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## HUMAN SECURITY OR NATIONAL DEFENSE: THE QUESTION OF CONVERSION

by Bruce Birchard  
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How can we convert the enormous human, financial and technological resources currently committed to military illusions of "national security" to programs and institutions which provide real human security? That is the central question of this paper.

Our military spending is excessive. The amount of money required for the military defense of the United States is a controversial matter, but many experts have estimated that less than half of our current military budget would suffice. In 1972, George McGovern proposed paring the military budget to \$55 billion by 1976. In 1971, The National Urban Coalition, in its book, Counterbudget: A Blueprint for Changing National Priorities (Benson and Wolman, 1971), argued that a military budget of \$50 billion would be adequate in 1976. If we eliminated all forces designed to project American power abroad and prepared solely for the military defense of the territorial United States, military expenditures could be lowered still further. Shifting to a nonviolent defense strategy would probably lower the cost even more (cf. Boserup and Mack, 1974).

When the war in Southeast Asia ended, most Americans expected quite reasonably that the military budget would decline. In 1967, Charles L. Schultze, then Director of the United States Office of the Budget, estimated that the fiscal dividend accruing to the United States after the termination of the Southeast Asian war "should lie in the range of \$35 to \$40 billion," and that this fiscal dividend should be used to help solve the problems of poverty, provide full employment, an expanded health care and social security program, and perhaps reduce or redistribute taxes (Schultze, in Gordon, 1968: 16, 19). In actuality, the government posted a deficit in budget receipts over outlays of \$3.5 billion in 1974. The deficit is expected to rise to \$51.9 billion in Fiscal Year 1976, according to government estimates. Each year since 1968 the national budget has increased with ever larger appropriations for the military. President Ford asked for \$107.4 billion for the defense budget in 1976. This is over \$15 billion more than in fiscal 1975, the largest peacetime increase in the history of the nation. For fiscal 1978, according to the New York Times of September 15, 1976, the Pentagon is seeking a military budget of about \$130 billion.

Although companies such as Rockwell International, one of the big ten in the military contracting business, claim that military spending has decreased from 58 percent of federal tax revenues in 1955 to 29 percent in 1975 (Rockwell Interna-

tional, 1975), the truth is somewhat different, as Table 1 shows.

Table 1: Breakdown of the Proposed FY 1976 Federal Budget, Excluding Trust Funds, by Spending Category (Source: Friends Committee on National Legislation Newsletter, March, 1976).

<u>Category of Spending</u>	<u>Amount</u>	<u>Percentage of Total</u>
Military Spending: includes 75 percent of the interest on the national debt and veterans' benefits.	\$132 billion	49%
Human Resources: includes education, training, employment, social services and health programs.	51 billion	19%
Other Non-Military: includes environment, energy, natural resources, housing, community development, 25% of the interest on the national debt, science, space, international affairs, law enforcement and justice, government, revenue sharing, commerce and transport.	61 billion	23%
Income Security Programs: includes food stamps, unemployment and disability insurance, old age retirement and several small programs (e.g. black lung benefits).	<u>24 billion</u>	<u>9%</u>
Total	\$268 billion	100%

There has been a slight decrease in the percentage of the federal budget committed to the military, mainly because of the growth of income security and human resource programs since 1955. The portion of the controllable federal budget, however, is far higher than the 29 percent claimed by Rockwell International.

Rockwell and other Pentagon supporters are able to claim that the proportion of the federal budget spent on the military has decreased dramatically only because the federal government began including federal trust funds (notably Social Security Highway, and Railroad Retirement Trust Funds) in the federal budget totals in 1968. Trust funds should not be lumped together with other, controllable federal budget expenditures since trust funds are made up of our money, collected through special taxes and held in trust for us by the government. If we remove these funds from the figures for the federal budget, as has been done in Table 1, military spending still consumes 49 percent of the administratively controlled federal budget.

In the pages that follow, I shall explore several fundamental questions about conversion and human security. These questions fall into four areas: 1) the benefits of converting the military-industrial complex to production and services meeting human needs; 2) examples of successful economic conversion, which demonstrate its technical feasibility; 3) an assessment of the obstacles to conversion from "liberal" and "radical" perspectives; and 4) consideration of strategies for change. In the latter context, I shall report on some tactics adopted by the national campaign to stop the B-1 bomber.

### The Domestic Benefits of Conversion

In addition to possible international benefits resulting from conversion (decelerated arms race, decreased national reliance on violence to solve international conflicts), at least three domestic benefits are likely to accrue to the American people from a major conversion program: 1) more money, production and services for meeting human needs; 2) increased employment opportunities; and 3) a reduced rate of inflation. I shall examine each of these benefits in turn.

#### More money for meeting human needs

Much federal money could be converted from the military to the human services portions of the federal, state and community budgets. For example, The National Urban Coalition's Counterbudget details the programs that could be supported in health care, housing, mass transit, rural development, agriculture, environmental control, education, law enforcement and criminal justice. (Benson and Wolman, 1971). Seymour Melman, in The Permanent War Economy (1974), gives the costs of dozens of questionable military projects and describes city, state and federal human needs programs of equivalent expense that have had to be terminated or were never started due to lack of funds.

The average thirty-year cost of the \$92 billion B-1 bomber system alone to each congressional district in the United States would be \$210 million. A study by the Peace Conversion Task Force at LaSalle College in Philadelphia indicated that, if the B-1 program were terminated, any of the following needs could be met with the \$210 million saved by each congressional district.

Table 2: Socially Useful Expenditures Equal to the Average Thirty-Year Cost of the B-1 Bomber System to Each Congressional District (Source: Peace Conversion Task Force at LaSalle College, 1976).

<u>Socially Useful Program or Service</u>	<u>Approximate Cost</u>
Provide fifty percent of the costs of child care for 9,300 children for thirty years.	\$210 million
Pay the operating expenses of a new high school level skills center providing vocational training for 800 students per year for forty years.	210 million
Operate twelve 600-pupil middle schools for thirty-five years.	210 million
Finance the construction of 11,000 new low-cost family homes.	210 million
Operate seventy neighborhood paramedic units for thirty years.	210 million
Purchase 300 new subway cars.	210 million

The elimination of this one costly weapon could help many communities meet the needs of their citizens more adequately.

One area of the federal budget bears particularly close scrutiny with regard to the military/civilian spending balance. This is the federal investment in research and development. Such spending amounts to only 15 percent of federal expenditures, yet its importance should not be underestimated since it directly affects future investment and production.

