The Boar Finance
University of Warwick Student Magazine

August 2025

Is War Good for the Economy?

An Analysis of the WWII Economic Boom and Its Aftermath

Authored By

Shreyas Urgunde
MSc Finance
Warwick Business School
shreyas.urgunde@warwick.ac.uk

Contents

1 Background

From the tribal skirmishes of Mesopotamia to the mechanised slaughter of the World Wars and the algorithmic precision of drone warfare today, war has remained a constant force in human history. Over time, the nature of warfare has changed drastically - becoming more organised, deadlier in its weaponry, more technologically advanced, and more deeply woven into the fabric of the modern state. In some cases, war has left behind more than destruction. The Hundred Years War, for instance, helped shape the fiscal institutions that define modern nation-states. In the industrial era, imperial expansion forged lasting ties between governments and private arms manufacturers, laying the groundwork for what would later be known as the military-industrial complex.

Across this long and changing history, one idea keeps coming back: that war, despite its destruction, can help stimulate economic growth. But is that claim grounded in history, or is it a myth disguised by exceptional circumstances? As the war in Ukraine continues, and conflicts across the Middle East and elsewhere grow more unstable, this question feels more relevant than ever.

2 The Apparent Prosperity of a War Economy

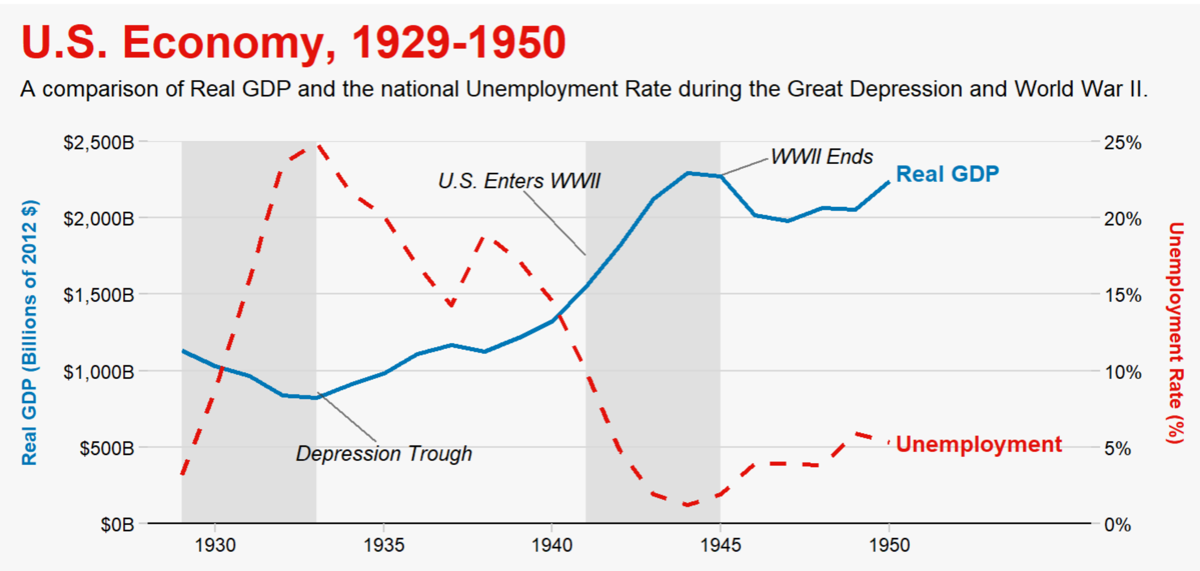


Figure 1: U.S. Real GDP and Unemployment Rate (1929-1950)

Source: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS). Authors compilation from official data.

For many, the strongest argument that war can boost economic growth comes from the United States during the Second World War. After a decade of crippling depression, the American economy bounced back to life. As shown in the graph, real GDP more than doubled between 1940 and 1945. Unemployment, stuck in double digits throughout the 1930s, dropped to just over 1 percent by 1944 - the lowest rate ever recorded. Civilian industries shifted to war production, federal spending soared, and the labor market tightened to the point where women and previously excluded groups were pulled into the workforce. For a country still reeling from the Great Depression, the wartime economy looked like a full-scale revival.

