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Exiting from the Cold War: Problems of Economics and Politics

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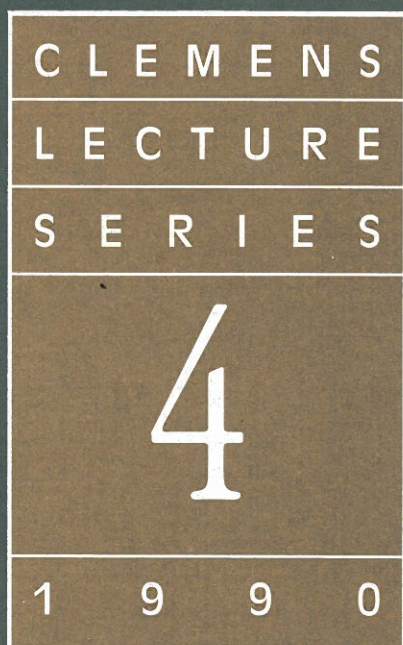
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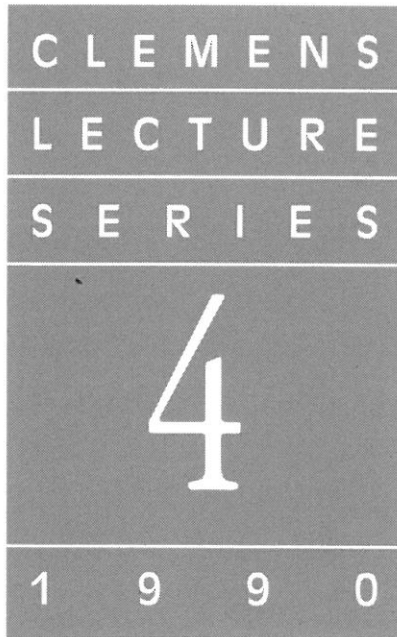
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Exiting from the
Cold War:
Problems of Economics
and Politics

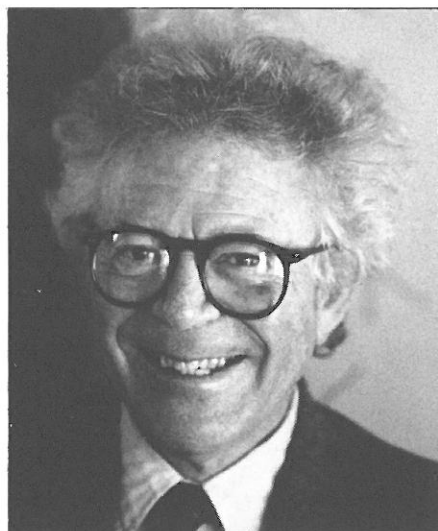
Seymour Melman



Exiting from the Cold War: Problems of Economics and Politics

Lecture delivered by
Seymour Melman

October 25, 1990
Saint John's University
Collegeville, Minnesota



Seymour Melman

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He has written nine books and edited six. His most recent books include *Profits Without Production* (University of Pennsylvania Press, 1987) and *The Demilitarized Society* (Harvest House, Montreal, 1988). He has authored dozens of articles in publications from scholarly journals to the daily newspaper. He lectures frequently on economic conversion and disarmament to universities and other organizations, both in this country and abroad.

Dr. Melman is the chair of the National Commission for Economic conversion and Disarmament. He has received awards from The New York Academy of Sciences and The Industrial College of the Armed Forces.

Exiting from the Cold War: Problems of Economics and Politics

by Seymour Melman

Natural catastrophes are familiar occurrences. They render many people homeless, hungry, without clothing or medical care. Every industrial state has means of responding with emergency measures and special teams to rescue the people impacted by natural catastrophe. Relief is brought in swiftly by plane, rail, and truck; special grants of money are made quickly available to individuals, firms, and communities; central governments are prepared to mobilize resources from all parts of the nation for the rescue mission to restore acceptable conditions of life.

The cities of the United States are now the site of another catastrophe. Large numbers of men, women, and children are without shelter, are hungry, are without proper clothing or medical care. But unlike the catastrophes of nature, this one is human made. Not the result of a sudden shock, it is a catastrophe in slow motion. In the face of this catastrophe the central government stands back from responsibility, and advises response mainly by "a thousand points of light" and similar poetic promises.