In 1976, \$23.5 billion was budgeted for the Federal Research and Development Program. Only one fourth of this amount was for programs strictly oriented to meeting human needs. Of the 1976 total, \$10.6 billion (45 percent) was for the military, \$3.5 billion (15 percent) for space, \$4.3 billion (18 percent) for the Energy Research and Development Administration (E.R.D.A.), and \$5.1 billion (22 percent) for all other agencies (Priorities, March, 1976).

Some of NASA's space work and E.R.D.A.'s energy research either directly or indirectly help meet human needs. The space effort, for example, may yield important "spin-offs" in the fields of medicine and solar power. E.R.D.A. is conducting research on various energy technologies. Nevertheless, the largest item in the E.R.D.A. programmatic budget for 1976 was \$873.5 million (20 percent of the total E.R.D.A. budget) for producing new nuclear weapons (Priorities, March, 1976).

Seymour Melman estimates that one half to two thirds of all American research scientists and engineers are working on military-oriented technology (Melman, 1972). Conversion should include shifting research and development funds into areas in serious need of technological development such as mass transit, solar power, low-cost housing, environmental protection and health care.

The devotion of such an inordinate share of our resources to the military has led to the stagnation and depletion of many of our once-strong civilian industries. According to Melman, many U.S. civilian industries (e.g. electronics, machine tool, railroad, textiles and consumer products such as sewing machines, cameras and typewriters) are not only failing to compete abroad but also losing the domestic market to foreign competition (cf. Melman 1970 and 1974). Until the 1960's, these industries remained competitive, despite higher American wage scales, because of higher productivity due to continued technological innovations. Conversion would bring the necessary funds, brains and skills to these industries, helping us to meet many of our people's needs for better products at lower prices.

Changes in the economic relationships advocated in radical conversion plans also are aimed at meeting human needs more fully. New forms of ownership and management involving worker and/or community control might encourage a stronger orientation to meeting the needs of surrounding communities. Conversion to a socialist system, which emphasizes planning to meet the needs of its citizens rather than making the highest possible profits, would both lessen the pressures for military spending and increase spending on human security, according to radicals. (See the section on "Obstacles to Conversion: The Radical Critique" in this paper.)

### Increased employment opportunities

Another benefit of conversion would be the generation of hundreds of thousands of jobs for the people of the United States. This contradicts widely-held assumptions that military spending is good for the economy and for employment in particular--an assumption which is buttressed by corporate and Pentagon propaganda but not supported by the facts.

The Bureau of Labor Statistics of the United States Department of Labor (BLS) provides the most comprehensive information available on the U. S. economy. The BLS finds that one billion dollars spent on military sectors of the economy creates 33 percent fewer jobs than would be created by increased personal consumption resulting from a tax cut. Specifically, one billion dollars invested in the military generates 75,710 direct and indirect jobs, whereas a one billion dollar tax cut would generate 112,363 jobs (BLS, as quoted in Priorities, June, 1976).

After analyzing the relationships between 132 different industrial sectors of the U.S. economy, the Bureau of Labor Statistics was able to demonstrate what demands would be made upon each sector of the economy by spending in a particular area. Analysts know how many jobs are generated per dollar spent in each sector; therefore, they are able to predict how many jobs would be generated by expenditures in various industries and services. Table 3 summarizes their findings.

Table 3: Direct and Indirect Jobs Generated by One Billion Dollars in Final Demand in Various Economic Sectors (Source: Bureau of Labor Statistics, as cited in Priorities, June, 1976).

<u>Economic Sector</u>	<u>Mean Number of Jobs Generated per Billion Dollars of Final Demand</u>
Military: includes aircraft, electronics, ordnance, missiles, petroleum products, shipbuilding and repairs.	76,000 jobs
Machinery: includes farm, metal-working and general industrial machinery.	86,000 jobs
Government: includes state, local and federal.	87,000 jobs
Transportation: includes railroad, local and inter-city transit and transportation equipment.	92,000 jobs
Construction: includes new residential, non-residential, public utility and highway construction as well as maintenance and repairs.	100,000 jobs
Personal Consumption: resulting from a \$1 billion tax cut and including retail and wholesale trade, food products, motor vehicles, clothing, petroleum products, communications and personal service sectors.	112,000 jobs
Health: includes services, hospitals and instruments.	139,000 jobs
Education: includes educational services.	187,000 jobs

According to the Bureau of Labor Statistics, a \$10 billion shift in government spending from military to other areas of the federal budget would result in "a net increase of 245,420 job opportunities" (BLS, 1975: 110).

A similar conclusion was reached by the Public Interest Research Group in Michigan (PIRGIM). Their findings are reported in detail in the article by Marion Anderson appearing elsewhere in this issue. PIRGIM calculated that the \$80 billion military budgets during the 1968-1972 period cost Americans 840,000 jobs each year. Simply returning that \$80 billion to taxpayers via a tax cut would have enabled them to spend more on such items as clothing, food, homes, services, education and their state and local governments. This would have generated 840,000 more jobs per year than would have been lost due to the complete termination of the military (PIRGIM, 1975).

Another investigation, by the Center for the Continuing Study of the California Economy, indicated that conversion would not be as drastic a blow to the California employment picture as generally believed. Their report states that California--which receives 15 to 20 percent of all Department of Defense contracts and gains more jobs from military spending than any other state except Texas--would suffer a mere one percent increase in unemployment if military spending were cut by 50 percent over a ten-year period, even if no compensatory programs were initiated! (Priorities, June, 1976).

Finally, a study by Chase Econometric Associates, a Chase Manhattan Bank subsidiary commissioned by Rockwell International to analyze the economic impact of producing the B-1 bomber, found that alternative government expenditures or a tax cut would generate more jobs than the B-1 program. The Chase study indicated that an equivalent government expenditure on housing would generate 67,000 more jobs than B-1 production, a public works program 40,000 more jobs, and a tax cut 19,000 more jobs than B-1 production (Adams, 1976).

Why is military spending so unproductive in generating jobs? Most military work is very capital-intensive. The cost of materials is high, as exotic metals are needed for alloys and tremendously sophisticated technology for production. Salaries in military-oriented companies are high. According to a 1962 Department of Labor study, 59 percent of the employees in military-oriented electronics firms were highly paid engineers and executives, while only 30 percent of the employees in civilian market-oriented electronics firms held these positions (as reported in Reich and Finkelhor, 1972: 185).

