending on militarism?

Three factors play a role in determining the overall job effects of any target of government spending. Let's compare the construction of Camp Victory, the main US military base on the western outskirts of Baghdad, with weatherizing

existing homes in New England to increase their energy efficiency. The first factor to consider is the jobs that get created directly by each project. The second is the job creation in the industries that supply products for building the camp or weatherizing the homes. These would include the steel, concrete, weapons and telecommunications industries for building Camp Victory; and lumber, insulation and trucking industries for home weatherization. Finally, new jobs will result when people who are paid to build Camp Victory or weatherize a house spend the money they have earned--a weapons engineer at Camp Victory buying a lawnmower during his vacation leave at home or a construction worker in New England buying a new car.

How does one spending target create more jobs for a given amount of dollars spent? Still considering Camp Victory construction versus New England home weatherization, there are, again, three factors:

1. More jobs but lower-paying jobs. Average pay is lower in the construction industry working on home weatherization in New England than in mounting weapons installations at Camp Victory. So a given pool of money is divided among more employed people.

2. More spending on people, less on machines and supplies. In weatherizing a home, the machinery and supplies costs are relatively low, while the need for construction workers is high. Building a high-tech military base in Baghdad entails enormous investments in steel and sophisticated electronic equipment and relatively less spending for people on the job.

3. More money stays within the US economy. We roughly estimate that US military personnel spend only 43 percent of their income on domestic goods and services, while the overall population spends an average of 83 percent of their income on domestic products and 17 percent on imports.

It is important to know which of these three factors is relatively more important in generating the overall increase in jobs. In particular, it would not necessarily be a favorable development if the overall increase in employment opportunities is mainly just a byproduct of creating lots of low-paying jobs.

In fact, if we were simply to send a rebate to taxpayers for the full amount of the Iraq War budget--i.e., a measure similar to Bush's current stimulus plan--the increased spending on personal consumption would produce lots of what are now bad jobs, in areas such as retail, hotels, restaurants and personal services. Because of this, a transfer of funds from the military to tax rebates and personal consumption increases would produce a 25 percent increase in employment but an 11 percent decline in overall wages and benefits paid to working people.

The opposite is true with education as the spending target. Here, both the total number of jobs created and the average pay are higher than with the military. It's less clear-cut when it comes to healthcare, energy conservation and infrastructure investments. More jobs will be created than with military spending, and the total amount of wages and benefits going to workers will also be significantly higher than with military spending. But the average pay for a healthcare worker or those engaged in mass transit or construction is lower than in the military.

Is it better for overall economic welfare to generate more jobs, even if average wages and benefits are lower? There isn't a single correct answer to this question. It depends on the size of these differences: how many low-paying jobs are being generated, and how bad are these jobs? How many high-quality jobs would be sacrificed through a transition out of the military, where the average pay is relatively high? Indeed, by completely shutting off Iraq War-related spending and transferring the money in equal shares to education, healthcare, energy conservation and infrastructure, average salaries would decline. However, the majority of new jobs created by these peaceful alternatives would command salaries above a reasonable living-wage standard of \$16 an hour.

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