

Myths and Realities about Defense and Economic Conversion

by Seymour Melman

Since the wealth of the U.S. is for all practical purposes unlimited, the U.S. can afford both guns and butter at the same time.

Not true: there are limits to American resources, both human and material. Many people believe that during World War II the U.S. was a demonstration of a guns-and-butter economy. But the U.S. was at war for only four years, and maintenance and improvements of the infrastructure could be endured for such a short period. That maintenance cannot be foregone for 45 years of Cold War without the damage that is now so clearly visible.

The U.S. is still number one as a world power.

True, the U.S. has more nuclear warheads than any other country, and more planes, missiles and submarines for launching them. But the Cold War contest is now over and the economic position of the U.S. is of primary concern. Thus the U.S., a top wage economy until 1975, now ranks about 16th in a list of industrial countries. In 1990 the German industrial wage was 144% of the U.S. wage, and the Japanese wage was a rising 90% of the U.S. wage. In infrastructure, health, education and economic opportunity the U.S. has slipped far from being number one.

Increasing the national debt by spending to improve infrastructure and industry is just as bad as increasing the debt for expanding the Pentagon. This is incorrect, since investment in infrastructure and civilian industry yield a multiple return in the form of a stream of products — from bridges and housing to consumer electronics — which adds to the national wealth and to the means of production and thus increase the ability to cancel debt. Military products, by contrast, exit from the marketplace immediately upon being produced, and do not increase the real wealth of the country at all. They only increase the debt.

Pentagon budget cuts necessarily translate into job layoffs. Not if there are detailed plans in place for new work. Alternative use planning by Alternative Use Committees is the core element of the conversion planning law proposed by Representative Ted Weiss (D-NY). If H.R. 441 were adopted, advance planning would be done at every defense factory, base and laboratory with 100 or more people. H.R. 441 includes provision for income support during a changeover period, job retraining, job relocation allowances, and other job sustaining measures.

Economic conversion should be left to the market, with individuals and firms adjusting as they see fit.

The people and the firms who have specialized in military production have developed ways of working — like cost-maximizing and allowing massive cost overruns — which mean certain failure in civilian work. Defense industry managers are typically short of know-how for civilian marketing. In order to change over to civilian markets, people long trained in the Pentagon's ways must retrain for skills appropriate to civilian industry. This applies especially to managers and engineers, who will naturally be resistant to such professional changes. Furthermore, there is no existing "free market" for many prospective goods that converting factories and enterprises could produce. This is because important segments of present U.S. markets for consumer electronics, sophisticated machine tools, transportation equipment, etc., are now being served by factories abroad. Creation of new U.S. markets, such as major infrastructure projects, will be needed to afford new U.S. factories a start in neglected industries, such as electric-powered rail equipment.

Military technology yields a "spinoff" to civilian technology. A small part of knowledge developed for the military may have civilian usefulness. The overwhelming quantity of military research and production, however, has only military importance since it has been designed for tasks so different from civilian needs. If "spinoff" was a generalized condition then we would expect Russia, for example, to be a front-running technologically advanced country because of its large and sustained military R&D. This is obviously untrue.

Spending for improving the infrastructure and spending on the military both improve the Gross National Product.

On the face of it that is true, since the GNP is a measure of money-valued goods and services that are bought and sold. But GNP is not a good measure of the quality of resources used or the nature of the product manufactured. Thus, six percent of recent GNP is spent on defense; but that six percent includes as much as 2/3 of the federal government's R&D outlays, and the wages and salaries of as much as 30% of the country's engineers and scientists. Furthermore military products, while carrying prices, do not have any ordinary usefulness for consumption or as means of production; they play no role in furthering the quality of life for Americans.

Military-serving firms don't need to worry about conversion until the Pentagon terminates their contract.

This policy is unfair to the hundreds of thousands of workers whose jobs are increasingly subject to instant termination by the Pentagon. But with advance preparation for conversion to civilian work — a set of detailed plans prepared to set in motion a specific conversion

process, drawn up at each military-serving firm — workers, management, engineers and scientists in military facilities can immediately begin readying their civilian careers.

Repairing America's public works and infrastructure means a giant Washington bureaucracy.

No. It is entirely practical to do all the detailed planning and execution of public works and infrastructure repair in a highly decentralized manner. Each local government could be responsible for blueprinting and controlling the work done within its own sphere of responsibility. This would help assure efficiency and feasibility of capital works projects.