Most contracts for military goods are let on a cost-plus basis, and relatively few are decided solely on the basis of competitive bids. In a cost-plus contract, the government guarantees the corporation a profit on the item produced equal to a certain percentage of the costs of producing that item. If a corporation makes every effort to cut costs and increase productivity, it may be able to produce, say, tanks for \$500,000 each. If the government guarantees a 10 percent profit on costs, the company will make \$50,000 on each tank. On the other hand, if it builds new laboratories, adds elaborate equipment, pays higher salaries to its

managers and encourages inefficient production practices, its costs may rise to \$750,000 per tank, and the company will make \$75,000 profit on each one. This encourages higher costs, of course, for the greater the costs, the higher the profits. Such high costs and profits decrease the amount of money going for jobs under military contracts.

Thus, by its capital-intensive, inefficient nature, military spending swells the unemployment rolls rather than generating jobs that are needed by millions of our citizens.

#### Overcoming inflation

The third benefit of conversion for the domestic economy would be the amelioration of the high rate of inflation. Many economists have argued that military spending is a prime cause of inflation. Melman, for instance, stresses that military spending buys products which immediately leave the marketplace. They have no "use value"; they can neither be consumed nor used in the production of other goods. The machinery, materials and power that are used in military production come from other segments of the economy which, however, receive nothing productive in exchange. This puts an upward stress on the prices of all goods (Melman, 1972: 315-316).

Another economist, Edward S. Herman, finds that military spending contributes to inflation in several ways:

1. **Deficit financing:** In order to hide the high cost of military weapon systems and wars from the public, Congress, under pressure from the military-oriented corporations and the Pentagon, often approves the expenditure of billions of dollars on the military which are not covered by tax revenues. As a result, the federal deficit rises and inflation increases.
2. **Reduced social output:** For every billion dollars spent on the military, there is a billion dollars less for meeting the demands of citizens for better housing, parks, environmental protection, schools, and services. Says Herman:

In recent years, governments have not had enough revenue via politically feasible tax collections to expand (or even maintain) social services to meet the needs of a growing population, so that they have had to borrow (i.e. run deficits)...And workers have not had a satisfactory growth of income given the direct tax drain to finance a part of the war, plus the indirect inflation tax, so we have had pressures for many wage increases in excess of productivity, with further inflationary consequences. In brief, the drain into military boondoggles has reduced the output available for constructive social expenditures and real wage increases, and thereby indirectly contributing to increased deficits and more rapidly increasing money wages, both accelerating price increases (1975: 12).

3. **The technology drain:** As noted earlier, the heavy drain of scientific and engineering talent into military research and development has made U.S. civilian industries less productive, and this contributes further to the "reduced social output effect" on inflation.



4. The corruption drain: The military-industrial complex includes corporate executives and presidents, Pentagon brass and key politicians who work together to meet each others' needs (exchanging personnel, making campaign contributions, awarding cost-plus contracts, locating bases and weapons contracts in key Congressional districts). High rates of guaranteed profits, cost overruns and high prices for the materials required and the items produced all contribute to inflation.

Conversion from military production to production and services meeting human needs, particularly if a "social-industrial complex" is not created in the process, should therefore decrease the inflationary pressures in our economy.

The benefits of conversion should thus include an increase in the funds available for meeting human needs, an increase in the number of jobs for Americans seeking employment and a reduction in the rate of inflation.

#### The Technical Feasibility of Economic Conversion

If the benefits would be so substantial, we should consider whether or not conversion is technically feasible.

One of the early conversion success stories comes from Alabama in 1933. The Muscle Shoals Nitrate Plant had been an important source of munitions for World War I. In 1933 it was turned over to the Tennessee Valley Authority and developed into a center for research on and development of fertilizers.

On a larger scale, much of American industry converted to weapons production at the outbreak of World War II, then re-converted to civilian production at the end of the war. Over 75 percent of the automobile industry, for instance, switched to the production of tanks and armored vehicles in 1940, then returned to making automobiles in 1945.

This re-conversion was facilitated by long and careful planning on the part of government and industry alike, for re-conversion was accepted by those in power an urgent national priority. Pent-up consumer demand and the long experience of the converting firms in the civilian market also contributed to the success of the effort.

Can careful planning lead to successful conversion today? Ironically, the most substantial contemporary program of conversion is guided by the Department of Defense. Since the Department of Defense is frequently obliged to close federal military bases, and since they wish to minimize the impact this has on the surrounding communities (partly for obvious public relations reasons), an Office of Economic Adjustment (OEA) was opened in 1961 to help communities whose economies were adversely affected by the closing of federal military installations. In 1975, I visited the OEA office at the Pentagon and talked extensively with one of their regional directors.

The Office of Economic Adjustment is the staff arm of the President's Inter-Agency Economic Adjustment Committee. It is comprised of some twenty multi-disciplinary professionals plus supporting staff. Upon notification that the Pentagon intends to close or significantly reduce work at any of its installations, the OEA notifies appropriate officials in the affected community of the assistance they can give. If the community requests their help, the OEA works with community leaders to initiate a study of the impacted area and create a community task force. This group, with some advice from the OEA, then develops a comprehensive plan for the conversion of surplus Defense Department property to civilian usage and/or the development of other economic potential. Such a plan may provide for: 1) needed community facilities, such as a vocational-technical institute, college, hospital, sewage treatment plant, airport or recreation center; 2) a more diverse industrial base by developing a new industrial park, making surplus military buildings available for industry, providing the requisite services for new industries (e.g. increased water supply, improved access to highways), advertising pre-existing inducements to industry or developing them when necessary (e.g. a tool-making plant); 3) job training to upgrade or enhance the skills of local workers; 4) assistance to small business people; and 5) the development of tourism or recreation potential.

The Office of Economic Adjustment is especially concerned with generating employment to compensate for the loss of civilian jobs due to the closing of a Department of Defense installation. According to the "Summary of Completed Major Adjustment Projects, 1961-1973," the OEA has reviewed its assistance efforts in nearly one hundred and thirty communities since 1961. The impact of realignment and closures in these communities ranged from the loss of fifteen to twelve thousand civilian jobs. The loss of military personnel and income added to the economic dislocation in many areas. Taken as a whole, in the sixty-one communities in which the OEA had terminated its assistance by 1973, 82,000 civilian jobs were lost due to Department of Defense cutbacks. In executing their conversion plans, however, these communities have generated 162,000 new jobs. This is a 2 to 1 ratio of jobs generated to jobs lost. Only seven of the sixty-one communities affected lost more civilian jobs than they gained.

