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A STRATEGY FOR AMERICAN SECURITY

—An Alternative to the 1964 Military Budget



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APRIL, 1963

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“It’s impossible to buy a perfect defense; nothing can always deter somebody else’s irrational act, nor is there any technical formula guaranteed to tell how much should be spent, or for what, to assure the best of always imperfect protection. But many people here think the whole process could be improved by more informed consideration of the strategies, instead of just the hardware, that dictate all the spending.”

“Defense Debate”, *Wall Street Journal*, Jan. 24, 1963.

A STRATEGY FOR AMERICAN SECURITY
—An Alternative to the 1964 Military Budget

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PREFACE

There are now grounds for suspecting that the world policy of the United States, based as it is upon ever-growing military forces, is reaching a point of diminishing returns.

It is our thesis that this year's debate on the military budget, as the *Wall Street Journal* has suggested,¹ should reach beyond the hardware to the fundamental strategies for strengthening our security, and more wisely exerting American leadership. In that context we offer this series of papers.

These papers, prepared by specialists whose fields bear directly on the central question of our security, are intended to open a national discussion on whether:

- our military overkill capability is beyond all reasonable levels;
- substantial reductions in the military budget would detract from America's imposing military power;
- present emphasis on military spending is weakening our economy;
- overseas military efforts are undermining our dollar as a unit of international exchange;
- we could improve our security by meaningful foreign aid measures;
- our foreign military assistance program is torpedoing democratic aspirations and contributing little toward assuring liberty for ourselves and others;
- transfer of resources from military to civilian sectors could be accomplished without jolting dislocations;
- such a shift would enable us to alleviate the gnawing poverty now afflicting a segment of our population and to establish markets where government relief offices now operate;
- ways are opening for more productive foreign aid;
- the quality of our lives and those of our children could be vastly improved with the launching of a constructive American program of world activity.

To meet the challenge of a constructive American program in support of freedom, based upon the still-unmatched industrial system of the United States, the Soviets would be compelled to take disarmament far more seriously than they do now. For

otherwise, the continued strain upon their resources, making it impossible for them to meet a bold U.S. economic challenge in the world, could force the Soviet Union into a permanently second-class political-economic position.

¹ "Defense Debate," January 24, 1963

ACKNOWLEDGMENT—The preparation of these papers was made possible by valuable support at many points from William Perk, Dr. David Schecter, Don Keyes, Sanford Gottlieb, Igor Radovic. My secretary, Miss Willa Percival, applied her talents without stint to speed this work.

On behalf of all my colleagues I wish to thank Jesse Mock for his splendid and speedy performance as report editor for this set of papers.

S.M.

1. HOW MUCH MILITARY POWER IS ENOUGH?

by SEYMOUR MELMAN*

Soon after President Kennedy presented a 1964 military budget request totaling \$56.7 billions, Secretary of Defense McNamara told us, "We calculate that our forces today could still destroy the Soviet Union without any help from the deployed tactical air units, or carrier task forces, or Thor or Jupiter intermediate range ballistic missiles"¹.

The military fact behind this judgment is an American military overkill capability that exceeds almost anyone's comprehension. The idea of "overkill" is a thermonuclear invention. Never before could one think of military power sufficient to kill a population more than once.

The purpose of this paper is to indicate the relative military posture of the two major powers in terms of overkill. Additionally, we will mention the relative military manpower requirements of the western and eastern blocs.

U.S. COULD OVERKILL SOVIET UNION 1,250 TIMES

In 1963 about 3,400 strategic weapons—major aircraft and missiles—are available to the U.S. Air Force and Navy (see table). These major vehicles can deliver warheads with explosive power equivalent to 22 billion tons of TNT. The bomb dropped on Hiroshima, which killed 100,000 people, was the equivalent of 20,000 tons of TNT. The stockpile of nuclear warheads is probably twice the number deliverable by the major aircraft and missiles now on hand.

To determine the possible military significance of this much nuclear power, let us enter upon some calculations that are at once nightmarish and realistic. In this study we will designate the relationship—100,000 persons killed by 20,000 tons of TNT—a "Hiroshima equivalent".

