

THE ECONOMIC CONVERSION IMPERATIVE:

Eleven Propositions

by Seymour Melman

August, 1990

Preface

Rapid transformation in U.S.-U.S.S.R. relations has opened the prospect of altering the American economic, industrial and other institutional structures put in place during 45 years of Cold War. The politics of such efforts must include an up-to-date formulation of how the U.S. is ruled, taking into account the structural economic changes wrought by the long military-political contest. The core point is this: a structure of federal chief executive officers, centered in the White House and Pentagon, controls capital resources as great and greater than the resources that define the decision power of the corporate chief executive officers. The American ruling class, by 1990, has become a state/corporate managerial entity. Together they control the military-industrial complex. Elsewhere I have tried to define the structural features of the newer government-based decision-making entity, its relation with corporate management, and the destructive consequences for economy and the wider society.¹

Proposition One

The Cold War is over, but the Cold War-making institutions are intact. The Pentagon receives an annual capital fund that, since 1951, has exceeded the net profits of all U.S. corporations taken together. Hence the state managers of the Pentagon and their C.E.O. in the White House control the

^x See my *Pentagon Capitalism*, McGraw-Hill, 1970; *Our Depleted Society*; Holt, 1965; *The Permanent War Economy*, Simon and Schuster, 1985; *Profits Without Production*, Alfred A. Knopf and University of Pennsylvania Press, 1987; *The Demilitarized Society*, Harvest House, Montreal, 1988.

largest single capital fund in the U.S. economy.

From 1947 to 1989 the Pentagon expended \$8.2 trillion (measured in dollars of 1982 purchasing power). One meaning of this is that, again as of 1982, the value of all U.S. industrial plant and equipment plus the value of the total U.S. infrastructure amounted to \$7.3 trillion. The Pentagon has, during the period of the Cold War, used up resources whose value exceeds the largest part of what is manmade on the surface of the United States. Since we know that matter and energy located in Place A cannot be simultaneously located in Place B, we must understand that the resources used up on military account thereby represent a preemption of resources from civilian needs of every conceivable kind.

The power ambitions of the Pentagon management are without a defined limit. Now that the East-West Cold War contest no longer holds much of a viable threat, the Pentagon is formulating a new strategy for worldwide political/military confrontation. Drug wars, anti-terrorist wars, anti-nationalist wars, anti-revolution wars (i.e., "North-South" confrontations in official jargon) are to replace the Cold war as a rationale for military budgets that year by year take half of the tax dollars we pay to the federal government.

Proposition Two

The war economy for powering the Cold War and for wars against the poor — as in El Salvador — has been consuming U.S. civilian industry. That depletion takes place through processes that are often indirect and hidden because they are controlled by the flows of finance capital and interest rates. But the preemption of real resources comprising fixed and working capital continues. That process is paralleled by the installation of counter-productivity methods of managing in Pentagon-serving firms. This accounts for what is otherwise inexplicable, namely the decline in the production competence of U.S. industry.

That decline is often visible in the total disappearance of entire industries. This is a new phenomenon in American industrial life where, until recently, if a firm was unsuccessful then another management would enter

the field — perhaps even buying up the same resources — and would serve the same market. But that classic mechanism has failed in the cases where there is no one in this country to take up the slack anymore. That has happened notably in the realm of consumer electronics. For example, you cannot purchase a cassette recorder that is made in the United States, not at any price. Neither can you purchase half of the machine tools required by U.S. industry, as those too must now be produced abroad. Half of the leather shoes we wear come from somewhere else. A third of the cars. And the list goes on and on. There is a U.S. market for all these goods, but that market cannot be served from U.S.-based production.

Under these conditions American managers have frequently withdrawn from organizing work that requires American working people. Money-making by investors could proceed by employing working people outside the U.S. or by abandoning production altogether in favor of financial manipulation. Thereby a historic social contract was broken: the employer as organizer of work was accorded, in return, a major share of the proceeds of production. The widespread disappearance of the industrial employer generated a severe crisis for American working people and their trade unions.

The core "economic problem" of U.S. capitalism was transformed. Classically it has been understood, from right to left among American economists and political figures, as fluctuating market demand. To cope with that problem there has been a great consensus since the 1930s that government spending should be used to take up the slack in market demand. The consensus defined military outlays as the most desirable form of government spending for this purpose. But the counter-productivity effects from sustained application of resources to the military sphere were not anticipated. Market fluctuation has been replaced as the central problem of the American economy by incompetence in production.