The benefits were not just macroeconomic. Wartime urgency drove a wave of technological breakthroughs that would shape the post-war world. Advances in radar, jet engines, computing, medicine, and synthetic materials were direct results of military research and industrial scale-up. But above all, the war seemed to prove a growing idea in economics. To many at the time, this was Keynesianism playing out in real time: large-scale government spending, financed by deficits, had pulled the economy out of depression and pushed it into full employment. It all seemed to confirm the Keynesian logic of wartime prosperity and why wouldn't it? The numbers spoke for themselves.

3 The Unseen Costs: A Statistical Illusion

However, a deeper investigation into the wartime economy, the methods of its financing, and the actual living standards of the civilian population reveals a far more troubling picture.

3.1 Suppression of Private Consumption and Investment

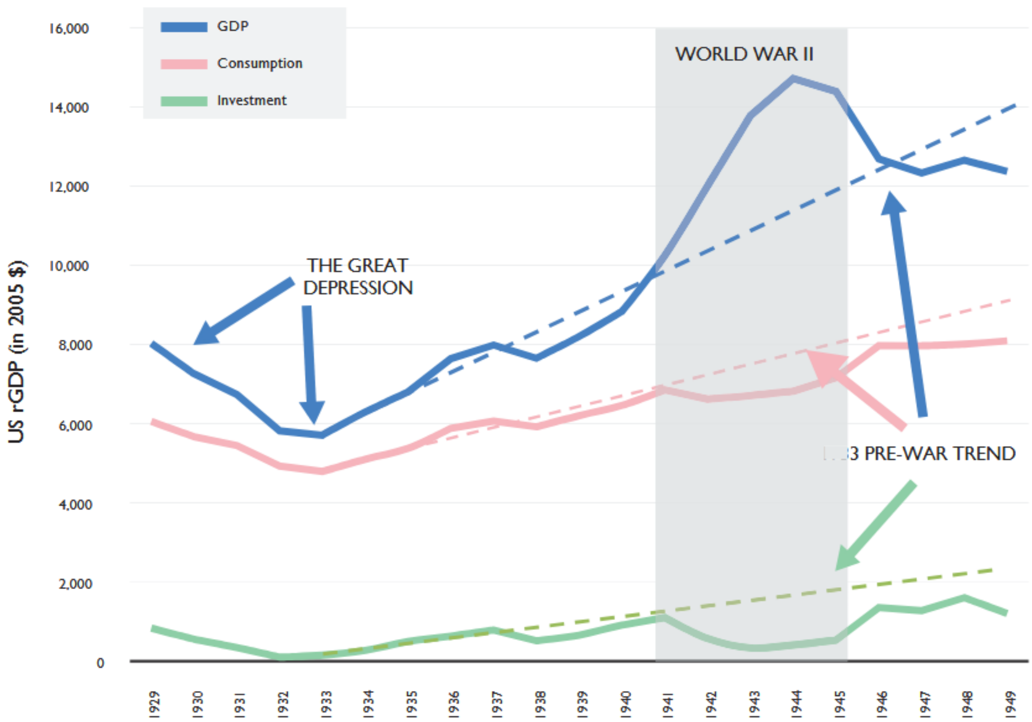


Figure 2: Divergence of U.S. GDP from Private Consumption and Investment During WWII

Source: Adapted from Institute for Economics and Peace.

As the graph shows, real GDP surged during World War II but this growth didnt translate into broad-based prosperity. Both private consumption and investment lagged well behind their pre-war trajectories, suggesting that much of the boom came from government-driven military output rather than improvements in civilian living standards. In fact, private consumption per person was lower during the war than it had been in 1940, even before accounting for rationing and quality deterioration.

Economists have long questioned the efficiency of this kind of growth. Robert Barros seminal 1981 study estimated a fiscal multiplier between 0.6 and 0.8 for WWII, meaning every dollar of military spending boosted GDP by less than a dollar. More recent state-level estimates like those by Brunet (2017) find multipliers as low as 0.25. In other words, much of the wartime economic expansion came at the expense of private sector output.

3.2 Opportunity Cost and Capital Destruction

Even if wartime production lifted headline GDP, it came at enormous opportunity costs. The same labor, capital, and industrial capacity used to build tanks, ships, and ammunition could have gone toward housing, infrastructure, schools, or consumer goods. The domestic economy, meanwhile, bore the weight of this shift: rationing and price controls were widespread, with Americans queuing for essentials like meat, gasoline, and shoes. War borrowing surged too, with the national debt more than doubling relative to GDP during the conflict.