On the entire surface of the earth there are now about 2,000 cities of over 100,000 population. These cities have a total population of about 600 million.² If every one of these cities was a target for nuclear destruction, given an allowance of 30 per cent failure to deliver to target, the United States strategic vehicles alone could deliver the equivalent of 2½ million tons of TNT for each 100,000 inhabitants—or 125 "Hiroshima equivalents". This fact means, in effect, that the United States at this time possesses, on a global scale, an overkill capability of 125 times.

In the Sino-Soviet bloc, the population of approximately 370 cities equals approximately 1,400 "Hiroshima equivalents". Again, allowing for 30 per cent attrition of delivery weapons, U.S. overkill capability for the entire Sino-Soviet area is 500 times.

Finally, the Soviet Union alone contains roughly 140 cities of 100,000 population or over—altogether, approximately 500 "Hiroshima equivalents". Allowing 50% failure to deliver warheads, the U.S. alone could deliver about 25 million tons per "Hiroshima equivalent", amounting to a U.S. overkill capability of 1,250 times.

In these calculations, we have excluded any contribution that might be made by fighter planes, intermediate and short-range missiles, torpedoes, mines, cannon, and tactical rocket launchers like the "Davy Crockett".

MORE CONSERVATIVE ASSUMPTIONS ALSO SHOW OVERKILL ABILITY

It is possible to estimate U.S. overkill capability on the basis of other assumptions. For instance, if one assumes that one megaton (one million tons of TNT equivalent) is the average yield of an ICBM warhead, and that a one-megaton bomb is the size most likely to be delivered to most cities of 100,000 or more population, then the following results would obtain:

- For the 2,000 major cities of the world, the U.S. has an overkill capacity of 7.6 times, allowing for a 30% attrition of delivery systems.
- For the 370 major cities of the Sino-Soviet bloc, the U.S. has an overkill capacity of 41 times, allowing for a 30% attrition of delivery systems.
- For the 140 major cities of the Soviet Union, the U.S. overkill capacity is 78 times, even allowing for a 50% attrition of carriers.

Within any technically plausible framework of reasoning, the conclusion is that the U.S. possesses

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¹ UPI dispatch January 31, 1963.

² H. Hoyt, *World Urbanization*, Urban Land Institute, Washington, D. C., technical bulletin 43, April 1962.

overwhelming nuclear destructive capability. If the size of these forces seems unreasonable, that is all the more striking when it is understood that they were designed by men whose avowed purpose was to erect a retaliatory force of such power as to make a "nuclear Pearl Harbor" on the United States look like a patently unworkable proposition, and thereby preserve the peace. It seems that the institutional machine, once set in motion for these purposes, developed a momentum of its own to generate the present condition of overkill.

USSR COULD OVERKILL U.S. 145 TIMES

The destructive capability of Soviet forces is estimated by the same reasoning applied to U.S. forces, with some modifications (see table). On the same basis as our first set of calculations, the Soviet Union would have the following capabilities:

- For the 2,000 cities in the world of 100,000 or more population, no overkill capacity if a 30% attrition rate is applied to delivery systems. This is so because with about 2500 delivery vehicles, 30% losses would leave less than one vehicle per target. However, if one figures, arbitrarily, an attrition rate of 20%, then USSR delivery capability would be 3.2 megatons per 100,000 persons in the major cities—or an overkill of 160 times.
- For the 404 NATO area cities of 100,000 people or more, the Soviets could deliver about 9 megatons per 100,000 city people, allowing for a 30% attrition of delivery systems. This is an overkill capability of 450 times.
- For the 192 U.S. cities of 100,000 or larger, USSR medium-range vehicles are excluded and an attrition of 50% is assumed. Yet the Soviets could deliver about 2.9 megatons per 100,000 city people—an overkill factor of 145 times.

WEST SURPASSES EAST IN MILITARY MANPOWER

NATO forces in 1963 total 5.9 million persons, of which the U.S. accounts for 2.8 million. Total Western alliances forces are 6.6 million in 1963. When forces of Japan, Taiwan and South Korea are added to these, the armed forces of the U.S. treaty powers come to a grand total of 8.0 million.

