SEYMOUR MELMAN
Economic Consequences of the Arms Race:
The U.S. as a Second-Rate Economy
Text of remarks given at Columbia University

I shall limit these remarks on the U.S. economy and military spending to seven separately designated points. *I* trust you will understand that in this type of forum, we can not properly resolve or analyze issues in depth. I will be satisfied if these remarks raise some questions and stir your imagination.

Point One.

Independent of variations in culture, language, history and geography, permanent military economies have a set of common effects. The common effects result from a depletion of production resources. Economists have focused on problems of exchange and have lost sight of an elemental reality that materials in place A at a given moment in time cannot also be in place B at the same time. Hence, the physical resources in use on military account cannot also simultaneously be on civilian account. The United States since 1945 has spent cumulatively $4.2 trillion dollars on defense and now finds its industrial technology and competitiveness in poor condition. Since World War II, Germany and Japan have spent only a fraction of the U.S. outlay on defense. They are now the two leading economies of the world in terms of industrial productivity and production.

Military economy yields a product but the product is not useful for consumption and is not useful for further production. Whatever else you can do with a nuclear missile, a nuclear submarine or a bomber aircraft, you can not make anything with them, and you can not use them as clothing, food, shelter, or as instruments of transportation.

Point Two.

Ideology in the U.S. serves to mask the deterioration all around us. Here is an example of how it works. I recently participated in a debate at the Massachusetts Institute of Technology on the condition of the U.S. economy. I presented my usual data on the U.S. war economy and argued that years of large military outlays had greatly damaged the economy. Dukakis' economic advisor, an economist by the name of Professor Lawrence Sommers, eminent in the field of macro-economics, rejoindered to all of my remarks with the following note. He said: ' Look, in 1987 the military outlay amounted to only six and one-half percent of the Gross National Product (GNP). How could six and one-half percent of total U.S. wealth account for the various things that you are talking about? It just does not make sense. Not at all. '

Sommers' remarks proved persuasive and familiar to the assembled multitude of students. What is missing in his analysis is the following. The six and one-half percent is a correct piece of arithmetic. The military item is also included in the denominator, that is in the GNP — but let's disregard that oddity. However, this supposedly meager six and one-half percent includes 70 percent or *the* government's Research and Development funds, an amount equal to $41 billion dollars in 1988. The six and one-half includes wages and salaries for about 30 percent of the country's engineers and scientists. Six and one half percent also includes year by year an acquisition of capital items such that by 1983 the Pentagon's net stock of capital equipment, structures and inventories were valued at more than 46 percent of the worth of the total physical capital stock owned by all U.S. manufacturing establishments. The Pentagon now owns assets equal to the total assets of the top 30 Fortune 500 companies in the U.S.

The problem here is one of categories. It is a conceptual issue and a very serious one. The Gross National Product was invented as part of a system of national accounting, and it was invented in response to

the problem of having to regulate and restore market demand during the Depression. So the measure of money transactions became very important. The national income accounts and the GNP figure help us to measure money transactions, which is perfectly fine.

However, the GNP is less than competent to measure resource use. Money-valued entities do not account for the qualitative importance of various resources. A good analogy here is that of a scientist trying to measure the overall importance of the brain to the body according to a category of body weight. Within that analytical framework, the brain. e relatively unimportant. Of course functionally, that is absurd. The methodological point is that there are no universally appropriate or universally valid categories. Categories for data have to be tailored in accordance with the nature of the problem being investigated. Or to say it differently, the aspects of phenomena that we choose to observe, either quantitatively or qualitatively, must be aspects that are appropriate to the nature of the problem that we wish to investigate. In the case of the six and one-half percent of GNP, it is simply an inappropriate category for gauging the qualitative importance of production resources.

Point Three.

Forty-five years of large military outlays have transformed the micro-economy of the U.S. industrial system. Pick up any textbook in economics, whether the writer is a conservative, a liberal Keynesian, or a neo-Marxist, and you will find at least this common feature: they all operate on the premise that the firm, in a thriving market economy, must operate in a micro-economy of cost-minimizing. Cost-minimizing served as the backbone for U.S. productivity and manufacturing strength from 1865 to 1965.

Prior to the 1960s, it was characteristic of the U.S. industrial economy that wage increases and other cost increases were offset by improvements in efficiency and productivity through capital improvement. Managers and engineers of firms worked very hard to offset product cost increases. From 1915 to 1950, U.S. industrial firms enjoyed sufficient productivity increases to offset a five-fold increase in hourly earnings to industrial workers, while only doubling the prices of all metals and metal products. Now, for the first time in American industrial history, the price increases of machinery produced in the United States have exceeded wage increases to industrial workers. And the U.S. industrial wage is no longer the highest in the world. By 1980, eight European countries were paying higher wages than U.S. industry.

