America's New Economic Problem

Seymour Melman at Cape Cod, July

The present condition of America's political economy and quality of life has undergone a development whose genesis is clear in the Great Depression. At that time, from 1929 to 1939, there was a consensus understanding that the main economic problem of the United States was making markets active once again. There was no suspicion or intimation anywhere that the United States was other than very competent in matters of production. It was also generally agreed that the ideas of John Maynard Keynes, the economist of Great Britain, were key for causing the market system to go into motion again.

Keynes formulated a theory that government spending could be crucial in market stimulation. The market could be spurred by government, and this would create multiplier effects of diverse sorts in consumer and capital goods. But Keynes did not differentiate between kinds of government spending. There was no distinction as between military goods and consumer goods. And this soon came to a test in the experience of World War II, for at that time the production system of the United States was harnessed to serve the insatiable market demand of the war.

Indeed the World War II experience was unique in that there was not only a Niagara of military production, but there was also an enormous increase in the output of consumer goods, coupled with full employment and an increase in average consumer spending. Swiftly enough America's economists, journalists and others drew an inference from that experience. They judged that the United States was endowed with virtually unlimited material wealth, and that therefore the United States could have both guns and butter at the same time. Not just for a short period of time, but for an extended period. So the short term experience of World War II was used as an inference about long term economics, and that long term became the 45 years of the Cold War during which time it was understood that the United States did not face a choice between guns or butter.

But what was omitted from that belief was that during the four years of World War II it was not necessary to rebuild, and it was possible to defer the maintenance of, the enormous infrastructure of the United States. The civilian industry could continue for four years well enough with the plant and equipment that was in hand. But that could not be done during a 45 year period. In 45 years the railroads wear out, the power plants break down, the water mains rupture, the streets need repair, the school buildings have to be reconstructed. That was essentially omitted from the conventional Keynesian understanding at the end of World War II.

So the United States entered the Cold War with an economic confidence bolstered by false ideas drawn from the short experience of World War II, But these short term economic effects

were repeatedly recited — hailed by firms, by the government, by trade unions and treated by economists as the best possible way for continuing public and private policy.

What was omitted from these understandings were two considerations, and this is what these remarks will focus on.

First, the U.S. was transformed into a permanent war economy. A permanent war economy is one in which military production is large, continuing, and is measured as an ordinary economic product. In the Great Depression a gage of market activity was formulated — the Gross National Product — to measure the new goods and services whose value is indicated by market price. Economists and others decided that military production and services should be included as part of the GNP.

Then there was a series of major political effects after World War II, A series of new institutions were erected in the government of the United States. These war-making institutions — the Department of Defense, the Department of Energy, the assorted "intelligence" agencies — soon came to dominate the functioning of government. This domination is visible in the number of people employed. At this time the Department of Defense employs more people than all the rest of the Executive Branch of the federal government. The budget of the Department of Defense, each year since 1951, has exceeded in money value the profits of all U.S. corporations taken together. The Pentagon has constructed within its framework the largest management organization in the United States, probably in the world. 35,000 firms considered prime contractors to the federal government relate to the top management in the Department of Defense in the same way that the divisions of General Motors relate to the central office of that company. The central office of the Department of Defense formulates policy, polices compliance among the divisions, and receives reports from the divisions on their performance in desired categories. So a managerial organization described by the Pentagons formal reports includes 500,000 persons engaged in what they choose to call the "acquisition" function. Consider that number of people, and compare that, as anyone can, with the square block occupied by the State Planning Committee, the Gosplan, in the Soviet Union — a modestly sized central management organization compared with our Pentagon.

From the Comptroller of the Department of Defense, we are informed that from 1947 to 1989 the budgets of the Department of Defense amounted to $8.2 trillion (in dollars of 1982 purchasing power). That is a magnitude very difficult to contemplate, so I offer you the following basis for comparison. From the Tables of National Wealth as published in the statistical abstract of the United States, we learn that the combined money value of the industrial plant and equipment of the United States, plus the money value of the infrastructure of American society, added up to $7,3 trillion (again for 1982). We expended on the military enterprise during the Cold War a quantity of resources more than what would be needed to replace most of what is human-made on the surface of the United States.

