

# The Market Monetarist

*Markets Matter, Money Matters...*

## Cato Institute on US military spending and the fiscal cliff

In an [earlier post](#) I claimed that the “full” fiscal cliff would not necessarily be a disaster for the US economy – and I was probably also unusual forthcoming in my hope that US defending might be cut as a result of the fiscal cliff, but this blog is primarily about monetary policy issues so I don’t want to bore my readers with more of my views on the US defense budget. Instead I would like to recommend my readers to have a look at what the Cato Institute has to say on this issue.

This is from [Cato Institute’s Facebook page](#):

*In recent days several senior Republicans have come out saying they would be willing to break their anti-tax pledge as part of the fiscal cliff negotiations. At least one of those lawmakers, Senator Lindsey Graham, has said that this is because he is unwilling to let sequester budget cuts “destroy the United States military.” Cato scholars have long argued that the proposed sequester cuts would allow the United States to maintain a wide margin of military superiority, while paying substantial dividends for the U.S. economy over the long run.*

- “Budget Hawks or Military Hawks?,” Cato Video with Grover Norquist - <http://youtu.be/C7AWXLDPMEO>
- “The Bottom Line on Sequestration,” by Christopher Preble - <http://www.cato.org/publications/commentary/bottom-line-sequestration>
- “The Pentagon Will Survive the Fiscal Cliff,” by Justin Logan - <http://www.cato.org/publications/commentary/pentagon-will-survive-fiscal-cliff>

Enjoy and stop worrying about lower public expenditures – after all the Sumner Critique applies: NGDP will be unaffected by lower defense spending as long as the Federal Reserve implements [the Bernanke-Evans rule](#). By the way fiscal conservatives should be impressed with this – if the Fed keeps NGDP on track (or follow a Bernanke-Evans style policy rule) then it will remove any Keynesian style opposition to fiscal consolidation.

You might also want to have a look at this [excellent article](#) by Gallaway and Vedder on the “*The Great Depression of 1946*”. There was of course no Great Depression in 1946 despite a massive cut in US military spending by the end of the Second World War. It is not everything Gallaway and Vedder write that I agree on, but I nonetheless think that they make a very compelling case that even drastic cuts in defense spending is unlikely to lead to any serious economic downturn. That was the case in 1946 and would be the case in 2013.

By the way Cliff is not worried...