There is good reason for that posture. U.S. government policy has played a major part in causing this calamity. In a complicated economy with many factors affecting industrial productivity and the quality of infrastructure, one factor dominates the scene in accounting for the decay in the physical condition of U.S. industrial plant, decay in the condition of the physical infrastructure, decay in the human services for our people. From 1947 to 1989, the federal government, with its Department of Defense as beneficiary, pre-empted \$8.2 trillion of resources representing fixed and working capital. (That is calculated by the Pentagon in dollars of 1982 value.) The meaning of \$8.2 trillion can be appreciated if we compare it to the value (again for 1982) of the total industrial plant and equipment of the United States, plus the money value of the physical civilian infrastructure, which together amounted to \$7.3 trillion. In a word, the federal government has allotted to its war-making institutions a quantity of resources more than sufficient to replace the largest

part of what is human made on the surface of the United States.

That pre-emption was carried out through a myriad of obscuring means: through taxes, the banking system, through all manner of movements of money. But the final physical fact is there. The condition of nature is that matter and energy in place A at a given moment in time cannot be in place B at the same moment. So the resources used up on behalf of the military enterprise have come at the cost of the pre-emption and therefore the neglect of resources of the civilian economy.

At the same time this was happening the Pentagon installed a counter-productivity management system in 35,000 prime contracting facilities. Because of cost-maximizing practices supported by government subsidy, production in military serving firms is wasteful and inefficient in its use of resources.

This combination of misdirected resources and counter-productivity management has played a prime role in making the United States into a second rate industrial economy whose industry, physical infrastructure and human services are decaying, notably compared to the steady advance in these realms in Germany and Japan — the real victors of the Cold War. "Calcutta, U.S.A." has become a journalistic designation for conditions of life in our cities.

All of this has a further effect. In addition to causing decay in physical infrastructure and human services, we have been trained to tolerate Calcutta, U.S.A. On June 18, 1990 Rep. Rostenkowsky (Chair of the House Ways and Means Committee), by denying the prospect of a major peace dividend, defined the ways and the means for moving this country from the present condition of a second rate industrial economy to a *one third rate*. A continuation of the priorities of the last forty years promises just that. "Third rate" refers to the breakdown of production competence in the industries that produce the means of production themselves. That condition, once in place, makes it difficult or impossible for a country to restore the production equipment needed to escape the process of decay.

During the 1980s there was a sharp decline in production capability in the U.S. industries making machine tools, textile machinery, construction equipment, mining machinery, electrical generating equipment and other capital goods. Independently of the existence of concentrations of personal wealth, an *inability* to produce the means of production is one of the defining conditions of an underdeveloped country.

What is needed to reverse this decay in American industry and

society? A partial agenda of what is needed in the crucial public domain of physical infrastructure and human services is defined by the Save America Budget, which the National Commission for Economic Conversion and Disarmament has defined. Each one of the items is an annual expenditure requirement, as shown in Chart 1. Each of these estimates comes from particular studies in these fields.

The sum of these national needs estimates is an annual requirement of \$165 billion each year, for the next decades. That is the necessary outlay for halting and reversing the process of decay in American infrastructure, industry and human services. It is the minimal amount required for setting in motion a process of renewal and rebuilding.

