

A surprising unintended consequence

Now that Europe feels it can no longer rely on the U.S. to protect it from Russia, Europeans will have to massively build up its own militaries, so they can protect themselves.

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Joseph Sternberg, writing in the Wall Street Journal, argued that this military buildup would cause Europe's economies to grow. When I began reading his article, I thought I would disagree with him since I assumed he would merely repeat the idea that all of the extra military output that Europe will produce will cause its GDP to grow. This notion is inaccurate since the extra military equipment can only be produced by diverting workers and other raw materials away from producing consumer goods. So in effect, a military buildup keeps a country's output about the same. It just replaces some consumer output with military output.

Thankfully, Sternberg did not repeat the fallacy that extra military production can be produced without scaling back on the production of consumer goods. Rather, he made a much more

interesting argument. He argued that Europe would only be able to increase its military production if it reduced its social welfare spending. Europe's social welfare spending has kept many people out of the workforce. For instance, as Sternberg notes, in England and Wales 10 percent of the working age population receives disability payments, which allows them to avoid working. If Great Britain were to spend less money funding disability payments, many people would be forced back into the workforce, in order to obtain enough money to survive. Their extra workers would increase Great Britain's GDP. When they were idle, they did not produce any output. But when they start working again, whatever they produce would be extra output that will cause GDP to increase.

Of course, what is true for Great Britain is also true for the rest of Europe. Other European countries will have to spend less money on social safety nets in order to pay for their military buildups. As a result, fewer people will be able to get away with getting by without a job. As these people enter the workforce, Western Europe will experience an increase in its GDP.

In short, Europe's attempt to

resist the Russian threat has an unintended consequence. As Europe increases the capability of its military, it will cut back on the benefits it gives to unemployed workers. This will cause more of their citizens to enter the workforce, which in turn will allow these European countries to produce more output.

When economists talk about unintended consequences, they usually have negative consequences in mind. An increase in income taxes is meant to raise revenue, but the higher tax rate also unintentionally discourages people from working. An increase in sales taxes is also meant to raise revenues, but it unintentionally discourages people from making purchases. In these two cases, the tax created higher costs (to working or to consuming) and people avoided the cost by doing less of the activity that was taxed. In contrast, militarily resisting Russia had a beneficial unintended consequence. It encourages more people to enter the workforce, which increases the size of Europe's economic pie, which gives Europe more output to allocate as it sees fit.

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