Therefore it is no mystery whatsoever to find disrepair and decay in many aspects of U,S. industry and infrastructure. We know from Physics 101 that matter and energy can occupy only one place at one moment in time. Therefore the resources used up on behalf of the military can not occupy or perform other services.

During this long period the federal government has marshaled the services of about 30 percent of the country's engineers and scientists. There is a much larger outlay of capital resources, plant and equipment for the military researchers than is to be found in use for the civilian researchers in U.S. industry. Furthermore, the military researchers are marshaled characteristically in very large units. For instance in a suburb of Boston, Lexington, there is an electronics research facility, the Lincoln Laboratories, doing military work. It is administratively affiliated with M.I.T. There are 2,300 engineers and scientists in that place, enough to give energizing effect across the board in diverse directions to many classes of work. The laboratory is lavishly equipped, and lavishly budgeted year by year with several hundred million dollars.

There is another kind of cost that has weighed very heavily in the United States. Tens of thousands of industrial enterprises have been transformed from efficiency and cost minimizing into cost maximizing, with profit advantage being obtained by the difference between escalating cost and escalating subsidies from the federal government.

In creating the military economy whose characteristics I summarized, in creating a set of institutions that have endured for decades, and in creating a labor force skilled workers whose activity has centered around the military operations now for almost 50 years, we have generated a large cadre of people who possess a trained incapacity for doing competent work in civilian industry. For the ways of working that are used on for the Department of Defense are ways of working that yield sure-fire failure when applied in the civilian sphere. We've seen that over and over again. In one famous case that is well documented, the Boeing-Virtol corporation, long a producer of military helicopters, took on contracts for producing trolley and subway cars. But these cars had been designed and constructed following the methods of military designers. They omitted careful consideration of economical maintenance of the equipment they designed, and they omitted a thorough test run of the vehicles. In other words, the design, the construction, and the marketing proceeded as joint or concurrent operations. Concurrency is a well-known characteristic in military production, though it gets lost from public view behind barbed wire fences on air bases and aircraft carriers plowing the seas. But those breakdowns in trolley cars along the tracks feeding into Boston soon became a public scandal. It was clear that the aircraft designers and constructors who did the Boeing-Virtol work on what was to be a civilian trolley and civilian subway cars did it all wrong. And after a trail of lawsuits they withdrew from the business. As the manager of the enterprise put it to me, "we thought it would be like falling off a log." What is important is that this was a crystal

clear demonstration of a trained incapacity to work in a civilian-technical, civilian- design, civilian-production, civilian-economy fashion. We have trained a large part of our workforce — more than three million in military industry -- to work under a regime where escalating cost is acceptable because there will always be a subsidy to offset the cost increase.

Cost-maximizing has yielded consequences that you might suspect after contemplating the size of the resource used on behalf of the military, There has been a disappearance and a depletion of many American industries* I had occasion, at a recent meeting in Paris, to hear representatives of trade unions in Western European armaments industries. They all concurred in the idea that they didn't want their firms to be manufacturing saucepans instead of military materiel, I held forth to these people the fact that I had reasonably visited a department store and found that competent saucepans were priced between $40 and $60, and that saucepans are useful and are necessary, Someone has to make them if we are to have them, I also called their attention to other kinds of civilian products that are not being produced in the U.S.A anymore. The firms and the industries that used to make these products — such as an efficient and inexpensive cassette recorder -
- abandoned that line of work for the more advantageous, more profitable, more assured market that was guaranteed to them firm by firm by the Department of Defense. So the consumer electronics industry has all but disappeared from the United States. Every one in this room owns a radio. No one in this room owns a radio made in the U.S.

What happened in consumer electronics has also been happening in other industries, which were industries that once made the United States the front-running industrial country in the world. From 1977 to 1987 there was a disappearance of production workers in the following industries: half the production workers from the machine tool industry are gone, as have half the factories where they used to work; ad accordingly about half of the machine tools bought in the United States are imported from abroad, The same thing has happened to the factories making farm machinery, and textile machinery, and oil drilling machinery, and mining machinery, and electricity generating equipment.