This is visible if you take into account five fundamental conditions of an industrial economy with a high, sustained rate of productivity growth:

- * a high and growing wage rate within a cost-minimizing micro-economy
- * a rate of productivity growth sufficient to offset wage and other cost increases

- * competence in both basic and applied research and development
- * the development of new techniques for organizing work to optimize productivity of labor and capital
- * in consequence of these factors, a rising level of living.

This set of conditions ceased to exist in this country by the 1970s. The United States is no longer the highest wage-payer in the world, and now occupies a middle position. Prices of machinery have been rising more rapidly than wages to workers. Productivity growth has thus been depressed. American managers and workers search abroad for innovative ways of organizing work. And for the first time the new generation of Americans will have a standard of living lower than that of their predecessors.

None of this is to say that a high productivity-performing economy automatically delivers social justice and the end of familiar alienation, poverty, racism and exploitation. It is to say that an economy that is competent in production, hence able to produce surpluses of real wealth (versus money-valued military goods), offers the best supporting environment for radically altering conditions of social exploitation. Real wealth with consumption and production use-value is an essential instrument for eliminating poverty, and for seriously improving the quality of life.

Hence, I judge it important to understand how the U.S. became a second-rate industrial economy. The role of military economy as a causal factor has been obscured by viewing the military budget as a percentage of the Gross National Product, where it occupies six to seven percent. Economists have held that such a small percentage of the money-valued goods and services could not conceivably account for a systematic decay in production competence. But that six to seven percent for the military includes 75 percent of the federal government's research and development spending; it covers the wages and salaries of some thirty percent of the country's engineers and scientists; that six to seven percent accounts for the accumulation of machinery in the hands of the Department of Defense whose money value, by the mid-1980s, was 43 percent as much as the money value of the total plant and equipment stock of U.S. industry. So the cumulative preemption of qualitatively significant resources on military account *has*, understandably,

had the effect of inducing a decay in production competence.

Proposition Three

The war economy, in the service of extending the decision power and wealth of America's state and corporate managers, has been consuming the U.S. civilian infrastructure. Roads, bridges, the water supply, waste disposal systems, housing, medical care facilities, schools are in disrepair from coast to coast. In New York City 83 percent of the school buildings require major reconstruction. The city government lacks the resources, \$10,3 billion, for carrying out the proper repair. \$10 billion is needed each year to clean up toxic waste dumped in the U.S. \$26 billion more is required each year for repair of roads, bridges, water and sewer systems. \$8 billion is needed annually to make up for deferred maintenance at colleges and universities. And this is a partial list of the alternative courses funds allocated to the Pentagon could be given — provided there was a popular movement that rejected the war economy and demanded preparation for converting from military to civilian economy.

Proposition Four

The sovereignty, meaning the ability for self-governance, of the United States is being weakened. This derives from the loss of production competence, which results in dependence on foreign sources for the supply of all manner of goods and services. And from this comes a loss of ownership and decision power, and an inability to control independently the purchasing power of the currency, the price of capital (interest rates) and the ability to marshal resources for all types of socially desirable instruments and projects.

Proposition Five

The quality of life is being degraded. The U.S. public is becoming accustomed to the existence of a homeless, castoff population, and is being made insensitive to the miserable living conditions of the castoff population. There are more beggars on Broadway today than during the Great Depression.

When this is paralleled by the military-political managers' strategy for a "North-South" confrontation system, what is being underscored is that the danger of war, inadequate standards of living for hundreds of thousands, a healthcare system that can't meet the needs of the poor or elderly, the housing crisis, the failing educational system — these defects and more are now being extended, not curtailed. That leads to the prospect of a grim-future society for the next generation of Americans. They don't need elaborate theories about the function of economy and society to understand that for them there are severely limited economic prospects, and indeed life prospects.

Proposition Six

A permanent war economy produces these depleted conditions independently of variations in culture, ideology or political structure. This consistency of effect comes from the fundamental characteristics of military economy, which cannot help but lead to the destruction of the processes that had previously yielded improved productivity in all aspects of economy. Whereas civilian industry classically operated by internal rules and procedures that worked to minimize cost, in the military economy the rules and procedures yield the result of *maximizing* cost. And cost maximizing can spill over into civilian economy, as it now has in the basic machinery producing industries of the United States. This of course checkmates future production competence and economic growth, and drags the economy toward third-rate status.