Total Communist-bloc forces are 7.7 million for 1963. Of these, USSR accounts for 3.6 million; USSR plus Warsaw Pact nations, 4.6 million; China 2.4 million. North Korea, North Vietnam, Cuba account for 0.7 million.

The U.S. has 5.68% of its male labor force in the armed services. The USSR figure is estimated at 5.5%³.

STRATEGIC NUCLEAR WEAPON SYSTEMS Operational in 1963

<i>United States</i> Weapon System	Total Yield (megatons)	Yield per Vehicle (megatons)	Number of Delivery Vehicles
B 47 bombers	6,000	10	600
B 52 bombers	12,000	20	600
B 58 bombers	2,000	20	100
Atlas missiles	120	(1) est.	120
Titan 1 missiles	50	(1) "	50
Titan 2 missiles	30	(1) "	30
Minuteman missiles	500	(1) "	500
Skyhawk A-4D Navy aircraft	1,000	(1) "	1,000
Skywarrior A-3D Navy aircraft	150	(1) "	150
Polaris submarines (15 with 16 missiles each)	120	0.5	240
<i>Totals</i>	21,970	—	3,390

Note: Table does not include smaller planes, intermediate and short-range missiles, torpedoes, mines, cannon, tactical rocket launchers ("Davy Crockett").

Source: *Congressional Record*, Jan. 16, 1963, pp. 393-416, report of study by Institute of Strategic Studies, London.

<i>Soviet Union</i> (estimated) Weapon System	Total Yield (megatons)	Yield per Vehicle (megatons)	Number of Delivery Vehicles
Intercontinental missiles	1,875	25	75
Long-range bombers	4,000	20	200
Submarines (10-12 est. carrying 10 missiles each)	100-200	1	100-200
Medium-range missiles	3,500	5	700
Medium-range bombers	14,000	10	1,400
Super-intercontinental missiles	500	50	10 (est.)
<i>Totals</i>	23,975-24,075	—	2,485-2,585

This adds up to approximately 2,500 delivery vehicles carrying 24.0 billion tons of TNT equivalent, and breaks down to:

Long range: 485 delivery vehicles carrying 6.5 billion tons TNT equivalent.

Medium range: 2,100 delivery vehicles carrying 17.5 billion tons TNT equivalent.

Note: Medium range missiles and bombers are included in estimate of Soviet strategic weapons (though not in the U. S. estimate) because the shorter-range Soviet weapons could be directed to European cities and other areas adjacent to USSR.

Source: *Congressional Record*, Jan. 16, 1963, pp. 410-412.
New York Times, January 19, 1961.

³ *Congressional Record*, January 16, 1963, p. 398.

2. THE MILITARY BUDGET—IS THERE A CHOICE?

by SEYMOUR MELMAN

The massive overkill capability of present U.S. military forces makes a careful review of the proposed fiscal 1964 military budget a matter of urgent public concern.

In order to facilitate discussion of the military budget in Congress and among the American public, three possible national defense budgets for fiscal 1964 are outlined in this paper (see table).

ADMINISTRATION BUDGET REQUESTS \$56.7 BILLIONS

The administration budget for fiscal 1964 requests authorization for spending \$56.7 billions. The implication is that the available overkill capability is insufficient and needs to be enlarged. Justification for this expansion has not been clearly set forth. On the contrary, Secretary of Defense McNamara has made it clear that the U.S. already possesses the capacity to destroy the Soviet Union without requiring the use of smaller aircraft or smaller missiles.¹

Until recently, the "counterforce" concept of national security has appeared to have the full endorsement of the Secretary of Defense. This policy scheme includes the perspective of developing nuclear military capability of sufficient size to overwhelm Soviet forces, if necessary, in one blow, without sustaining intolerable losses to one's own side from a counterblow.

The "counterforce" perspective has been rendered implausible by the development on the Soviet side of the same sort of "hard" missile locations and submarine carriers for missile launching as developed by the U.S. Under these circumstances, the "counterforce" perspective reflected in the Administration budget has no military reality—all apart from the political or human considerations that surround such schemes.

Accordingly, this paper suggests a second military budget reflecting the concept of maintenance-of-present-forces.

