

July 14, 2003

In the Grip of a Permanent War Economy

By Seymour Melman*

Now, at the start of the twenty-first century, every major aspect of American life is being shaped by our Permanent War Economy. The top managers of the war economy, from Kennedy on, have ensured that working for The Pentagon is far more lucrative than producing and designing for civilian markets. By 2003 half of every federal tax dollar is spent by The Pentagon.

The same Pentagon now presides over an economy that records 6.4% unemployment. In June, 9.4 million Americans are rated as out of work, with sharp differences within the population: White Unemployment, 5.5%; Black Unemployment, 11.8%; teenagers (16-19), 19.3%.¹

Civilian manufacturing industries are being swept away as a war-focused White House and a compliant Congress sponsor deindustrialization of the U.S.² They favor production - as in Mexico and China, where government powers bar independent unions. As production of both consumer goods and capital goods are moved out of America, unions and whole communities are decimated. Ghost towns are created across the country. That process is far along in industries that once invented machine tools, radios, and even TV's. Now the decay proceeds in "new economy" industries like computers and "Palm" type devices. The U.S. firms that sell such equipments typically assemble components that are manufactured elsewhere.

Capital goods have special importance in all this, for those are the tools and machines used to produce everything else. Jon Rynn has calculated that by 2004, 50% of all the production equipments required in the United States will have to be imported, mainly from Germany and Japan.³

Meanwhile, government financing is lavished without stint to promote every kind of war industry, and foreign investing by U.S. firms. The war priorities have depleted medical and education staffs. U.S. medical planning now includes programs to recruit large numbers of nurses from India.⁴ Shortages of housing have caused a swelling of the homeless population in every major city. State and city governments across the country have become trained to bend to the needs of the military – giving automatic approvals to their money spending without limit. The same officials cannot find money for affordable housing.

The Permanent War Economy of the United States has endured since the end of World War II in 1945. Since then the U.S. has been at war- somewhere – every year: in Korea, Nicaragua, Vietnam, the Balkans, Afghanistan – all this to the accompaniment of shorter military forays in Africa, Chile, Grenada, Panama.

* Seymour Melman is Emeritus Professor of Industrial Engineering at Columbia University. His latest book is, [After Capitalism: From Managerialism to Workplace Democracy](#), (Alfred A. Knopf, 2001). Research assistance by Benjamin Abrams.

To find selected papers by Seymour Melman, see the website: www.AfterCapitalism.com

So it should come as no surprise that there is no public “space” for dialogue on how to improve the quality of our lives. Such topics are subordinate to “how to make war”. Congress under both Republican and Democrat control has voted the same war priorities into the federal budget.

Bob Herbert, the New York Times columnist, reports on 5.5 million young Americans age 16 to 24 – without work in 2003 – undereducated, disconnected from society’s mainstream, restless and unhappy, frustrated, angry and sad.⁵ This population, 5.5 million and growing – is the product of America’s national politics that has stripped away as too costly the very things that might rescue this abandoned generation and train them for productive work. But that sort of thing is now treated as too costly. So this abandoned generation is now left to perform as fodder for well-budgeted police SWAT teams.

The Governor of New York State presides over the New York Transit Authority that is now spending \$3-4 billion on purchasing new subway cars. If this manufacturing work were done by U.S. companies, in the U.S. – rather than by Kawasaki of Japan, Bombardier of Canada and Alstom of France – it would generate, directly and indirectly, about 32,000 man-years of work for Americans.⁶

But when the New York Transit Authority requested bids for the \$3 billion plus contracts, not one U.S. based firm offered a bid. The absence of American firms from the largest subway-car manufacturing project in history sparked no response from the New York City or State governments. These officials were not troubled by the movement of jobs, capital investment and profits associated with the subway car project to Japan, Canada and France.

Imagine a group of U.S. Production facilities and a U.S. labor force set up to deliver 6 new subway cars each week, (ie: 300 per year). Such an operation would replace the 6,000 cars of the New York City Subway system over a twenty year cycle. This model, as well as providing stable employment for a sizable workforce, also allows the subway system to constantly phase in new developments in railcar technology. With the current mass purchasing of subway cars, New York City will be stuck with a full fleet of 2003 era subway cars through 2043. Furthermore, a stable production system for New York City could be geared up to produce cars for other cities’ subway systems.