What is a third-rate industrial economy? It is one that has lost the ability to produce the means of production which are required to repair the

economic damage from years of decay. That is now becoming visible in the United States. The Manufacturers Census of 1987 shows that from 1977 to 1987 there was a serious decline in the production capacity of the machine tool industry, of the farm equipment industry, of the industries that manufacture construction machinery, mining machinery, heavy electrical machinery, textile machinery. In a word, there has been a serious decline in the production capability of those industries that produce the basic *means of production themselves*. These conditions are the result of undevelopment.

The idea of an undevelopment process helps to account for what has otherwise been a worldwide mystery, the collapse of the Soviet economy. The collapse that has become quite visible there, to the point of less food on the table and goods on the shelf, is derivative from the long concentration of production resources on the military product. The Soviet military product, though also endowed with money value and price, and also counted in their Gross National Product, is functionally useless for ordinary consumption (like the American counterpart). Whatever else you can do with a tank, you can't eat it, wear it, live in it or travel in it. And whatever else you can do with a nuclear-powered submarine or with a military helicopter, you can't *produce anything with it*. Sustained concentration of resources on military goods in the end yields the baleful result of a quagmire, a third-rate economy. That is now visible in the U.S.S.R., also to a degree in England and Argentina. The United States is moving rapidly in the same direction.

The American experience during World War II affects our contemporary assessment of the role of military economy. Plainly, war production and the draft "solved" the unemployment and market demand problems of the Great Depression. Economists also noted that during World War II average per capita consumption expenditures by Americans increased in parallel with immense production for the military. Many people inferred that therefore the U.S. could have guns and butter in the presence of a full scale war economy. The flaw in this reasoning is that it overlooked the fact that the economy's infrastructure (roads, power stations, bridges, etc.) could carry on nicely for four years without major maintenance or repair, but not for *forty* years, the duration of the Cold War. All this goes far to account for

the economic collapse in the U.S.S.R. and the decay in the U.S. and England after World War II, in contrast to the outstanding record of wealth creation in Germany and Japan.

A declining economy is also a route to social collapse, and major parts of internal social collapse are visible in the U.S. as well, with poverty, drug use and crime on the rise. I am told of a schoolteacher in a Westchester public school who confiscated a knife from a 13 year old youth, and cautioned him about the behavior that this seemed to imply, and that this could very well lead to conflict with the law and even jail. And the young person replied that being in jail is okay, because you get three meals a day and a warm bed.

Proposition Seven

For all these reasons the power of the military-industrial complex must be sharply reduced, and the decisive step toward that reduction is the cutting of their budgets, decreasing the resources made available to them.

Who opposes economic conversion? First and foremost, the CEOs of the military-industrial complex, starting with the Chief in the White House and extending to the CEOs of the subordinate firms and enterprises — including the major industrial firms and government-funded research establishments like the Livermore and Los Alamos laboratories. These people are locked into the culture of internal cost-maximizing and external political diplomacy relating especially to the Pentagon and the Congress. These skills are typically non-transferable to a cost-minimizing civilian market environment. These people fear a peace economy that renders them obsolete and diminishes their decision power. Furthermore, the sphere of control of these CEOs must never be underestimated. Remember that they control the largest capital fund in the American economy year by year. And remember that they are responsible for the direct employment of 3.9 million people in the industrial and related enterprises that serve the Department of Defense. They also have a million civilian employees on their own payroll. There are two million uniformed personnel subject to their command in the armed

forces of the United States. These 7.9 million directly controlled are not evenly distributed, geographically or demographically. They are highly concentrated by industry, by region, and by state. Connecticut, Massachusetts and Missouri include Congressional districts with high family income dependency on the Pentagon. The same is true for California and Texas. So in these states, as well as on Long Island, in Dallas-Fort Worth, along Route 128 in Massachusetts, in southern California and other places there is of course fear of an upset in jobs and income from conversion to a peace economy.

The same government and corporate CEOs, led by their chiefs in the White House, have concentrated the federal government's financial resources to serve the war-making institutions. A privileged layer of middle managers, engineers, scientists, and skilled workers was created whose economic status is tied to the war-making institutions.

As the resources, even of the U.S. government, are not indefinitely large, this has entailed limiting support for every sort of civilian and life-serving activity. Thus America's ruling class of top managers in government and industry maintains an impoverished population, and wields a variety of ideological controls, including racism, as instruments for dividing, disorganizing and disabling working people.