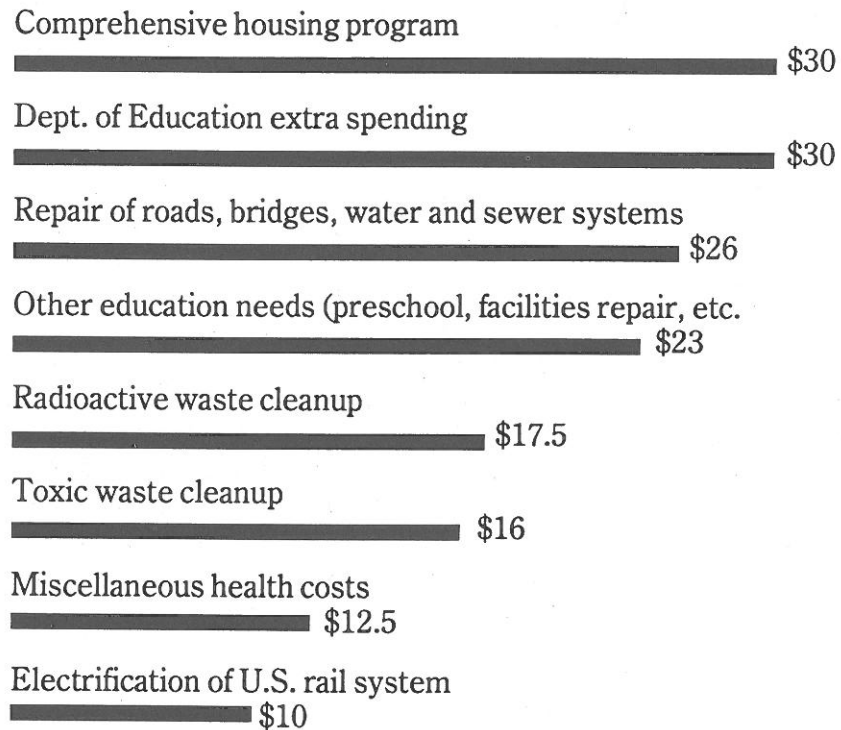
In relation to this schedule of needs, what is the meaning of a peace dividend? Chart 2 summarizes what has been proposed and what is conceivable. The Congressional Budget Office makes a proposal for one year. It amounts to a modest reduction of about \$8 billion. President Bush proposes a series of reductions in the Pentagon budget over five years, and these would total about \$32 billion. Previous Secretaries of Defense have proposed a total reduction in the budget of the Pentagon of \$75 billion, to take place over a number of years. Robert McNamara and a former aide, William Kaufmann, have recommended that the budget of the Department of Defense be brought down to \$150 billion, where it was at the time of Jimmy Carter's presidency. This proposal means that in the course of attaining a \$150 annual Pentagon budget by the year 2000, the average annual reduction from the present level would amount to \$75 billion a year. That is not even one-half of the annual national requirement for rebuilding the country, as shown in the Save America Budget.

There is another way of viewing the peace dividend possibility. In April of 1962 President Kennedy presented a plan for reversing the entire arms race, world wide. It was called "Blueprint for the Peace Race: Outline of Basic Provisions of a Treaty on General and Complete Disarmament in a Peaceful World" (U.S. Arms Control and Disarmament Agency, Publication 4, U.S. Government Printing Office, May 1962). The Kennedy plan was for a three-stage process, extending over ten years. This would include negotiated arrangements for demilitarization, policed and monitored, coupled with the buildup of peacekeeping institutions both legal and military. It would make possible a reduction of the military budgets and

Chart 1
The Save America Budget

A Peaceful Way to Spend \$165 Billion

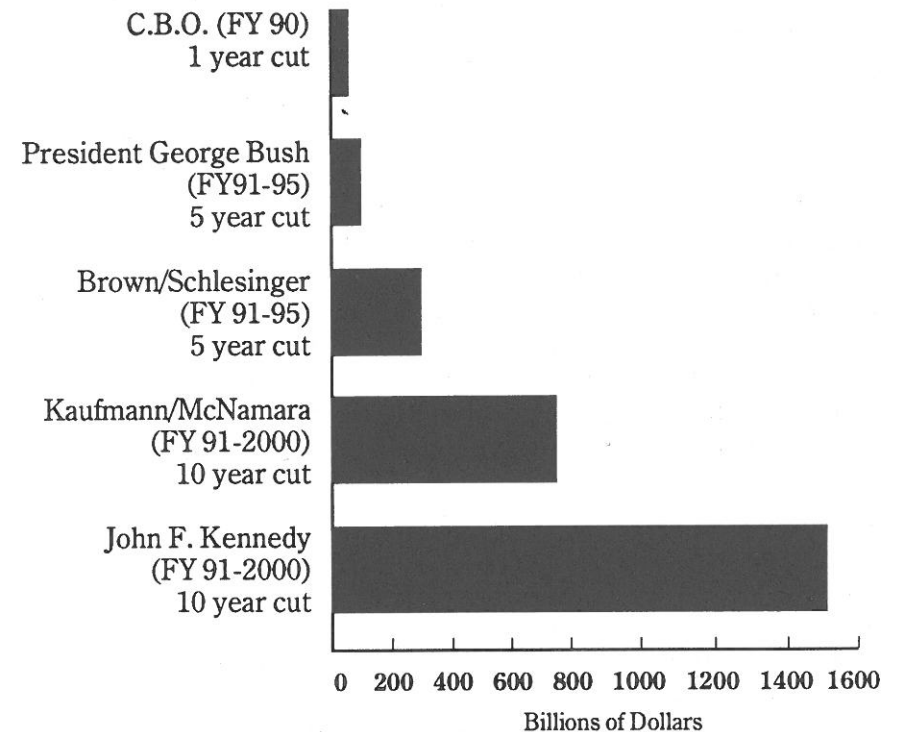
Recommendations of the National Commission for Economic Conversion and Disarmament on reallocation of military spending. Annual federal outlays, in billions of dollars.