One of the communities hit most suddenly by the closing of a military installation was Salina, Kansas. In November, 1964, the Pentagon announced that the Schilling Air Force Base near Salina would be closed seven months later. A total of 4,700 military and 327 civilian jobs would be lost. Quick action by the community involved planning civilian uses for the base and acquiring the federal property and \$1 million of equipment at substantial discounts. Within one month of the base closing, a new vocational school and the Kansas State Patrol Academy opened in former base buildings. Much of the acreage was developed for industry. The OEA report states:

Seventy-three businesses and other non-defense related activities on the former base property now employ 3,050 people--almost ten times the number of civilians employed by the Air Force there. Within just one year after closing, private sector employment had replaced all jobs lost (The Defense Office of Economic Adjustment, 1975: 34-35).

By 1966, Salina was able to renovate a portion of the old Air Force facilities and begin operating them as a municipal airport, covering the costs with receipts from the industrial property on the former base.

The OEA's "Summary of Completed Major Adjustment Projects" concludes by stressing that the communities with which they have worked have succeeded in achieving "a more diversified and growing local economy, new business and industrial firms within the communities, a significant stimulus to the local tax base, and an opportunity to secure new public facilities and improved public services. With few exceptions, the communities have continued their local growth and development long after the immediate adjustment period itself."

Many industries would be affected by widespread conversion. Substantial proportions of them could convert to civilian production with little technical difficulty. Shipyards, which get approximately 70 percent of their work from the Navy, could design and build modern vessels for the outmoded American fishing fleet. Their ability to build large metal structures could be used in fabricating steel mills, oil refineries, desalination plants, pre-fabricated housing, barges, sea-mining equipment and hydrofoils (Shearer, 1973: 6-7).

Airframe manufacturers depend upon the government for at least half of their business. They have skills and machinery needed for the development and production of rail and rapid transit vehicles, low-cost housing modules and small bridges. Aircraft engine production facilities could produce engines for mass transit vehicles, electrical generating plants, gas pipelines and refineries. The electronics industry, also heavily dependent upon the Department of Defense and NASA for contracts, could be doing more work on road, rail and air traffic control devices, medical diagnostic and monitoring equipment and educational aids (Shearer, 1973: 6-8).

One recent example of conversion within the private sector is the Boeing Vertol plant. Located south of Philadelphia, it converted much of its plant from the production of helicopters for use in the Vietnam war to the production of trolley cars as the war wound down. Boeing Vertol is the only company in the country producing trolley cars, or "light rail vehicles," and they have received orders from many cities. Unfortunately, conversion was not planned far enough in advance to avoid firing much of the Boeing Vertol workforce, despite the efforts of the United Auto Workers Local 1069 to interest the Boeing management in converting to the production of low-cost modular housing units. "Think how many housing units we would have to build to make as much money as we do on one helicopter," a Boeing executive was reported to have told John Taylor, then president of the United Auto Workers Local 1069 (Philadelphia Bulletin, 2/9/71: 3).

Since consumer demand today is not what it was in the post-war period, military industries cannot expect to find substantial untapped markets in consumer goods as they did in the late 1940's. Melman, in his study of alternatives to military markets for converted military-oriented industries, found that the promising new markets were primarily in the areas of largely neglected public responsibility,

including mass transit, housing, water supply, refuse disposal and recycling, environmental protection and health care (Melman, 1965).

These markets require considerable production of goods such as mass transit vehicles, modular housing, water purification and delivery systems, recycling machinery, and medical prosthetics and monitoring devices. Meeting these needs would also generate demand for personnel in the service sectors of the economy. Since some highly specialized industries and portions of some less-specialized firms could not find sufficient markets for non-military goods to keep all their employees working, however, conversion plans must provide for substantial retraining and relocation of employees of military-contracting firms and members of the armed forces.

In 1970, Lloyd Dumas published a study entitled "Re-Education and Re-Employment of Engineering and Scientific Personnel" which found that approximately 500,000 scientists and engineers would lose their jobs if military-oriented companies converted to civilian production. According to Dumas, "Almost all of these men and women could, within a re-education period of one and a half years or less, qualify for and find employment in six major areas: high school teaching, construction, pollution, transportation and public utilities, food and related products, and various agencies of the federal government" (as quoted in Melman, 1970).

The most comprehensive conversion plan to reach Congress was offered by Walter Reuther, then President of the United Auto Workers, in 1969. Entitled Swords Into Plowshares, this plan called for a 25 percent tax on military profits, the proceeds from which would be held in a trust fund by a government conversion commission. Any worker who was laid off, down-graded, given a shorter work week or forced to relocate due to cutbacks in military contracts would be compensated with money from the trust fund. His or her income and all benefits would be maintained at a level equal to his/her average for the previous two years.

Money in the trust fund would also be available to corporations which wanted to convert from military to civilian production. To secure funds, a company would have to gain approval from the conversion commission for a detailed conversion plan. The fund would then help the company finance the conversion process. The beauty of the plan is that money for conversion would come from corporate profits, not workers' pockets, in such a way that corporations would have an incentive to convert. Only through converting could a military-oriented company draw upon money in the fund and stop paying the 25 percent tax.

Certain flaws in this plan are obvious. Reuther did not specify how military profits were to be calculated, and corporate members of the military-industrial complex have many ways of calculating profits to make them look small. Equally significant, without a clear process for putting working people and representatives of citizens' groups on the conversion commission, the commission would be dominated by corporate and government power-holders who know all too well how to protect their own interests.

In sum, the study of past conversion efforts--the Muscle Shoals Nitrate Plant, the post-World War II experience, the Office of Economic Adjustment projects, the Boeing Vertol facility--indicate that economic conversion is technically feasible. This does not mean that a widespread conversion program in the United States would not be disruptive, for these efforts either involved single plants and communities or, in the case of industry-wide re-conversion following World War II, took place under special circumstances (high consumer demand and the extensive experience of the converting industries in the civilian market). However, the studies and the plans developed by Seymour Melman, Lloyd Dumas and the United Auto Workers strongly indicate that, with careful planning, a major national conversion program could be implemented without traumatic disruptions and dislocations.

