

Ford's Edsel

By Seymour Melman

President Ford has made two contradictory economic policy commitments: to sustain military spending and to combat inflation. That is like trying to drive a car with one foot on the accelerator and the other foot on the brakes.

Many people regard Government spending itself as the prime culprit in inflation. Actually, it is the nature of the insanely oversized military budgets, not Government spending as such, that has had disastrous economic consequences.

Civilian projects sponsored by government ordinarily yield some addition to consumer goods and services, or to the capacity for future production, and hence add to national wealth. The \$100 billion now spent yearly by the Pentagon does none of this.

Conventional economic wisdom assumes that military products can be counted as ordinary economic end-products, that the money value of resources used for the military is a proper measure of their economic worth, and that military income increases national prosperity. These assumptions are false.

Military goods and services are not ordinary economic end-products since

their use yields no addition to consumption or to future production. The Pentagon's pre-emption of capital, technological skills and raw materials diminishes the economic productivity of the civilian economy.

The ideological illusion that military income adds to national wealth has guided economic policies since World War II, blinding all to the inflationary consequences of military spending at home and abroad.

At home, a traditional strength of American industry has been management's ability to offset cost increases, such as wage increases, with more productive machinery and techniques. This kept unit labor costs down, making sharp price rises unnecessary.

But attractively priced new production machinery became less available as efficiency lagged within the machinery-producing industries themselves because of the capital and top engineering talent mobilized for the military.

Meanwhile, the Pentagon infected important parts of civilian industry with its patterns of cost and subsidy maximization. More and more, industrial prices were simply run up as costs rose. Many civilian firms became noncompetitive with other firms in national economies less burdened by military spending. Managers soon dis-

covered better environments for economic growth, especially in Canada and Western Europe, and they slowed the re-equipment of their American facilities, leaving factories here to stagnate while investing in new factories abroad.

A spectacular example of this process is the recent announcement by the Ford Motor Company that it plans to make 55 per cent of its 1975 capital investments outside the United States. The effect of these domestic pressures is strongly inflationary.

Abroad, the value of the dollar was undermined by heavy United States military spending. This dollar outflow, combined with the growing business exportation of capital, produced an exodus of dollars of formerly stable exchange value but constantly lessening real worth.

Finally, a pile-up of unwanted dollars abroad led to the debacle of August, 1971, when the exchange value of the dollar collapsed and prices of our imports soared.

The Federal Government tried to soak up some of the unwanted dollars by spurring the sale of American arms around the world and offering crops and raw materials for sale—with consequent shortages, profit-taking and price rises at home. In these ways, the foreign policies of the Government

have been strongly inflationary.

Other economies suffer inflation exceeding that of the United States. However, only a minor part of the American economy depends on world markets and world cost-price conditions for foods, industrial materials and fuels. Unlike the situation in other countries, the main dynamics that control American costs and prices are home-made.

Probably unintended and generally unforeseen, Pentagon spending has contributed mightily to the present inflation that erodes the United States currency as a store of value, degrading the level of living of millions of Americans while enriching a few.

Can we have a permanent war economy without inflation? Yes, with a totalitarian political-economic control system. If that is what President Ford's economic goals imply, it should be confronted openly. Meanwhile, with his contradictory commitments to reduce inflation while lavishing resources on the military, there is reason to expect that the economy will swiftly become Ford's Edsel.

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