Economics is all about trade-offs. Most textbooks introduce the student to the idea of trade-offs with a diagram called a “Production Possibilities Frontier.” This graphic device considers the hypothetical case of an economy in which only two goods are produced and shows the combinations of the two goods that are technically feasible, given the economy’s resources and know-how. It demonstrates the fact that you can’t get more of one good without giving up some of the other. At least since Paul Samuelson first published his famous, standard-setting textbook in 1948, it has been popular to label the two goods in question “Guns” and “Butter.” This dichotomy, which probably has its origins in political discussions about the costs of military build-ups prior to the First World War, captures the very real trade-off societies typically face in the allocation of resources between national defense and private consumption goods. This same basic trade-off applies to all goods—more guns mean less butter at the national level.

An increase in the production of defense-related goods and services must necessarily draw resources away from the production of other goods—more guns mean less butter at the national level. The benefits of a dollar spent on defense are shared by all citizens. Individuals cannot make their own independent decisions about how much defense to buy.

The public-good nature of defense necessarily makes military spending a political decision. As such, and especially in times of war or international crisis, we sometimes overlook or set aside the economic aspects of this decision. And while the cost (in butter) of more guns cannot be avoided, it can be delayed through government borrowing. Since borrowed funds will need to be repaid in the future, the choice is actually between taxation now and taxation in the future. Even beyond the issue of financing defense expenditures, the issue of taxation and government deficits has been much in the news recently, as discussed in our Legislative Update feature. As such, and especially in times of war or international crisis, we sometimes overlook or set aside the economic aspects of this decision. And while the cost (in butter) of more guns cannot be avoided, it can be delayed through government borrowing. Since borrowed funds will need to be repaid in the future, the choice is actually between taxation now and taxation in the future. Even beyond the issue of financing defense expenditures, the issue of taxation and government deficits has been much in the news recently, as discussed in our Legislative Update feature.