Source: Estimates by the National Commission for Economic Conversion and Disarmament based upon reports of various expert studies identified in *New York Times*, 10/18/87, 3/23/88, 9/27/88, 10/13/88, 12/3/88, 1/6/89, 3/29/89; cost estimate of electrification of U.S. rail system prepared by Professor John E. Ullmann, Hofstra University, Hempstead, N.Y.; Michael Renner, "Enhancing Global Security," in *State of the World: 1989*, (New York: W.W. Norton & Company, 1989), U.S. Congress, Joint Economic committee, *Hard Choices*, February 25, 1984, Washington, D.C., 1989; A. Bastian, N. Fruchter, C. Gree, "Reconstructing Education," in M. Raskin, C. Hartman, eds., *Winning America*, (Boston: South End Press, 1988), pp. 11, 197, 204; Center on Budget and Policy Priorities, "The Bush Budget," 2/17/89, p. 10.

Chart 2

Five Plans for a Peace Dividend



institutions of all the major states of the world. From this plan the reduction of the American military budget would be to the level of its contribution to an international peacekeeping force—about \$10 billion a year.

That total reduction would amount, over ten years, to \$1,500 billion, and would therefore average \$150 billion a year. Of all the conceivable ways of deflating the Cold War, it is Kennedy's disarmament process that holds open the possibility of releasing the resources of the right magnitude to start a process of *renewal and rebuilding*, rather than only *slowing down* the rate of decay.

The meaning of this to American cities can be readily understood in the following fashion. In 1987 the Pentagon's share of federal taxes paid by the people of New York state amounted to \$25.6 billion. During the same year the Pentagon spent \$11 billion in the state. Hence, the Pentagon extracted a net of \$14 billion from New York, to be spent abroad and in other parts of the U.S. Since the people of New York City are forty percent of the state's population, and assuming a shared average per capita tax burden, the city's share of this tribute to the Pentagon was about \$5.6 billion. (This can be compared to a 1991 New York City budget of about \$28 billion that is in deficit by an estimated \$2 billion.) Such an annual massive extraction of public funds in favor of the Pentagon has prevented the repair and modernization of New York City's infrastructure and human services. It is the absence of these resources that is the proximate cause of crisis in the city government. Exactly the same set of conditions prevails for many other U.S. cities, like Chicago, where the next extraction per year (for the last year of available data, 1987), is \$3 billion. The same consequences of disrepair and decay apply to the city of Chicago.

These facts make possible a fresh understanding of the causes of the American "catastrophe in slow motion." In an eloquent address in the City Hall on May 11, 1990, Mayor Dinkins addressed the profoundly important issue of race and racism in New York City. In the course of these remarks he said, "...we have simply been abandoned by the national government in Washington." I disagree with that assessment. The major cities of the U.S. have not been abandoned. They have been exploited, robbed. And this has been going on for decades, with the consequence being the mutilation of the quality of urban life in the United States.