MAINTENANCE-OF-PRESENT-FORCES BUDGET SET AT \$34 BILLIONS

The maintenance-of-present-forces budget is based on the assumption that existing military forces include enormous destructive capability and that major additions to these forces serve no plausible

function. On these grounds, the Administration budget has been reviewed with the aim of formulating a budget plan which makes possible full maintenance and operational performance of the forces now in being, but does not provide significant additions to the present overkill capacity. On this basis, the military personnel items in the budget are left intact, as are the operations and maintenance requests. However, the procurement item is marked for a sharp cut—from \$16.7 billions down to \$6.7 billions.

Similar reasoning underlies the cut in the research, development, and testing budget—reducing that item from \$7.2 billions to \$200 millions. The justification for major military research and development has been that this effort is required to attain and hold military superiority over the Soviets. The technologies of nuclear weapons, alone, have now developed to the point where a great variety of alternative methods are available for delivery of nuclear warheads. These include missiles of all sizes, bombs carried by planes, underwater mines, cannons, short-range rockets, and even "bazookas." Warheads of the very largest size may be delivered swiftly by intercontinental missiles or may be set off from a great distance with the warhead lying below the surface of the sea in the form of an underwater mine. Offensive capabilities have become so varied and deadly that there is no basis for assuming the feasibility of constructing reliable defensive systems against all possible warhead delivery methods. *Defensive methods of every conceivable sort can be saturated and overwhelmed by the variety and quantity of offensive weapons.*

On the offensive side, destructive capability, having already gone far beyond the overkill mark, calls for no further improvement on military grounds. *Addition to overkill is no gain.* The multiplication of overkill capability, although without military meaning, can be understood as one aspect of a technological race that is run for its own sake in the spirit of an international sporting event.

We do not argue that the basic scientific research, now financed by the military agencies, should be discontinued. Rather, this sort of work should be

¹ UPI dispatch, January 31, 1963.

assigned where it belongs—under the National Science Foundation.

While maintenance-of-present-forces may require an extension of family housing for military personnel, it does not require further military construction.

The civil defense item is excluded here on the grounds that the civil defense concept is technically faulty and is politically dangerous. (See data and analysis in S. Melman, *No Place to Hide*, Grove Press, N. Y., 1962.) Civil defense is a “useful” instrument mainly in relation to “counterforce” schemes—a major civil defense program announces an intention to strike first.

The military assistance item is eliminated for reasons given in Part 6 of this series of papers. Further enlargement to the already massive military assistance expenditures abroad serves no constructive purpose for the U. S.

The atomic energy item would be reduced by two-thirds under this alternative budget. It is assumed that about two-thirds of the Atomic Energy Commission budget is used for operating the large manufacturing plants at Oak Ridge, Paducah, Hanford, and elsewhere. As the warhead stockpile of the U. S. is a multiple of the warheads that can be carried by all present delivery vehicles, it makes no sense at all

to continue operating these plants and filling warehouses and caves with further nuclear warheads.

The Selective Service System is allowed its full budget request and is part of the maintenance-of-present-forces concept. The stockpiling of strategic materials is eliminated as are the various additions to emergency preparedness programs.

Altogether, the estimate for maintenance-of-present-forces budget amounts to \$34 billions, a reduction of \$22 billions from the Administration budget.

FINITE-DETERRENT BUDGET SET AT \$9.2 BILLIONS

The description of the finite-deterrent concept and an indication of its efficacy were put most succinctly by Jerome B. Wiesner, now scientific adviser to President Kennedy. Wiesner wrote in 1960:

...“Studies made independently by the U.S. Army and Navy have indicated that, even in the absence of [international] agreements limiting force size and permitting inspection, 200 relatively secure missiles would provide an adequate deterrent.”¹

The finite-deterrent concept includes the mainte-

¹ Jerome B. Wiesner, “Comprehensive Arms-Limitation Systems,” in D. Brennan (ed.) *Arms Control, Disarmament and National Security*, George Braziller, N. Y., 1961, p. 220.