#### Obstacles to Conversion: The Liberal View

If conversion is technically feasible and so many benefits would accrue, why has it not been implemented?

Liberals hold that Pentagon militarists, in collusion with large military contractors and key Congressional figures, have prevented the United States from embarking on the path of economic conversion and reaping its benefits.

Melman describes the military-industrial complex as one large organization with a "state management" located in the Pentagon. This management was rationalized by former Defense Secretary Robert McNamara. During the early 1960's, McNamara organized a number of offices and thousands of people within the Department of Defense to centralize the management of military industry through the allocation of contracts and the policing of ongoing work. According to Melman, the Assistant and Deputy Secretaries of Defense comprise the "board of directors," the Secretary of Defense is the "president," and the President of the United States is its "chairman of the board." This state management effectively controls all significant decisions about obtaining capital, what and how much to produce, the price and distribution of the product and how production shall be organized (Melman, 1972: 313-314).

In Melman's view, the Pentagon controls the military-industrial complex. Therefore, an enlightened citizenry and Congress only need to break the Pentagon's grip upon this large sector of the economy in order to begin the conversion process. With Congressional guidance and careful planning, conversion could then be accomplished with no changes in the system of American capitalism. In fact, Melman sees the system of "Pentagon capitalism" as an aberration in an otherwise sound free-enterprise system.

This is not to say that liberals see no political obstacles to conversion. They stress that the Pentagon-oriented military-industrial complex has developed its own style of operating--a style which will not work in the civilian market. Military-oriented corporations have none of the marketing organization or experience which is essential in the more competitive civilian market. Their sales

effort is designed to deal with one customer--the Pentagon. One well-known aspect of this effort is the employment of former military officers and Pentagon personnel by military-oriented firms. Extensive lobbying of the Congress and Pentagon, outings and vacations for important Washingtonians at corporate expense and other features of the military-oriented corporate sales pitch are well-known.

Conversion from military production to civilian production would thus require a fundamental change in marketing strategies and structures. This change is sure to be resisted by the companies involved. The failure of some conversion efforts stems at least in part from this difficulty, and these failures in turn have strengthened the determination of many corporations to lobby against the change.

Many liberals also recognize the role which military spending has played as a government-controlled Keynesian "balance wheel" in the domestic economy. They argue, however, that other forms of government spending would prove equally effective in regulating demand. Paul Samuelson states simply:

If there is a political will, our mixed economy can rather easily keep  $C + I + G$  [Consumption + Investment + Government] spending up to the level needed for full employment without armament spending.

There is nothing special about  $G$  [Government] spending on jet bombers, inter-continental missiles, and moon rockets that leads to a larger multiplier support of the economy than would other kinds of  $G$  expenditures (as on pollution control, poverty relief and urban blight) (as quoted in Edwards, Reich and Weisskopf, 1972: 179).

Samuelson notes that there may be a political obstacle to such conversion, and he locates it in "an economically illiterate electorate" which "may less reluctantly use the tools of the new economics for war rather than peace."

Likewise, the National Urban Coalition states:

High levels of defense spending are not needed to prop up our economy. The huge backlog of other needs is more than adequate to fill any gap in aggregate demand--after appropriate conversion and retraining measures--left by reductions in defense spending (1971: 253).

This and Samuelson's statement indicate a recognition by liberals of an economic obstacle to conversion, namely, the role which military spending plays in generating demand and creating employment. However, they do not see the need for anything more nor less than the political will of the electorate and its representatives to re-allocate government monies to new priorities and help affected industries make the required technological, structural and marketing changes.

#### Obstacles to Conversion: The Radical Critique

Radicals present a different analysis of the structure of the economic and political system and the distribution of power within the United States. Most insist that the capitalist system requires militarism and high military spending. They argue that capitalism cannot accommodate economic conversion from military to

civilian industries without changes in its most significant features.

Paul Baran and Paul Sweezy, in their classic Monopoly Capital, present the basic argument. (The analysis of the monopoly capitalist system on this and the next page is drawn almost exclusively from Monopoly Capital, pages 27-215). They begin with evidence that, in the present-day American capitalist system, most industries are dominated by a few giant corporations which are much more able to maximize their profits than individual entrepreneurs and smaller companies ever were. Quoting from an earlier paper by James Early, Baran and Sweezy examine the goals of modern corporations:

The major goals of modern large-scale business are high managerial incomes, good profits, a strong competitive position and growth. Modern management does not view these goals as seriously inconsistent, but rather, indeed, as necessary, one to the other. Competitive strength and even survival, management believes, require large innovations and substantial growth expenditures in the rapidly changing technical and market conditions of the present day...For well recognized reasons, management wishes to minimize outside financing, so the funds for most of these expenditures must be internally generated. This requires high and growing profits above dividend levels. So, too, do high managerial rewards. High and rising profits are hence an instrument as well as a direct goal of great importance (1966: 37-38).

The pursuit of profits is certainly not a new feature of American capitalism. However, the enormous corporations and conglomerates that dominate our present-day economy differ in at least two important ways from individual capitalists and smaller companies: they can operate within a longer time frame, and they are able to calculate more rationally. These factors enable the giants to avoid dangerous risks and adopt a "live and let live" approach to their corporate competitors, particularly within the old, established industries.

Such corporate power and policies have led to a situation in which corporate giants in any one field have an interest in seeing that the profits of the industry as a whole are as large as possible. This restricts price competition. Though direct collusion in fixing prices is rare, "price leadership," often by the most powerful firm, is common. Thus, when U.S. Steel initiates an increase in the price of steel, other companies either follow suit, or U.S. Steel drops its increase. It is highly unusual, on the other hand, for a company in an established industry to lower its prices since, once its competitors followed suit, the result would be lower profits for all.

Rather than competing over prices, say Baran and Sweezy, corporate giants compete in their efforts to cut costs through technological innovations, the control of cheap sources of raw materials (often abroad), and relocating in less developed countries where they can exploit cheap labor pools. They also compete, through advertising and sales efforts, to capture a larger share of the existing or growing market. Little of this competition, however, results in lower prices for consumers.

The result of these policies is the strong and persistent tendency of the economic surplus (profits) to rise. Some of this surplus can be absorbed by the personal consumption of capitalists. However, the historical trend, according to Baran and Sweezy, is for dividends to rise more slowly than profit margins, so consumption takes a steadily lower proportion of corporate profits over time.