A recent study by Employment Research Associates has examined the consequences of shifting \$30 billion a year to the cities of

the United States from the military budget. The effects have been carefully reckoned: 195,000 more teachers hired; \$606 million worth of schoolbooks, computers and equipment purchased; 490,000 additional children in Head Start; 900,000 public housing units brought up to federal standards; \$2.2 billion for new buses, rail cars and mass transit facilities; 6.5 million additional people cared for at community and migrant health clinics; full immunization against childhood diseases; 1.3 million more people enrolled in adult and youth job training programs annually; 2.3 million more senior citizens served meals at home each year.

How is it possible to acquire resources on the scale indicated here? It is now vital to put on the political table once again an idea that has been buried for 28 years: the Kennedy idea of a negotiated and systematic demilitarization for the major countries of the world. This would open up the prospects for the proper magnitude of resources available for economic and other reconstruction.

Right now there is panic in the Department of Defense and related institutions over the possibility of such developments. The *New York Times* of June 18, 1990 reported that the National Security Agency is seeking a new mission. Its electronic surveillance of world-wide communications should be turned to "economic intelligence surveillance". Imagine what is in prospect here. \$10+ billion a year applied to economic intelligence. Visualize the early reporting of the new shape of the Toyota fender, being put in the hands of the designers of General Motors, Ford and Chrysler in the hope that this would give them some economic advantage.

In order to restore a measure of economic competence and to rescue the people of this country from a growing wave of impoverishment, it is necessary to put in place an economic conversion process for redistribution of the gigantic resources now used on economically non-productive account. Economic conversion is the political, economic and technical process for assuring an orderly transformation of economic resources now being used for military-oriented purposes to alternative civilian uses. It is the process whereby managers, working people, and communities participate in the planning of the transition. Conversion is needed to assure that the defense cutbacks are matched by planning to assist displaced labor and capital resources in finding new civilian work. Why can't military workers be reemployed in the civilian sector? What prevents military firms from expanding civilian production as military budgets are reduced?

Part of the answer lies in how military-serving firms are organized and operate. Military engineers are encouraged to design complicated systems while giving little attention to cost growth. When military engineers have tried to design civilian products they have often failed miserably. Their marketing departments are to a large extent political operations in which success in winning a contract depends on connections with Pentagon bureaucrats and understanding arcane bureaucratic regulations.

The largest military-serving firms also lack an economic incentive to diversify into civilian production because of the special economic rewards for participating in defense work. Profits are assured. The goods are paid for before delivery. The larger Pentagon contractors are virtually guaranteed against business failure. Once a contract is won, military firms have often received what amounts to a "blank check" from the federal government that covers the escalating costs of military products.

This analysis is confirmed by Stanley C. Pace, chairman and chief executive officer of the General Dynamics Corporation — among the nation's largest defense contractors. In testimony before the U.S. Senate Armed Services Committee on May 4, 1990, Pace identified the distinctions between military and civilian firms:

...Based upon my experience in government, in commercial manufacturing and in defense manufacturing, I want to list certain facts, premises, or opinions:

(1) The culture of doing business in a defense plant is significantly different from the culture of doing business in a commercial plant. The difference is *not* because one group of individuals is less efficient than the other. They are different because they are responding to different requirements and stimuli. For a couple of examples: (a) In defense equipment there is an absolute necessity for superior combat effectiveness. A less costly and less effective weapon system will provide defeat. (b) The defense industry is burdened by audits, cost certifications, design reviews, oversight, annual buys, annual budgets and annual appropriations by Congress, Congressional hearings, as well as the added responsibility of the spending of taxpayers' money.

(2) A defense industry plant has a very difficult

time doing commercial work mixed with defense work. History is replete with examples of problems and failures.

(3) Defense engineers and managers can successfully transfer from one culture to another, but it takes time and the individual has to leave his historic culture and move *as an individual* to the new culture.... [Italics in original.]

The National Commission for Economic Conversion and Disarmament has prepared a chart showing the major necessary components of economic conversion legislation (Chart 3). The key characteristic, the cornerstone for comprehensive economic conversion planning (as in H.R. 101), is the idea of mandatory alternative use committees, teams of managers and employees established in each military serving factory, base and laboratory with a hundred persons or more. These committees would be charged with preparing a technical-economic plan for alternative civilian activity upon completion of the work for the Pentagon. This would set in motion a nation-wide network of highly decentralized economic preparation in the hands of the people in each facility and locality — those who know its conditions best. Funding for this work would come from the ordinary administrative budgets of the facilities.