In my most recent book, The Demilitarized Society. I summed up the characteristics that once marked the United States as a first-rate industrial economy:

first, the ability of the industrial system to offset cost increases of every sort by productivity growth

second, the ability to pay high and rising wages while producing marketable goods

third, vigorous research in basic science and in the technologies

fourth, the availability of an increasingly competent production support base (infrastructure)

fifth, having the use of a currency of stable (meaning predictable) value

sixth, having the capability for organizing people for productive work

seventh, all of the above contributing to a rising standard of living

The United States is now a second-rate industrial economy as it fails all these tests. We now import 50 percent of our machine tools, 86 percent of our shoes and 35 percent of our cars. The collapse of production competence in the U.S. has included not only smokestack industries, but also high-tech industries - those that depend on a strong R&D input. The high-tech group showed a favorable trade balance of $27 billion in 1980. By 1986, they were recording a trade deficit (U.S. Congress, Joint Economic Committee, 1986). The 1988 U.S. trade deficit in manufactured goods reached nearly $106 billion dollars (U.S. Department of Commerce.)

It is now possible that the United States will move to a third-rate condition, that being defined operationally by the absence of resources that would be needed to repair the damage to the U.S. industrial system.

Point Four.

Various experts now estimate that $3 trillion dollars will be needed to repair the basic public facilities and services of the U.S. economy. Infrastructure in the U.S. is in a state of decay and crisis. The evidence is in your daily newspaper. The U.S. now lacks a modern rail system and a modern highway system in good repair. City streets are poorly paved. Between a fifth to a third of the highway bridges in the U.S. are rated as needing major repair. Decent housing is no longer available for millions. There is a growth of homelessness and hunger (Physician Task Force on Hunger in America, 1987). Important parts of the population draw water from aquifers that are contaminated. The national parks are in poor repair. The libraries are poorly operated. Waste disposal systems violate modern technical standards. The Environmental Protection Agency recently revealed that $500 billion dollars would be needed to clean up toxic waste sites around the country.

New York City has one thousand school buildings/that now require an expenditure of approximately $8 billion in order to be put in a state of decent repair. That is just the bill for the school buildings. Where will this $8 billion come from? The water supply system of New York City presently averages ten water main breaks a week. That is now ordinary. It was once extraordinary for a water main to break in New York City. Water main breaks do not rate as news anymore unless a break occurs at Columbus Circle halting subway service. Then the announcements are broadcast on the radio warning travelers to keep away from the area.

Infrastructure decay exists throughout the United States. I was at a symposium in Topeka, Kansas. I asked the Mayor if he had a program of what was needed in capital outlay for the infrastructure of the city. He said: "No, we don't have a program but I can tell you the items that are surely the important ones," and he just started reciting the list. Well} it is the same list everywhere.

Unfortunately, the decay of infrastructure, and the decay of industrial competence, may not seem obvious to many of us. If we are in occupations that do not lead us to become experts in matters of industry, or if we are not trained in comparative analysis over time, or in a cross-country comparative study of infrastructure, then we may literally be looking at the decay but not seeing it. We do not recognize it.

On a recent trip to Bonn, West Germany, I was struck by Germany's modern infrastructure. I arrived at the Frankfort airport, took the escalator down two levels, and found myself on a railroad platform. I then boarded the sleekest looking train I had ever seen. As the train gained momentum, speedily coming out of the station and accelerating to over a hundred miles an hour just outside the city limits, it was clear that the major sound in the compartment was that of the hush of air coming through the ventilator. No clickety-clack, no sway in the cars, and about ten minutes later the orange juice was served, followed by lunch. The contrast between Germany's modern rail system and the Toonerville Trolleys that are now sported in the United States is really quite dramatic.

Point Five.

Industrial and infrastructure decay now threaten U.S. national security. The arms race and subsequent annual military outlays have ironically weakened the U.S. economy and U.S. sovereignty. Misconstrued economic and political analyses offer the American public the hollow promise of a post-industrial society, or an information society. The real reality facing us now is that of a depleted society.

A New York Times article on February 19, 1989, reported an interview with the Chairman of Nomura Securities International, a major Japanese financial services firm. The Chairman's name is Masaaki Kurokawa. The Times reporter asked Kurokawa about U.S trade and budget deficits, and Kurokawa talked about needed solutions that might come from Japan.