Table 1: The Opportunity Cost of Federal Spending: Job Creation Across Sectors

	Per $1 billion		**$110 billion per year**		**$207 billion per year**	
Category of Spending	# of jobs	*vs. Military*	# jobs (m)	*vs. Military*	# jobs (m)	*vs. Military*
Military	11,200	–	1.23	–	2.32	–
Personal Consumption	15,100	+3,900	1.66	+430,000	3.13	+807,000
Clean Energy	16,800	+5,600	1.85	+620,000	3.48	+1.16m
Health Care	17,200	+6,000	1.89	+660,000	3.56	+1.24m
Education	26,700	+15,500	2.94	+1.71m	5.53	+3.21m
Average (Non-Military)	*20200*	*+9,000*	*2.22*	*+1.00m*	*4.18*	*+1.86m*

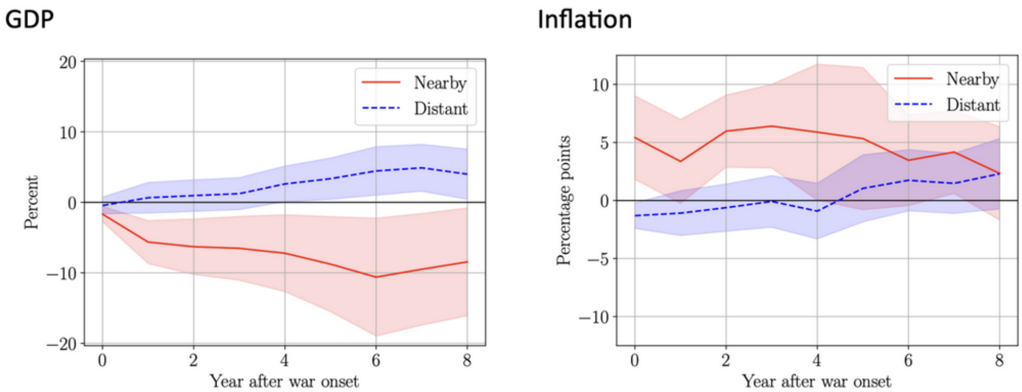
Source: Adapted from data by the Costs of War Project, Brown University.

Later research has shown that this kind of tradeoff persists in the conflicts of the 21st century. For instance, a study of post-2001 U.S. wars by the Costs of War Project found that military spending consistently created fewer jobs than comparable investments in sectors like education and healthcare. In other words, while war spending may raise output, it tends to do so by diverting resources from parts of the economy that tend to offer greater social and economic returns.

3.3 The Cross-Border Economic Consequences of War

Furthermore, wars rarely confine their costs to the battlefields. The countries where fighting actually happens are hit the hardest, no doubt – cities are destroyed, people are displaced, and economic activity collapses. But the effects almost always spill over. A recent study by Federle et al. (2024), which analyzes the macroeconomic fallout of all major wars since 1870, shows that neighboring countries often suffer significant spillovers even when the war occurs entirely outside their borders. These spillovers take the form of trade slowdowns, disrupted supply chains, rising inflation, and higher input costs. Take the war in Ukraine for example: even though most of Europe was not part of the conflict, it still had to deal with energy shortages, inflation, and tighter interest rates as central banks responded.

Figure 3: The Economic Repercussions in Nearby vs. Distant Countries



Notes: Figure shows how GDP and Inflation adjust in response to the start of war, in nearby (solid red line) and distant (blue dashed line) countries. Left panel shows percentage deviation of GDP from trend; right panel shows deviation of inflation from pre-war rate in percentage points. Shaded areas denote 90% confidence bounds. Source: Federle et al. (2024)