Next is a requirement for *advanced* conversion planning. No waiting until the roof falls in. Both industrial experience and formal studies confirm the need for a two-year planning period for blueprinting a military-to-civilian changeover in sizeable industrial facilities. There is also a necessity for decentralized control of this alternative use planning. *No new central agency required in Washington, no state planning commission for the U.S.* is a fundamental policy idea that underlies this orientation to economic conversion. One year advance notification of contract termination is stipulated.

Occupational retraining must occur. The engineers and managers long-serving the Pentagon have a *trained incapacity* for civilian work, due to an environment which fosters inefficiency and waste with government subsidies. A widespread system to retrain them for civilian technical and managerial competence must be set up. There must be a provision for community-based economic adjustment planning to prepare for changes in public services where termination of the Pentagon's work could produce major disruption in local budgets, etc. Workers and managers must have assured income during periods of major conversion changeover. This can be funded

by setting aside one- to two-percent of the Pentagon's outlays for purchases in a given year. Such a fund administered by the Treasury would provide for income maintenance while the actual conversion operations are carried out. There is also a need for relocation allowances, like those of the G.I. Bill after World War II, so that the men and women of the military economy can find new jobs in other places in the country.

Finally, I call attention to the last requirement: capital investment planning. This is critical. It is proposed that the mayors and the governors set in motion a process of planning the capital budgets they need for putting their infrastructure and human services in first class shape. These projected capital budgets would define the income and employment effects from infrastructure and services improvements.

At this writing there is a study group of the Democratic Party in the House of Representatives, led by Messrs. Gephardt, Gejdensen and Mavroules. The ideas that have come forth from that group are altogether different from the conversion specifications that are exemplified in H.R. 101, sponsored by Ted Weiss and 74 other Representatives. In the study group's view, no mandatory alternative use committees are needed. Instead a firm may be asked to tell a community-centered group how many people it employs, their occupations, the square-footage of the plant, and some sort of listing of production equipment in place. But management is not required to make available the full array of data that are vital for doing an economic and technical redesign of an industrial facility.

The study group's perspective involves no requirement for advance conversion planning in any factory, base, laboratory or community. Instead of decentralized control they would set up centralized operations, notably in the Office of Economic Adjustment of the Department of Defense, equipped with funds to dole out to various communities (read, to the mayors of the cities). Thereby the Department of the Defense would be effectively rendered into a Ministry of National Economy, and the mayors of our cities would be converted into a body of mendicants, pleading for scraps from that table. Because the total sum for all "adjustment" purposes to be allotted nationally under this scheme is \$200 million, this is a preposterously minute quantity of resources.

The "adjustment" alternative to conversion planning assumes a very slow reduction of the military budget, a continuation of the Cold War type economy and its policies. In that perspective a

Chart 3

A Guide to Four Bills in the 101st Congress

	H.R. 101 Weiss	H.R. 2852 Gejdenson/ Mavroules	H.R. 3999 Oakar	S. 2097 Pell
1) Mandatory Alternative Use Committees	Yes	No	No	No
2) Advance Conversion Planning, Blueprint Ready	Yes	No	No	No
3) Decentralized Control of Alternative Use Planning at the Facility	Yes	No	No	No
4) Advance Notification of Contract Termination	Yes	not for bases	Yes	yes
5) Mandatory Occupational Retraining	Yes	No	Yes	No
6) Community Economic Adjustment Planning	Yes	Yes	Yes	Yes
7) Assured Income/ Benefit Maintenance	Yes	No	Yes	health, no income
8) Relocation Allowances	Yes	No	Yes	Yes
9) Financed without new appropriations or taxes	Yes	No	No	Yes
10) National Newwork for Employee Opportunity	Yes	Yes	Yes	Yes
11) Capital Investment Planning	Yes	No	Yes	No