These are the equipments, notably the machine tool industry, which are the equipments that are at the base of an industrial system. They provide the means of production that are used throughout the system. When a country is unable to produce its own means of production and must resort to importing these equipments, it is conventionally recognized as an unindustrialized, or underdeveloped, country. And that is exactly where the United States has been moving at a swift pace. The total cost of repairing the industrial plant and equipment in the United States will amount to an excess of $3 trillion. And no such program to direct this work has been mentioned in any place that I know of. It is as though it is a great social disease. Only it's not polite to talk about. It hasn't become polite yet to talk about the decay of U.S. industry.

Paralleling the industrial decay, there has been infrastructural decay and disrepair. The great cities of the United States are the sight of immense decline. I live on Broadway at 113th Street, just across from Columbia University. I can testify from long memory that there are more beggars on Broadway today than there were during the Great Depression. There are more homeless on the streets of New York than there were during the Great Depression. And decay and disrepair can be found in every great city in the United States. The long enduring war economy has had the effect of a slow-moving great depression. But the Great Depression did not yield a wipe out of major parts of U.S. manufacturing industry,

One of the prides of New York City has been its water supply. The great network of water mains is backed up by reservoirs far off in the mountains, which are the sources of water distributed through a complicated network of underground water mains throughout the five boroughs. But the water mains are old, so they break. There are now on the average two breaks in the water mains every day in New York City.

The city of New York is responsible for the care and the use of 1,000 public school buildings. 850 of those are in need of basic maintenance and major repair bordering on reconstruction, So we have school kids now compelled to work in rooms that resemble broom closets, where there are also leaks in the roof, plumbing that doesn't work, inadequate heating facilities, and a paucity of decent playground space, And with the new budget cuts in the city, the textbooks, the libraries, the programs for the visual arts, for the musical arts, are all being severely curtailed.

When I was a kid growing up one of the joys of my life was the local public library. The public library served as an opening to a wider world. It was an experience that nurtured imagination, and was an important part of my education. So I regard it as a catastrophe that the public libraries are being shut down many hours a week, that the funds for the purchase of books are severely curtailed, that the number of librarians are being sharply reduced.

What will it take to repair the infrastructure of our great cities? My colleagues in the National Commission for Economic Conversion and Disarmament have reckoned that an outlay of about $165 billion a year will be required every year, for an indefinite number of years into the future, to repair the damage that has been done to the infrastructure of American cities. It will take $30 billion a year to set in motion a comprehensive housing program and end the blight and shame of homelessness. It will take at least $30 billion a year over and above what was recently spent to move the education capacity of our public and secondary schools to much improved levels. The repair of roads, bridges, water and sewer systems will take an additional outlay of $26 billion a year, The cleanup of radioactive waste will require an outlay of $17.5 billion a year, and other environmental cleanup $16 billion a year. Social and health services will have to get an additional $12.5 billion a year. And if there was to be an electrification of the U.S. rail system to replace the Toonerville Trolleys that now characterize what we call railroads in the United States, that would require an outlay of $10 billion a year for ten years. (There is an outlay of $100 billion now being made in

the countries of Western Europe, where there will be in the near future a network of high speed electric trains linking all the major.)

None of these funds are now available, and none are even in prospect. The reason they are not in prospect and not available is because half of what we pay in taxes to the federal government year by year is taken by the Department of Defense, What is left over is simply not enough to conduct other routine activities of the federal government. Not to mention the work that would have to be done directly for the repair of U.S. industry.

But there are interesting implications from this program of $165 billion a year in government responsibility public works. If the water mains of the
New York Cities in the country were to be renewed, it would require not only thousands of miles of new piping, but also an immense quantity of valves, pumps, construction machinery, cement, and a very large labor force to carry out the requisite operations. So such a project would feed back into a great number of industries. Indeed for many of these industries the requirement would be for setting up entirely new factories, since their present capability is not adequate for the new demand. Consider the case of high speed electric railroads. The government of Texas is now in course of making a major expenditure for high speed electric trains for three or four of Texas' main cities. But the equipment to be used, the locomotives and the railroad cars, are not to be made in the U.S., but in France, There isn't a factory in the United States with the experience and hence the capability for building this class of equipment. Were there to be a great national railroad electrification effort, there would be a need for setting up entirely new factories — in effect entirely new industries to carry out the requisite work,

But it's not only that the war-making institutions dominate in terms of numbers and money. They also dominate in terms of policy preference. For their influence has reached very far and very deep into affecting the character of the Executive Branch, and effecting the character of the Congress of the United States,