Proposition Eight

Economic conversion planning is indispensable if we are to have peace without depression. Farsighted members of Congress have placed in the legislative hopper proposals that would facilitate conversion from military to civilian economy. The present economic conversion bill that carries a comprehensive mechanism for this is House Resolution 101, whose principal sponsor is Ted Weiss (D-NY), and that is co-sponsored by 74 other members of the House. This bill now draws serious attention from the leadership off both the House and the Senate.

The core of the conversion bill is the requirement for establishing Alter-

native Use Committees in every military-serving factory, base and laboratory with 100 persons or more. The mandatory Alternative Use Committees have the task of preparing a complete technical economic plan for the use of the people and the facilities following the termination of work for the Pentagon. The cost of operation of these Committees is to come from the administrative budget of the facility. They are to have access to all the data of the enterprise. Half of the members of these Committees are to be named by management, the other half by employees. Representatives of the surrounding community may participate as non-voting members of the Alternative Use Committees. The strategy of participatory operation here is essential and carefully designed to assure full access to all the talents that are present in a particular facility, and to marshal them in a serious way for a constructive economic future.

The conversion bill also mandates occupational retraining for managers and engineers who have spent ten years or more in the service of the Pentagon. This is a critical requirement. It is not a reflection on individual employees, it is merely a recognition of the fact that professional functioning on behalf of the Pentagon changes the normal means of operation, and teaches the maximization of cost in design, production and management — and civilian economy of course requires cost minimizing in these and related areas.

H.R. 101 also contains a briefly stated stipulation of great importance. There is to be a national Council headed by the Secretary of Commerce and including other members of the Cabinet to oversee conversion activities (though at a distance, since the main activities are designed to be conducted in a highly decentralized fashion, with responsibility and authority in the hands of the people on the spot in every case). The national Council is directed to *encourage* the governments of states, cities and counties to prepare capital budgets with respect to all the infrastructure responsibilities under their jurisdiction. The consequence of such capital budget planning would be a sum of plans for expenditures that would probably exceed \$5 trillion for repair of the damaged infrastructure of the United States. And this would bring an explosion of employment and income.

It is essential to the bill that the planning will be done locally, by the

people present at each plant or base. The Gosplan state planning commission system failed in the Soviet Union, but something similar to the Gosplan is being used in the United States right now. That is the character of the state management in the Pentagon, which rides herd over the detailed affairs of 35,000 prime contractors, and a multiple of that many subcontractors. So with the emphasis on decentralization, what is implied in the economic conversion bill is a decisive move away from centralism in the economic power structure of the United States, to local responsibility and authority.

Proposition Nine

The peace dividend represents the set of resources that, released from the military, will become available for civilian uses of every sort. The size of the peace dividend is governed directly by the reduction of the military budget, which is now one-half of the tax dollars that we pay to the federal government.

Looking at the possibilities for productive economic investment, there is need for immense outlays. The National Commission for Economic Conversion and Disarmament in Washington has prepared an estimate of a peace dividend, that is only a partial rendition of civilian requirements, and that is of the order of magnitude of \$165 billion a year. This partial agenda is based upon a series of independent studies of national needs and recommends new annual outlays as follows:

* comprehensive housing program	\$30 billion
* Department of Education, additional	\$30 billion
* repair of roads, bridges, water and sewer systems	\$26 billion
* other education needs (preschool, facilities repair, etc.)	\$23 billion
* radioactive waste cleanup	\$17.5 billion
* toxic waste cleanup	\$16 billion
* miscellaneous health costs	\$12.5 billion

* electrification of U.S. rail system

\$10 billion

Consider the last item. The Commission has reckoned that it would be appropriate to expend \$10 billion a year for electrification of the mainline railroads of the United States, so that we can have modern high speed rail transportation in the U.S. (In Western Europe there is now a consortium of firms and of governments committed to the expenditure of \$100 billion for the electrification of the mainline railroads there. It is already under construction.) Such an activity would obviously yield the requirement for major work in a great array of industries: steel rail production, railroad equipment production, construction equipment industry, the cement industry, industries of every sort to prepare allied facilities for the electrification of railroads. This would spill over into a host of other industries in the United States, and would afford opportunity for productive employment for at least the next two decades in this country, on a very large scale.

A crucial question of the peace dividend has to do with the issue of investment in new productive undertaking versus national debt repayment. The United States has incurred the largest debt in its history, notably by the accelerated military expenditure and borrowing of the last decade. That the debt must be repaid cannot be repudiated, or else the credit of the federal government would be destroyed.