Four Bills Introduced in the 101st Congress

Weiss, H.R. 101: *The Defense Economic Adjustment Act*

Gejdenson/Mavroules, H.R. 2852: *The Economic Diversification and Defense Adjustment Act of 1989*

Oakar, H.R. 3999: *Economic Stabilization, Adjustment, and Defense Industry Conversion Act of 1990*

Pell, S. 2097: *Defense Diversification and Adjustment Act of 1990*

rejection of the main components required for economic conversion planning makes sense. Once in place, such a policy system would also reinforce the existing feeling of dependency on the Pentagon among many working people. This is a likely result from the absence of any coherent procedure for preparing, in advance, for conversion from military to civilian work.

Such a policy system would be a disaster for this country, speeding the ways and means to a third rate economy and society.

For an individual, as for a larger community, going into debt to facilitate a productive investment is a constructive act. For such investment facilitates generation of new wealth that makes possible both repayment of debt and acquisition of wealth above and beyond the initial borrowing. The federal debt is not of this sort. The borrowing was incurred, overwhelmingly, to facilitate economically non-productive investment in wars, military production, and for the operation of armed forces. Whatever value may be assigned to weapons (political, war-making, aesthetic, to some people religious), they are lacking in ordinary consumption and production use-values. War planes and submarines are technically elegant devices in many respects; but they cannot be eaten, or used for clothing, transportation or shelter. And you cannot make anything with them. While usefulness for consumption or production is absent, the military goods nevertheless have prices that are counted in the Gross National Product, thereby distorting the meaning of that category as a measure of new economic wealth produced. Accordingly, non-productive growth has been the primary long-term economic effect of the vast borrowing to pay for the ever-larger military budgets of the last decades.

The prospective availability of many billions of dollars from reduced military budgets affords a fresh opportunity to deploy large finance capital funds to productive use. If that is done then the new wealth that will be created will enable not only ready repayment of debt, but will also yield large quantities of new real wealth whose production and marketing enlarges the tax base and yields additional revenues to government.

Accordingly, I recommend that peace dividend funds be allocated as follows: 90 percent for new wealth-creating work, such as that defined by the Save America Budget; 10 percent for short-term debt repayment. The priorities affirm responsibility for debt repayment while emphasizing the application of peace dividend funds to producing new wealth and reversing economic decay.

I believe we must respond in a fresh way to the problems of how to obtain a meaningful peace dividend and how to set in motion an efficient economic conversion process. We are given an important clue by Louis Harris' public opinion poll. He showed, on May 23, 1990 (*The New York Times*), that nine out of ten Americans are disturbed by the developments of the U.S. economy, and by its manifest inferiority in comparison with others. Six in ten view these matters with alarm. 75 percent are convinced that "the U.S. is in a state of decline compared with Japan, West Germany and other Asian and European countries."

The possibilities for mayors and governors are now indicated. A Mayors' Mobilization for a Peace Dividend, for which Mayor Dinkins has already hoisted the banner, is the right step for directing the future. The money from a peace dividend must go toward rebuilding America. Each city should now be encouraged to prepare a City Needs budget. The nation as a whole can readily carry out a one-third cut in its military budget single handedly; and the rest can be sensibly reduced on an internationally negotiated basis following the Kennedy plan. What is required here is economic conversion preparation and facilities to encourage productive investment in every city, state, and Congressional district.

The mayors have a historic opportunity to convene church and civic groups, unions, professional societies, and peace groups, teachers and trade associations — all parties with a stake in a major peace dividend. The mayors can mobilize the Congressional delegations for this program, on a strictly non-partisan basis.

In order to exit from the Cold War and to deflate the Cold War institutions, the country needs a new cadre of candidates for Senate and House seats, people who are not trained to give priority to Cold War values and mechanisms, who will not march in lockstep to support policies and legislation of, by, and for the military-industrial complex.

The victims of the American catastrophe in slow motion can be rescued, and the working people of the U.S. can be spared the consequences of becoming an economically underdeveloped country. The necessary steps must include a peace dividend of proper size and an economic conversion policy that affords the ways and the means for raising the productivity of our resources, and for putting an end to the impoverished existence of millions of our people.

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