However, establishing such a production system requires well-trained engineers to design the key subway transportation equipments. We must note the fact that it is almost 25 years since the last book was published in the United States on these topics: *Urban Public Transportation* by Vukan Vuchic (Prentice Hall, 1981). At this writing there is a lack of schools, teachers and books dealing with rail transportation. Suitable textbooks will have to be translated from French, German or Japanese. In the United States, the traditional depositories of knowledge for these subjects have been wiped out. There are no workplaces that prospective workers can visit to become acquainted with the shape of a productive career devoted to making subway cars. Unfortunately, what is true of the rail equipment industries also holds for so many industries that were shipped abroad during the second half of the twentieth century.

We can learn something from the experience of the General Electric Company, in particular from the autobiography of Jack Welch.⁷ He hailed the profits brought to GE by locating their largest R&D labs in India. From a careful biography of Jack Welch's stewardship of General Electric we learn that "GE has either closed or sold 98 plants in the United States during the Welch era, 43% of the 228 it operated in 1980".⁸ More recently we learn from *BusinessWeek*⁹ that General Electric will have 20,000 workers in India alone by the year's end, and is moving towards a "big China R&D center". The type of work which is being moved by GE to the India and China facilities include finance, information technology support, R&D for medical, lighting and aircraft. *BusinessWeek* reports, "for companies adept at managing a global workforce, the benefits can be huge. ... Now, American Express, Dell Computer, Eastman Kodak, and other companies can offer round the clock customer care while keeping costs in check...". For an array of major U.S. firms reviewed by *BusinessWeek* the trend of U.S. jobs being moved offshore is "a trend that's likely to grow". Here is the *BusinessWeek* forecast for 2005;¹⁰

	2005	By 2015 the number of white-collar jobs of U.S. firms slated for "moving offshore" is expected to be 3,300,000.
LIFE SCIENCES	3,700	
LEGAL	14,000	When GE, or any other firm moves part of their business abroad, the Bush-Cheney team acquires <i>managerial power</i> over a portion of this enterprise via the political relations governing the US relationship with the foreign country. The shipping abroad of American jobs also decreases the power of U.S. unions by reducing their membership, and reducing the income of the working class segment of the population.
ART, DESIGN	6,000	
MANAGEMENT	37,000	
BUSINESS OPERATIONS	61,000	
COMPUTER	109,000	
ARCHITECTURE	32,000	
SALES	29,000	While the cost of labor has been regarded as a central issue in labor-intensive manufacturing operations, the picture is rather different with respect to the production and utilization of capital goods. On January 1,
OFFICE SUPPORT	295,000	
TOTAL	588,000	

2003 the *New York Times* reported, "China has awarded a potentially lucrative contract to lengthen the world's first commercial magnetic-levitation rail system to cities surrounding Shanghai". All this after the prime ministers of Germany and China took a test ride on the new high-speed train, which is propelled by magnets. The Times reported that "The train reached its designated maximum speed of 266 miles per hour over the nineteen miles between Shanghai financial district and its main international airport..." The German firms that designed and produced the new Maglev train were Siemens and ThyssenKrupp. New Maglev trains covering 180 miles and costing more than \$5 billion are being negotiated. The critical point here is: China, a country with one of the lowest wage rates in the world for industrial production work, is buying new railroad equipment from German firms which pay the highest production worker wage in the world. The full meaning of this situation has

not registered in the United States. But the fact remains that high quality capital goods, backed by strong R&D justify their higher price.

There is no doubt about the main effects of a Permanent War Economy on the present and prospective production of consumer and capital goods in the United States. Myths, like a hoped-for inherent superiority for American-made goods, are simply melting away – daily. For the colossal \$379 billion military budgets now being organized in the United States will include funding new military bases around the world and the manufacture of a host of weapons of astonishing complexity and costliness. All these take up the available “economic space”. Thus the newest major aircraft program – the Joint Strike Fighter – is expected to cost as much as \$750 billion,¹¹ a historically unmatched price. The new nuclear attack submarines, each longer than a football field, are now priced at \$2.4 billion each.¹² Look at the maps published in our newspapers of new foreign location military bases built for American forces – each of them magnificently equipped for an unstated, but long duration.

Anticipated costs of a U.S. war in Iraq reach a level of \$682 billion.¹³ This exceeds the combined cost for replacing severely damaged housing (\$369 billion) and for electrifying the U.S. main line railroads (\$250 billion).¹⁴ The next Pentagon budget for 2004 promises to checkmate the most fundamental unmet needs in the United States for medical care, housing and the education of our children.