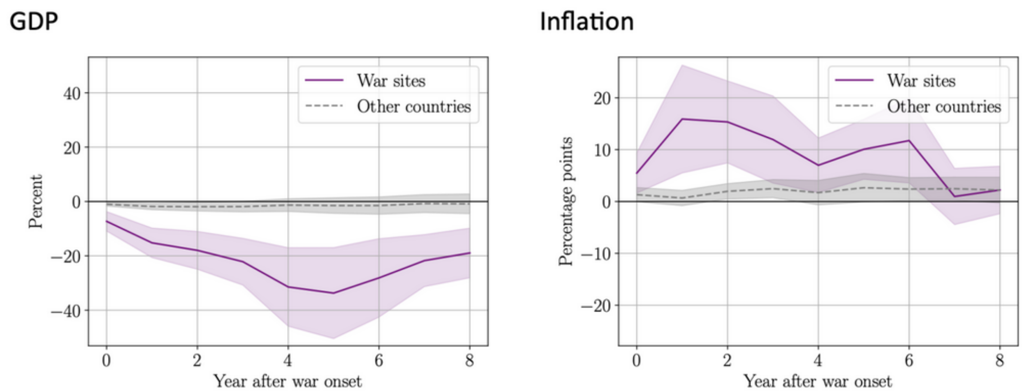


Figure 4: The Economic Repercussions in War Sites vs. Other Countries

Notes: Figure shows how GDP and Inflation adjust in response to the start of war, in the war site (solid purple line), and in other countries (grey dashed line). Left panel shows percentage deviation of GDP from trend; right panel shows deviation of inflation from pre-war rate in percentage points. Shaded areas denote 90% confidence bounds. Source: Federle et al. (2024)

At the same time, countries geographically distant from the conflict can sometimes experience the opposite: mild or even positive short-term effects. If global military demand rises, they may benefit from increased production without suffering the physical toll. The United States during World War II was precisely one such case. The war did not come to American soil, which meant that its industries could expand without having to rebuild anything. But that kind of geographic advantage is rare. In most cases, countries close to a conflict end up absorbing a good chunk of the cost. The same study shows that nearby economies, on average, saw their GDP fall nearly 10 percent below trend within five years of a war starting. Inflation also climbed and stayed elevated.

4 Conclusion: Growth Demands Peace, Not War

War is not an engine of prosperity. It is, at its core, an enterprise of destruction. The illusion of economic growth it creates is built on scarcity, distortion, and sacrifice mistaken for progress. And when the dust finally settles, what remains is not wealth but wreckage: broken infrastructure, warped priorities, and generations left to carry the cost. True prosperity doesnt come from mobilizing for war. It comes from building peace. If economics teaches us anything about war, it's this: the most powerful strategy for growth isnt conquest. Its creation.

References

[1] Barro, R. (1981). Output effects of government purchases. *Journal of Political Economy*, 89, 10861121.

[2] BBC News. (2022). *Combat drones: We are in a new era of warfare*. Retrieved from https://www.bbc.co.uk/news/world-60047328

[3] Brunet, G. (2017). *Stimulus on the home front: The state-level effects of WWII spending*. Working Paper.

[4] Burton, K. D. *The Scientific and Technological Advances of World War II*. The National WWII Museum. Retrieved from https://www.nationalww2museum.org/war/articles/scientific-and-technological-advances-world-war-ii.

[5] Federle, J., Meier, A., Müller, G., Mutschler, W., & Schularick, M. (2024). *Mapping the economic costs of war*. VoxEU, CEPR. Retrieved from https://cepr.org/voxeu/columns/mapping-economic-costs-war.

[6] Fishback, P. (2019). *World War II in America: Spending, deficits, multipliers, and sacrifice*. CEPR Press Discussion Paper.

[7] Garrett-Peltier, H. (2014). *The Job Opportunity Cost of War*. Costs of War Project, Brown University.

[8] Higgs, R. (2001). *World War II and the Triumph of Keynesianism*. The Independent Institute. Retrieved from https://www.independent.org/article/2001/10/08/world-war-ii-and-the-triumph-of-keynesianism/.

[9] Higgs, R. (2006). *Depression, War, and Cold War: Studies in Political Economy*. Oxford University Press.

[10] Institute for Economics and Peace. (2015). *The Economic Consequences of War on the U.S. Economy*. Retrieved from https://www.economicsandpeace.org/wp-content/uploads/2015/06/The-Economic-Consequences-of-War-on-US-Economy_0.pdf.

[11] Keynes, J. M. (1936). *The General Theory of Employment, Interest, and Money*. Palgrave Macmillan.

[12] Mark, J. J. (2022). *The Hundred Years' War: Consequences & Effects*. World History Encyclopedia. Retrieved from https://www.worldhistory.org/article/1520/the-hundred-years-war-consequences--effects/.

[13] U.S. Bureau of Economic Analysis. (2024). *Real Gross Domestic Product (GDPA)*. Federal Reserve Bank of St. Louis. Retrieved from https://fred.stlouisfed.org/series/GDPA.

[14] U.S. Bureau of Labor Statistics. (2024). *Unemployment Rate (UNRATE)*. Federal Reserve Bank of St. Louis. Retrieved from https://fred.stlouisfed.org/series/UNRATE.

[15] U.S. National Archives. *Women in the Work Force during World War II*. Retrieved from https://www.archives.gov/education/lessons/wwii-women.html.