THREE POSSIBLE NATIONAL DEFENSE BUDGETS FOR FISCAL 1964

Major Military Functions	Administration Budget	Maintenance-of-Present-Forces Budget	Finite-Deterrent Budget
		(In millions of dollars)	
Military personnel			
Present programs	\$13,235	\$13,235	\$3,500
Pay increase	900	900	—
Operation and maintenance	11,792	11,792	4,200
Procurement	16,725	6,725	1,000
Research, development, tests	7,262	262	—
Military construction	1,232	—	—
Family housing	734	734	—
Civil defense	300	—	—
Military assistance	1,480	—	—
Atomic energy	2,893	893	500
Defense Related Activities			
Strategic materials stockpile	28	—	—
Selective Service	38	38	—
Emergency preparedness	—	—	—
Present programs	52	—	—
Proposed	30	—	—
Totals	\$56,702	\$34,580	\$9,200

Source: Proposed Administration budget from *The Budget of the United States Government, Fiscal Year Ending June 30, 1964*, U. S. Government Printing Office, Washington, D. C., 1963, p. 61.

nance of a limited but powerful system of delivery vehicles and warheads so emplaced as to be reasonably secure against attack. These would threaten an aggressor with destruction of his country as a predictable punishment for an act of aggression against the U. S.

The 940 strategic missiles in place in 1963 (land-based and submarine) are far in excess of the 200 units postulated by Dr. Wiesner.

3. MILITARY EMPHASIS BLAMED FOR STATE OF ECONOMY

by SEYMOUR MELMAN

The basic industries of the United States are becoming non-competitive not only in the world market, but even within the United States. The concentration of U. S. capital investment and technological talent on military activity is at the root of this decline.

The American shipbuilding industry produces fine products, but at so high a cost and price as to be uncompetitive in the world shipbuilding market. Industrial plants in America's Midwest have recently been drawing their iron and steel requirements—not from nearby American industry but from Belgian and French sources of supply. Until the recent round of severe price cutting began, the heavy electrical machinery manufacturers were having increasing difficulty in meeting European competition in the world markets and at home as well.

U. S. MACHINE TOOL INDUSTRY LOSES RANK

The pages of American journals that specialize in machine tools disclose increasing advertising of foreign-built machines. The American machine tool industry, once a leading world producer, is now in fourth or fifth place in the volume of its output. The typewriter industry in the U. S. as recently as 1948 supplied virtually all U. S. requirements. It now only supplies 60% of the typewriters that are sold here each year. The remainder are imported, mainly from European factories.

The machinery-producing industries of the U. S., whose products amount to about 15% to 20% (by value) of all our manufacturing, are in a deteriorating condition. There are notable exceptions such as the earth-moving machinery industry.

The common feature of this industrial decline is the failure of the managements involved to produce the capital for research and new equipment that would raise the productivity of labor and thereby

This finite-deterrent budget includes funds for the operation and maintenance of all these delivery vehicles as well as substantial aircraft and land forces and would add up to overkill capability if applied to the Soviet Union.

This finite-deterrent budget is \$9.2 billions—and would represent a reduction of \$47.5 billions from the military budget proposed by the President for the 1964 fiscal year.

offset the higher wages of American labor. Such investment is required if U. S. industry is to produce the products that can be competitive on the world and domestic markets.

High hourly earnings of labor can be combined with mechanization and industrial engineering to produce goods at low unit cost and price. That is a basic lesson of America's industrial experience. But the competence of modern technology has been withheld from a major section of our civilian economy.

The process of deterioration at the base of America's manufacturing is seen in the statistics on the age of manufacturing equipment. In 1962, the McGraw-Hill Publishing Co. reported that its survey of overseas operations by American industrial companies indicated that less than 25% of the U. S. firms' foreign plants and equipment were purchased before 1950, while 60% of the productive facilities within the U. S. were bought before 1950¹.

The failure of U. S. firms to replace aged equipment is shown in the critical machine tool industry. There are about 2.2 million machine tools in the U. S. If these were being replaced at the average rate of once every ten years, then there would be an average annual requirement of about 220,000 machines for replacement alone. During recent years, the actual output of America's machine tool industry has been in the range of 40,000 to 50,000 machines per year.