In President Bush’s 2004 budget, the \$379 billion military cost exceeds the sum of all other “discretionary” (non-mandatory) items in the Federal budget.

The United States is now a species of State Capitalism. The top federal government executives are a partnership of top political and corporate managers who operate a war economy to enlarge their power as their main continuing goal. The idea that the U.S. can afford guns and butter without limit is proven false every day. Unemployment levels that are the hallmark of deep depression are now visible as additional millions “leave” the labor force and are not counted as unemployed by the Federal government even though they are actually jobless.

Meanwhile the infrastructure of American society shows decay that can no longer be concealed despite the practiced showmanship of leading public officials. This is demonstrated by the American Society of Civil Engineers’ Report Card for America’s Infrastructure. Services provided by roads, bridges, transit, energy supply, drinking water and others are all in deteriorating condition, deserving a combined Report Card rating of D+.¹⁵ All this is an important indicator of the opportunity cost, of what has been forgone, as a consequence of the Permanent War Economy. Remedying the problems diagnosed in The Civil Engineers’ Report Card essentially requires major new employment in the U.S.

The 1998 American Housing Survey showed 5.32 million families in the United States, or about one-seventh of those who rent, as living in “worst-case” housing. What would it cost to fix this? From 1993 to 1996, the AFL-CIO’s Housing Investment Trust financed several thousand housing units throughout the country. Their reports show an average of \$69,450 for their housing units, which suggests a cost to replace severely depleted housing of \$369 billion.¹⁶

Homelessness for families and for individuals is a continuing chronic problem in New York City, aggravated by the wipeout of about 900,000 “low-rent” apartments (1995-1998). At the same time, “the number of very-low-income families, those with incomes of less than 50 percent of the area median and who pay as much as 50 percent of their income on housing, grew by 370,000.”¹⁷

All this cannot be blamed on any particular former president or congress, for they are all implicated. Since World War II they have all participated in furthering the Permanent War Economy.

Further evasion is out of order. We must come to grips with America’s State Capitalism and its Permanent War Economy. Failing that, there is no hope for any constructive exit. We must marshal the money and human resources that are needed to restore jobs and production competence – industry by industry. That is why I called particular attention to the methods for reindustrialization as in the subway car manufacturing industry.

¹ *New York Times*, “U.S. Jobless Rate Increases to 6.4%, Highest In 9 Years.” July 4, 2003.

² Seymour Melman, *After Capitalism: From Managerialism to Workplace Democracy* (Albert A. Knopf, 2001), Ch 3. also; SM, *What Else Is There To Do?* (National Commission for Economic Conversion and Disarmament, 1996.)

³ Jon Rynn “Why Manufacturing Matters”, see website:

www.aftercapitalism.com/archive/de_re/ProductionCenteredEconomics.pdf

⁴ “Indian Nurses Sought To Staff U.S. Hospitals”, *New York Times*, Feb 10, 2003.

⁵ Bob Herbert, “Young, Jobless, Hopeless” *New York Times*, Feb. 6, 2003.

⁶ *Special Calculation* by Dr. Greg Bischak, Senior Economist, Appalachian Regional Commission

⁷ Jack Welch and John A. Byrne, *Jack: Straight From The Gut* (Warner Business Books, 2001) pp. 313-314.

⁸ Thomas F. O’Boyle, *At Any Cost: Jack Welch, General Electric, and the Pursuit of Profit* (Alfred A. Knopf, 1998) p. 33.

⁹ “Is Your Job Next?” *BusinessWeek*, (February 3, 2003). pp. 50-60

¹⁰ *Ibid* p. 57.

¹¹ *After Capitalism*, pp. 100, 137, 140, 142, 143n.

¹² Department of Defense, *Program Acquisition Costs By Weapon Type*, p 41. see website:
<http://www.dod.mil/comptroller/fy2003budget/fy2003weabook.pdf>

¹³ “The Price We Pay” *New York Times*, Feb. 15, 2003.

¹⁴ *After Capitalism*, Chapter 5.

¹⁵ ASCE Report Card available at <http://www.asce.org/reportcard/>

¹⁶ U.S. Department of Housing and Urban Development, *American Housing Survey, 1998*, Washington, D.C.; AFL-CIO Housing Investment Trust, *Annual Reports, 1003-1996*, Washington, D.C.; *New York Times*, Apr. 28, 1998.

¹⁷ *New York Times*, Apr. 28, 1998.