From the Constitution we learn that the President is endowed with top decision power in political matters, as the Chief of the Executive Branch. The Constitution also endows the President with top military decision power as Commander-in-Chief, subject to the check of the Congress, But nowhere in the Constitution will you find even the suggestion that the President be endowed with top economic decision power. The truth is, however, that owing to the permanent war economy the President has been given top economic decision power over the country. He is functionally the Chief Executive Officer of the biggest management in America. He is the C.E.O, riding herd with final decision power over the largest capital fund in the American economy. He is the C.E,O. supervising the affairs of the largest workforce, the largest research and development budgets, the largest team of engineers under one management in the government of the United States.

Until now we have understood that the type of government that places top political, economic and military decision power in the same hands, as a Leninist form of government. No vote of Congress has endowed the United States with that form of government. But it has been installed regardless, not by deliberate overt action but as an automatic, derived effect of the long-term political and economic consequences of having the permanent war economy.

Now we must question how to extricate ourselves from the consequences of a permanent war economy.

At the close of World War II, U.S. post-war planning was in place for "reconversion" to civilian economy. On April 28, 1943 David C, Prince, a Vice President of the General Electric Company, wrote to the U.S. War Production Board that, "The very least time during which a new product can be conceived, models made and tested and pilot plant production initiated is of the order of two years," With only a few months* notice of the end of the war, "we will find ourselves with a great many people whom we would like to put to work ..." but we will be delayed two years "unless some of these preliminary steps are taken,"

They were. An effort to plan reconversion became a national consensus as firms, unions, and governments named officials to spur post-war planning. For most firms reconversion meant merely resuming the work that had been interrupted by the wartime years.

Now, at the close of 45 years of Cold War, federal and corporate managers of war production have blocked every proposal for planning conversion to a civilian economy, while the planning-time requirements named by David Prince are still valid.

Corporate and government defense managers and engineers have been molded by long service to the Pentagon and its cost-maximizing practices, the obverse of industrial efficiency. For them, conversion means an end to cushioning subsidies, as well as necessary retraining for unfamiliar cost-minimizing skills. Accordingly, conversion to civilian work now requires these essential preparations: first, conversion planning must be ordered by law; second, the planning must be done in advance; third, the planning must be done locally in each military factory, laboratory and base.

1) The cornerstone of the economic conversion law proposed by Congressman Ted Weiss (H.R. 441) is the provision that "there shall be established at every defense facility employing at least 100 persons an Alternative Use Committee, composed of not less than eight members, with equal representation of the facility's management and labor ..." and "the Committee shall undertake economic conversion planning and preparation for the employment of the personnel and the utilization of the facilities in the event of a reduction or elimination of any defense facility ..."

The Alternative Use Committee composition ensures wide participation in knowledge and commitment. This will give weight to people whose self-interest is tied to the long-term production competence of the facility, as against short-term financial maneuvers that loot the production competence of U.S. industry.

2) Conversion planning must be done in advance, as noted by David Prince. His judgement is confirmed by ordinary industrial experience and by formal studies. Factory conversion requires redesign of production facilities — including products, machinery and production organization. Base conversion is an exercise in regional planning, assessing both internal and surrounding resources for alternative civilian uses. In military laboratories the staffs must match their talents with needs of the wider society.

3) The firsthand knowledge of people in the factories, bases and laboratories is essential for conversion, Therefore conversion planning must be done at the local level. No computerized central office or Soviet-style Gosplan can possibly wield the detailed knowledge of people, facilities and surroundings, which are vital components of competent conversion planning.

What can converted military factories produce? First, things we now buy abroad, like electric locomotives, farm machinery, VCRs, radios. Will high U.S. wages keep us from being price competitive? No. Japan's industrial wages almost equal those of the U.S., and Germany's wages for 1990 were 144 percent of U.S. wages. Then there is the work of modernizing the U.S. infrastructure — a vast series of undertakings, requiring local planning and capital goods of every sort. Finally, there is lots of room for New Ideas.

Economic conversion is a strategy for job security and business development that cannot be left to the uncertainties of the "market." The war economy has taken too tight a hold of our country's politics and economics to be released through anything but law.