But here we have to take into account the meaning of debt. When debt is incurred in honor of productive investment then it is done with the expectation that the investment would yield a return so as to not only be able to repay the debt, but also to yield new wealth *beyond* the money value of the debt. When debt is incurred where there is no productive investment, then there is no such return and that becomes a major burden indeed — and that is the type of debt that has been incurred on military account.

What is to be done with the money once a peace dividend on a large scale is possible? My recommendation is for 90 percent to go toward new wealth creation, 10 percent for debt reduction. I expect that new wealth creation will set in motion new income flows that will undoubtedly yield greater revenue, not only to the persons involved, but also to government bodies at all levels. And that increased revenue would make possible the financing of

debt repayment at an accelerated rate if desired.

Proposition Ten

In the politics of the peace dividend the needs and wishes of the general public are opposed by the ruling group of government and corporate managers in the military-industrial complex.

On January 25, 1990 the *New York Times* published the results of a CBS-*New York Times* public opinion poll revealing that about 66 percent of the population favored major new expenditures for the whole array of items constituting the neglected civilian infrastructure. That indicates that those favoring the peace dividend would consist not only of a very broad spectrum of the population, but logically all of the industries and professions that would stand to gain directly from a major peace dividend and new wealth creating activities. And this includes everyone from librarians to sewer contractors, from social workers to manufacturers of construction machinery, for all of these professions would be in far greater demand given a major civilian-oriented peace dividend.

The economic conversion bill aims to reduce fear of depression in the move away from the Cold War not only by the preparation of plans for new productive investment, but also by providing means for a two-year income support given the termination of work for the Pentagon. H.R. 101 stipulates that two percent of Pentagon purchasing expenditures be set aside in a fund administered by the Treasury and used for rendering income support at a reasonable level for the people who have been engaged in military employment.

There is now the possibility of mobilizing a new kind of bi-partisan and cross-occupational and cross-industrial coalition in favor of the peace dividend. Bi-partisan because road contractors, whether Republicans or Democrats, are interested in road contracting. And it is to be expected that a great variety of occupations and trade associations with a stake in the peace dividend can be marshaled to join together in support of that orientation of U.S. policy. Therefore there is in prospect the formulation of a

coalition of previously unknown size, that would be a multiple, in terms of the people involved, of those engaged in the military economy. It would have the prospect for a political influence as yet undeveloped.

At this writing there is at least a possibility that the mayors of large cities will join forces to press for a significant peace dividend. For their own self-defense, and in order to make their professional tasks workable, the mayors require the sort of peace dividend outlined here. Failing that, they know that the conditions of life for many of their people will change from unbearable to catastrophic. As Mayor David Dinkins of New York City has announced that he will convene an economic conversion meeting of big-city mayors in the Fall of 1990, there is now an open prospect for a new political factor on the national scene.

Proposition Eleven

From this analysis it appears that there are two futures in prospect for the United States. One future is the continuation of a bi-partisan Cold War, to be operated North-South in place of East-West, and to have a country that is armed to the teeth while decaying internally.

The alternative prospect is for an end to the Cold War and other wars of convenience. These can be replaced at home by policies spearheaded by economic conversion and reconstruction, and abroad by policies of negotiated disarmament. The idea of a systematic *reversal* of the arms race by negotiation, supported by appropriate inspection and by institutions organized for peaceful resolutions to international conflict, is an idea that has been buried in this country since 1962. It is time to restore this idea and to put it on the political table. The National Commission for Economic Conversion and Disarmament has reprinted the proposal for disarmament prepared by President Kennedy and published in April of 1962. It is entitled "Blueprint for the Peace Race: An outline of Basic Provisions of a Treaty on General and Complete Disarmament in a Peaceful World."

For 28 years the idea of conducting international life without a war system has been buried. But now it's time to have the idea of a peace

system revived, and for it to be a subject of serious discussion, so that the problems of maintaining peace can be addressed and the potentials of a peace economy can be realized.

*A demilitarizing society is not Utopia. A roster of inequalities, brutalities and economic and social decay long endemic to industrial capitalism remain, with this difference. The very process of demilitarizing -- by well-designed economic conversion — institutionalized democratic decision-making and decentralization, reinforces productive life-serving values, and frees up the resources needed for every sort of improvement in quality of life. Though not Utopia, demilitarization makes a host of economic, social and political changes much more workable. There is a better chance of the continuation of life itself. (From the preface to *The Demilitarized Society*.)*