Economic surplus can also be invested. However, since corporations will not make investments that lower their profit margins, larger investments generally lead to larger surpluses. This tendency is exacerbated by depreciation allowances which are often sufficient to finance a large part of necessary investments, and by the bias against introducing radically new technologies which would require extensive capital and disrupt established production processes. Thus, accelerating growth eventually outstrips profitable investment opportunities, investment declines, and so do income and employment. A recession or depression begins.

One other avenue of surplus absorption is still open, however: government taxation and spending. This brings us to the question of whether or not spending on human services and civilian industries can serve as well as military spending to generate demand and absorb the economic surplus.

Radicals insist that, within the present-day capitalist economy of the United States, only military spending can sufficiently stimulate the economy. They cite at least three important reasons for this claim. First, only through military spending can government pump massive sums of money into the economy without competing with the private sector. Though spending on human and community needs could absorb tremendous amounts of money and generate jobs and income, powerful interests oppose this. A program to provide low-cost housing to poor Americans would threaten landlords and the construction industry. Rapid transit systems compete with automobiles and hence are opposed by the powerful oil, automobile and associated industries. A government role in providing health care to those who need it is fought tooth and nail by the profit-oriented medical establishment. Examples could be multiplied. The raising of armies and deployment of weapons is unique in that it threatens no private enterprise.

Secondly, the government provision of adequate human services and the maintenance of employment opportunities for all people threatens the business elite. In such a society, business would find it difficult to get workers for low-paying, unpleasant jobs. This would add to their costs and decrease their profits.

Finally, it is only through military spending that government can waste enormous sums of money and yet avoid public criticism. When the Pentagon quietly dismantled its once-controversial Anti-Ballistic Missile system in 1976 after spending \$6 billion on it, scarcely a word was heard. Weapons and armies are unique among tax-funded programs in that they can be scrapped as obsolete after ten or twenty years of service. It is hard to imagine investing billions of tax dollars in a mass transit system, then quietly declaring it useless six years later and dismantling it.



The public accepts such waste for at least three reasons: 1) fears about communism have been constantly stimulated and can be easily manipulated; 2) few people can compare the functions of a bomber or tank to something which they use, and, therefore, few can comprehend the absurdity of its high cost; and 3) no one feels that she or he is supporting the needs of someone else at her/his own expense, since the military ostensibly exists to protect (serve) everyone, not just the poor, or the farmers, or welfare mothers.

There is plenty of evidence in recent history for the radical view that military spending alone can adequately fill the need for additional demand in the capitalist economy, given the political constraints inherent in the capitalist system. President Roosevelt's efforts to pull the country out of the Depression during the New Deal only partially succeeded, for even in this desperate situation, capitalist restraints on competitive government spending were too strong to allow for a level of spending sufficient to restore the economy to full capacity. Only the massive spending engendered by World War II could accomplish this.

Radicals also argue that the ability of the United States to project power abroad through a large, heavily armed military is important to many owners and managers of big business. Most corporations oppose foreign governments which favor rapid democratizing economic and social changes (e.g. nationalization of industry, land reform). The corporate elites generally favor more authoritarian governments which guarantee "stability," a "safe investment climate," and freedom from "interference" from labor unions. These governments (e.g. South Korea, Taiwan, Indonesia, Iran, South Africa, Brazil, Chile) are supported by American arms, technicians and advisors.

Since the experience of Vietnam, the United States and its corporate leaders rely less on actual armed intervention (though that threat still exists, as the Angola revolution demonstrated). Rather, say the radicals (and even some members of Congress), the United States is arming client governments to carry out the violent repression of revolutionary forces whose policies would threaten United States investments. The arms industries and counter-insurgency expertise developed by the American military-industrial complex are both necessary to this effort. The fact that most American military spending serves to project U.S. power abroad is no accident. Extensive conversion would threaten this capability.

Domestically, the military-industrial complex brings additional benefits to the business elites who contributed so much to its growth. Hundreds of our largest corporations get a tremendous amount of business and profits from military contracts. Estimates of the profitability of these contracts range from a 1971 Government Accounting Office figure of 56 percent on a sample of 146 completed projects (as reported in DuBoff, 1972: 11) to a figure of 17.5 percent derived by former Assistant Secretary of the Treasury Murray Weidenbaum from a sample of large military contracts let between 1962 and 1965. In contrast, the average rate of return on investment in civilian industry is 10.6 percent (Reich and Finkelhor, 1972: 187).

There are several reasons why profits are so high in military work. For one thing, many military industries are dominated by a few giant corporations which exercise near-monopolistic control over the field (e.g. aircraft, shipbuilding). For another, contracts are seldom let solely on the basis of the lowest bid. A third reason is the practice of contracting on a cost-plus basis, as explained in the first section of the paper.

One reason for high profits in military work deserves special attention. Many military contractors use government-owned plants and equipment in their work. As of July, 1970, over \$14 billion worth of industrial production equipment and plants were used by private military contractors. In 1967, General Electric and North American Rockwell (now Rockwell International) held more than \$100 million worth of publicly-owned capital goods, according to a General Accounting Office report. The use of these facilities, of course, cuts costs and raises profit margins (Shearer, 1973: 2). Many military companies now calculate their profits as a percentage of sales rather than a percentage of their investment for this reason. Such a procedure makes their profits appear smaller. This violates normal accounting procedures as well as the traditional capitalist view that profits are a return on investment, warranted by the risk involved in the enterprise.

The government subsidizes the military corporations in other ways as well. When Lockheed faced bankruptcy several years ago, the government bailed them out with a guarantee of a \$250 million loan. In 1972, the Navy bought \$1.7 million worth of stock in the Gap Instrument Company when cost overruns on Navy equipment threatened it (Shearer, 1973: 2).

A final boon to the upper class brought by military business is the generation of more high status, lucrative jobs than civilian business. The proportion of scientists and engineers employed per value of product is one per \$150,000 in the military sector, one per \$750,000 in civilian electronics industries, and one per \$2,000,000 in the automobile industry. Twenty-one percent more of every dollar in military contracts goes to salaries and wages than in civilian-oriented production, and yet, as we have seen, military spending generates fewer jobs (DuBoff, 1972: 14). Military spending thus contributes proportionately more to the wealth of the upper classes than does civilian spending.