What did he have in mind? Stressing that he was just brainstorming out loud, Mr. Kurokawa proposed allowing the yen to strengthen to a hundred to the dollar, making it difficult for Japanese companies to export profitably to American market. Then came the quid pro quo. California would be turned into a joint economic zone, to be shared by both countries. Millions of Japanese workers would be relocated to the high-tech factories of this brave new state built on land dirt cheap by the standards of Japan's astronomical real estate market. If the plan worked, the whole West Coast could be turned into a Japanese-American condominium.

Those of us with a penchant for historical footnotes will recall the notion of the co-prosperity sphere that was formulated by the Japanese government in the 1930s with respect to the exercise of dominion over major parts of China. Now, by virtue of the enormous trade imbalance with Japan, and Japan's consequent amassing of dollars, Japan could literally carry out Mr. Kurokawa's suggestion.

The problem we are faced with now is the sovereignty of the United States. Who wants to put a price on California's real estate? Is Mr. Bush prepared to designate a Secretary of State and associated persons to negotiate the sovereignty of the United States? Because that is what Mr. Kurokawa proposed.

Point Six.

There is little doubt that a political-economic fear of peace exists in the United Stages.— On eastern Long Island, in Dallas-Fort Worth, down Route 128 in Boston, in parts of Oregon, Washington, in the state of California, there is a real fear that peace could mean mass unemployment , loss of income, disruption of community, family, and the like. It is possible, if budget cuts continue, that the Pentagon and military-industrial firms will come forth with proposals for planned conversion for a Joint military and civilian economy The Pentagon's conversion plans will call for dual-use of factories, that is for production facilities to make both civilian and military goods. The same sort of dual-use proposals are presently being taken seriously in the Soviet Union. The dual-use option will prove a desperate move by the top management in the Pentagon to retain dominion over this military-industrial base. After all, the Pentagon's procurement management staff alone employs 165,000 employees, and they have to be kept busy.

If this type of conversion planning goes forward, then the United States' industrial base will be firmly rooted in the Pentagon's cost-maximizing system of rules. Such an industrial base, with high assurance, will yield products that are hopelessly non-competitive in both quality and price in relation to comparable civilian products produced elsewhere in the world. The dual use idea will result in an accelerated decay of U.S. industry and infrastructure.

This is why economic conversion from military to civilian economy is now being taken seriously for the first time by various senior Members of the Congress. There are currently three economic conversion bills pending in the U.S. Congress. The most comprehensive of the three bills is House Resolution 101, sponsored by Congressman Ted Weiss. The former Speaker of the House, Jim Wright, designated Weiss' bill H.R. 101 for the current 101st session of the Congress.

Jim Wright's former Congressional district was and is one of the happy winners in the military lottery game. Each family in his former district gains an average of over $8,000 per year from military contracts (Employment Research Associates, "Bankrupting America", 1989.) Despite military gains for his district, Wright finally came to the decision that Military-Keynesianism had to stop due to the unmitigated pressures of the federal budget deficit, the country's trade deficit, and what he termed the U.S. social deficit. The departure of Wright was a setback to economic conversion legislation but Wright's interest in economic conversion from military to civilian production is being picked up by other important Congressional Representatives and Senators including House Majority Leader Richard Gephardt and Senator Riegle.

Plans for setting in motion alternative use committees to plan for civilian conversion in the military-serving factories, bases and laboratories across the country are becoming a matter of critical importance. That clause, setting up alternative use committees, is the baseline of the Weiss economic conversion bill. Alternative use committees are to set up in every defense facility, base and laboratory employing more

than 100 workers. The committees are to be comprised of an equal number of management and labor representatives.

These committees will be in charge of completing a technical economic plan for civilian work, a ready blueprint, if you will, to replace the military work. Weiss' conversion bill makes such enterprise planning work mandatory.

Conversion planning is generally considered a two-year planning process, as extensive market studies, testing and retraining must be carried out for new civilian products. Without a national conversion law, top military industry managers will not willingly forego the power and privilege that is theirs as servants of the cost-plus Pentagon system.

Economic conversion planning from military to civilian production can reverse what has become a baleful deterioration in American economy and society. U.S. resources, ladies and gentlemen, believe it or not, are limited. Military spending is not a normal economic activity. Economists, government leaders and the American public must recognize that large, annual military outlays cannot continue as "business as usual". Otherwise, we as a society will lose any real distinction between war and peace, between productive investment and wasted investment. To use George Schultz' phrasing, we will then find ourselves in the "shadow area between major war and millennial peace."

Schultz argues that we are already in that shadow area, thereby justifying a U.S. military doctrine of Third World interventionism and continuous armed conflict. I think we must have the courage and the willpower to define an alternative future for this planet and our respective societies.