To summarize the differences between the liberal and radical analyses of the obstacles to conversion, liberals see the military-industrial complex as a distorted enclave in a potentially sound capitalist economy. They believe that control of this enclave resides in the Pentagon. They argue that spending on human needs in civilian sectors of the economy could generate needed demand just as effectively as military spending and that this could be done with no fundamental change in the overall economic system. Many hold that the blame for not converting lies with the electorate since, after all, ultimate power in our democracy lies with the voting public.

Radicals believe that the military sector of the United States economy is not an isolated enclave. On the contrary, they insist, it reaches deeply into and operates on the same principles and with the same goals as other sectors of the economy. As a result, it is strongly supported by most members of the business and financial elite. The military-oriented sector is not a distortion of the capitalist system, since the capitalist's primary goal is to maximize profits and enlarge the power of their class--a goal which is all too admirably met by military spending.

The radicals also reason that the long-term trend of steadily growing economic surplus resulting from the basic capitalist drive for increasing profits makes some form of government spending necessary. Because the capitalist system rules out substantial government spending which would compete with private interests, only military spending can "fit the bill" in such a large way.

Finally, radicals do not believe that power is distributed in such a way that the public can simply be educated to vote for conversion. Rather, they argue, the upper class of business and government leaders has tremendous power to influence the votes of Congresspeople and the opinions of the American people. No fundamental change, such as economic conversion, can be carried out without re-distributing power more equitably among the people of the United States.

Radicals conclude that significant conversion from military spending to industries and services which meet serious human and community needs is impossible without converting in the process to some form of socialist economic system. A system based on maximizing profits rather than meeting people's needs is structurally and politically incapable of widespread conversion.

### Strategies for Change

One's strategies for conversion depend upon whether one accepts the liberal or the radical analysis of militarism and military spending.

Liberal strategies stress the development of conversion plans by government, industry and labor analysts on the one hand and education of the electorate, Congress, unions and industry on the other. Seymour Melman's extensive studies into the conversion process and new markets for military-oriented firms (cf. Melman, 1965, 1970 and 1974) are a good example of this. The work on retraining displaced defense workers reported by Melman's colleague, Lloyd Dumas (in Melman, 1971) is another example.

Most liberals recognize the enormity of the task. Conversion would have to be made a national goal with the full energies of political, business, labor and professional leaders behind it to succeed. The effort would cost much money and create considerable dislocation and difficulty in industries which are accustomed to serving a single customer (the Pentagon) with extensive subsidization and high profit guarantees.

Melman has taken the liberal conversion message to Washington, to industry and to the public. In 1969, for example, he testified on the subject of "Postwar Economic Conversion" before the Senate Committee on Labor and Public Welfare. He stressed the importance of advance planning "not only in private firms, but among trade unions and professional associations of the relevant industries, and in city, state and federal governments" (1969: 9). He urged Congress to begin by passing a bill proposed by Senator McGovern which would have established a federal conversion trust fund. The bill was modeled after the Reuther proposal described earlier in this paper. It called for a federal conversion commission to administer the fund and, in doing so, encourage and facilitate the conversion process.

The radicals' strategy differs from that of the liberals in at least two important respects: 1) Radicals believe that a successful conversion strategy must include the development of publicly-owned and controlled service and production industries and a transition to a socialist economic system. 2) Radicals insist that we must organize a mass base for conversion in order to counter the power of the ruling elite, whom radicals see as united in their support for military spending.

Derek Shearer, writing in Working Papers (Summer, 1973), stressed the need for planning that includes "government spending to serve as a Keynesian balance wheel in the economy." "I propose," he continues, "that these plans and programs should be based on the notions of community controlled economic development and publicly-owned production authorities at the state, regional and national level (1973: 2).

Strategically, this may sound like a retreat from radical calls for total revolution. It stems, however, from a realistic appraisal of the current situation in the western world. During the past decade, some radicals expected the capitalist system to topple from the weight of Vietnam, inflation, unemployment and unmet human needs. Today, most radicals conclude that, whether or not the system finally collapses from its internal contradictions, the Left must struggle for significant change in the meantime.

In Strategy for Labor, Andre Gorz argues that radicals can work for their vision of a new society through a step-by-step process of "radical structural reforms." Reforms can be revolutionary, he stresses, if they involve a shift in power. Specifically, a revolutionary reform should meet the following criteria (this interpretation of Gorz is based on remarks in an unpublished paper by Paula Giese written in 1973): 1) the reform improves the lot of the working class (or some segment of it) at the expense of the ruling class; 2) the struggle for the reform gets people organized on a mass basis to demand change rather than allowing representatives of the elites to bargain for lesser improvements; 3) the reform is implemented and administered by those whom it benefits; 4) the effort involved in winning the reform brings people together into structures of communication and democratic decision-making; and 5) the struggle raises class consciousness. A strategy for organizing around a series of such reforms would be a truly radical strategy, argues Gorz.

To return to Shearer, he sees the creation of community-controlled, publicly-owned service and production industries as an important revolutionary reform for the United States. Such a program would enlarge the power of non-capitalist groups and institutions in our society. Since hundreds of millions of dollars worth of government-owned plant and equipment are already used by military contractors, why not start there? (Shearer, 1973).

A good example of such a demand is the proposal by the Stop the B-1 Bomber/ National Peace Conversion Campaign to convert the El Segundo plant used by Rockwell International to develop the B-1 bomber. The El Segundo facility is owned by the government. It is located near Los Angeles, which suffers from the lack of a rapid transit system. As indicated earlier, the human and technological resources of an airframe assembly plant are readily convertible to the design and production of mass transit systems.

The Stop the B-1/ Peace Conversion Campaign has proposed that the publicly-owned El Segundo plant be converted from the manufacture of B-1 bombers to work on a mass transit system for Los Angeles. This work should be done under the direction of a new, publicly owned "Southern California Transit Authority." Capital for the enterprise could come initially through a federal grant representing a small portion of the money saved by terminating the B-1 program. Control should be exercised by a board selected by the people of the region or their elected representatives.

United States experience with the Tennessee Valley Authority and publicly-owned utilities can provide Americans with valuable insights into structuring such public control. The experience of many European countries, both western and eastern, can tell us a lot about the advantages and problems of different forms of public control. On a smaller scale, the experiments with community-development corporations and workers' cooperatives should be instructive.

The next step in a radical strategy for conversion could be public acquisition of any private firm (or military sector of a large, diversified firm such as General Electric or RCA) doing 75 percent of its business with the government. Another possible candidate for takeover and conversion is the runaway shop. As many multinational corporations leave their workers and communities in the lurch by shifting production to foreign facilities, their domestic plants could be appropriated by the state or local government.

Many radicals are interested in the concept of worker-controlled industries. Part of their conversion strategy is to develop worker-controlled boards which would oversee the management of the factories or workplaces. Many experiments in worker and union participation in management are urgently needed.

Radical strategies for conversion often incorporate other demands which meet some or all of the Gorzian criteria for radical reforms. Many demand that corporations "open the books." Corporate accounts are among the world's best kept secrets,

as became clear when Congressional committees tried to investigate alleged profit excesses in the oil industry. Although all corporations must release reports on their financial activities, the complexity of their operations and the absence of any clear, standard accounting procedures allows them considerable room to maneuver. Barnett and Muller state that many multinational corporations keep separate books for different purposes. They also claim that government regulators are years behind in understanding complex corporate accounting procedures (Barnett and Muller, 1974).

George Lakey suggests that a conversion campaign draft legislation requiring that every corporation doing more than five percent of its business with the Pentagon open its accounts to the public (1975: 16-17). Such a demand should be coupled with the establishment of standard accounting procedures by the Government Accounting Office. If implemented, a small measure of corporate power would be broken, and the public would be better able to exercise meaningful control.\*

The Reuther proposal for a conversion trust fund overseen by a federal conversion commission has also been suggested as an element in a radical conversion strategy. In testimony before the Senate Committee on Labor and Public Welfare in 1969, Walter Reuther, then President of the United Auto Workers, said in part:

What the outline proposes, in essence, is that a proportion of each contractor's profits from defense production be required to be set aside as a conversion reserve to be held in a government trust fund.

Monies deposited in the trust fund would be released to carry out a conversion plan filed with the government by the contractor and to pay certain types of benefits to the contractor's workers to minimize hardships they might suffer during the transition to civilian production (1970: 17).

In commenting on this proposal, Paula Giese suggests confiscating 100 percent of a corporation's profits on military production, as calculated by standard Government Accounting Office auditing procedures. She also would insist that the conversion commission include working people from affected plants, paid for their time out of the trust fund. In addition to considering the technical and economic feasibility of proposed conversion plans, she believes that the commission should examine the usefulness and desirability of the products to the general public, the "humanizing" of the production processes and the environmental effects of both the new industrial activity and the goods produced (Giese, 1973).

All radical proposals for conversion strategies, like the liberal strategies, begin with the need for education and consciousness raising. The radical process must include an analysis of the present system of monopoly capital and the military-industrial complex, a vision of a more just and democratic society, and ideas about how to get from here to there. Many radicals stress the value of structuring

\*For those interested in pursuing this approach, Open the Books: How to Research a Corporation is an excellent manual on how to research your local corporation, corporate subsidiary, bank or real estate company. It is available from Urban Planning Aid, Inc., 639 Massachusetts Ave., Cambridge, MA, 02139.

empowering experiences into the educational process itself (e.g. by making this process a thoroughly democratic one).

As a reflection of its concern for economic and social justice, a radical conversion campaign could enter coalitions with the thousands of neighborhood, city-wide, state and national organizations struggling to meet human needs, establish economic justice, end sexual and racial exploitation and initiate socialism. Such coalitions could struggle within the arena of legislation and electoral politics, through the development of alternative institutions and through nonviolent direct actions.

One campaign which has tried to organize around the issue of conversion is the Stop the B-1 Bomber/ National Peace Conversion Campaign. The American Friends Service Committee and Clergy and Laity Concerned initiated this effort in 1973. It has involved hundreds of organizers in an effort to stop the B-1 bomber (mainly through public pressure on Congress), expose and challenge the military-industrial complex and promote peace conversion. Many of those associated with the campaign held the radical view of militarism and conversion, others a more liberal one. While enlisting the support of tens of thousands of liberal Americans, many organizers tried to introduce a more radical analysis, and sometimes strategy, to the struggle.

In addition to trying to stop the B-1 bomber from going into production, the Stop the B-1/ Peace Conversion Campaign tried to use the B-1 bomber as a means of approaching the conversion issue. Since the B-1 is so costly and ineffective, even in conventional military terms, it has led people to question the system which proposed and wants to produce it. The B-1 program includes many classic features of military contracting: low job generating potential, the drain of billions of dollars (\$92 billion) in tax money from pressing human needs, the use of government-owned property, cost over-runs, heavy corporate lobbying and public relations efforts. A campaign to stop the B-1 almost necessarily exposes these.

Most of this campaign's conversion work has been educational. One tactic has been particularly successful. Many campaigners have organized peace conversion fairs, or "Fair Shake Festivals." In the Northwest section of Philadelphia, for instance, a group of neighborhood people and I estimated how much money their community would pay if the B-1 system were built--approximately \$19 million. We then approached local organizations with this information and asked them to join us in a Festival to demand a "fair shake" for all. Each participating group prepared a booth in which it demonstrated the kind of work it was doing to meet the needs of the community and how it could use the millions of dollars which could be "returned" to Northwest Philadelphia over the next thirty years if the B-1 program were terminated. Over forty organizations, ranging from peace groups to the Germantown Home and School Association, participated.

The B-1 bomber has proved to be a good "handle" for the conversion issue. As the President and Congress reach a final decision on B-1 production, however, many

organizers are developing conversion programs around local issues or institutions. One such program is the Mid-Peninsula Conversion Project in California's Santa Clara County. Corporations in this county hold more military contracts than those in any other county in the United States. The project is reaching out to disaffected engineers and workers at many of these military plants through leafletting, a monthly newspaper, meetings and support groups. One group of engineers left Lockheed and formed a small solar energy company with assistance from the project.

Many local conversion efforts are being initiated by B-1/ Peace Conversion Campaign organizers. Inquiries about these programs can be addressed to: American Friends Service Committee, Peace Education Division, 1501 Cherry St., Philadelphia, PA, 19102.

As people become more concerned about the power of our enormous economic and government institutions and about the serious human problems in our well-endowed nation, the potential for meaningful change grows. Struggles to meet human needs, establish sexual, racial and social justice, empower the oppressed, oppose unfair taxes, create democratic economic structures and develop alternative institutions all contribute to human security, which indeed should be the fundamental concern of any conversion program.

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