Moreover, a considerable proportion of the machines of new design, such as the sophisticated numerical control equipment, have been on order for manufacturers of military products. This means that the civilian sector of American industry has

¹ *American Machinist Magazine*, McGraw-Hill Publishing Co., Nov. 26, 1962.

been depleting its machinery efficiency even more than is revealed by the statistics. *The manufacture of military goods, however intricate, results in no further production.* These goods are end products, having no further productive use.

MILITARY APPLICATION OF MACHINERY
IS ONE REASON FOR LAG

This characteristic of military products—that they are an end product—is at the root of the recent differences in industrial growth rate between the U.S. and the countries of the Common Market. From 1953 to 1960, the Common Market countries increased their industrial production by 71% and the U.S. increase was 19%. From 1950 to 1960, the countries of the Common Market increased their output of all goods and services by 103%. The U.S. increase for this same period was 76 per cent.

These differences in total activity were amplified in the industrial markets of the world. Thus, from 1954 to 1961, manufacturers' exports from the Common Market countries rose by 128%. U.S. manufacturing exports rose by only 51%¹.

MILITARY SPENDING, CAPITAL INVESTMENT—
U.S. AND COMMON MARKET (1960)

	<i>United States</i>	<i>Common Market</i>
Military expenditures as % of GNP	9.2%	4.2%
Machinery and Equipment as % of GNP	5.4%	10.2%

Source: *Statistical Abstract of the U. S.*, 1962.

These differences in industrial growth between countries of the European Common Market and the United States have their roots in the contrasting emphasis on activity in military and civilian production. The table above shows military expenditures and investment in machinery and equipment—each in the percent of the gross national product (GNP) for each territory. The display of the table is that of an inversion between the U.S. and the Common Market countries with respect to military expenditures and investment in new machinery and equipment. The greater emphasis on new means of production in the Common Market countries generates the higher rate of growth and the increased competitiveness of the manufacturing industry in that area.

MILITARY WORK CUTS DEEPLY INTO SOME
GOODS AND SERVICES

The 10% of U.S. gross national product used for military purposes is not an average 10% of goods

and services. The 10% contains well over half the nation's scientists and engineers whose services are used for military purposes.

Senator Hubert Humphrey reported to the U.S. Senate, Small Business Committee (Aug. 29, 1962) that in the United States the federal government pays for about 65 per cent of all research and development, mostly military, and that:

In Germany, 85 per cent—85 cents out of every research dollar—is private, and less than 15 per cent goes into military and space. Eighty-five cents of that goes into the civilian economy, so that today the German plant competition for world markets of civilian goods is being automated, modernized, equipped in the latest and best fashion, and new products are developing, while we are developing new wrappings. We are the greatest packagers in the world... In Japan, it is about 85 to 15 again... in England, which also has a low rate of economic growth, as does our country, 60 cents out of every research dollar is governmental and goes into military and space, atomic energy...

What is happening to our civilian economy as we plow more and more of our scientific personnel, our brains, into the military and into space and into atomic energy for military purposes? Where are we going to end up in this trade competition with these Belgians and these Dutch, who are clever, and the Germans, who are very clever, who are spending more money for civilian aspects and will develop products cheaper, better, and more serviceable?²

Progressive decline of U.S. civilian manufacturing industry, owing to these causes, will result in progressive deterioration of competitive position in the domestic market as well. An important assessment of our civilian deficit was recently given in a report of the Engineering Research Committee of the Engineers Joint Council.³

Correction of these tendencies requires a shift in the use of money and technical manpower from military activities to the civilian economy. A first step in accomplishing this shift would be the blue-printing of the conversion from a military to a civilian economy; by firms, communities, and governments.

¹ U.K. *Board of Trade Journal*, Nov. 23, 1962; Statistical Abstract of the United States, 1961 and 1962.

² Cited in *The Nation*, Feb. 16, 1963, p. 133.

³ *The Nation's Engineering Research Needs, 1965-1985*, 1962 (EJC, 345 East 47th St., New York 17, N. Y.).

4. AMERICAN DOLLAR IN JEOPARDY CAN FLIGHT OF GOLD BE HALTED?

by **TERENCE MCCARTHY***

The claim is made that the enormous annual expenditure on armaments and the military establishment in this country is vitally essential to the maintenance of America's world position. It is nearer the truth to say that without a shot being fired, without United States armies once engaging the enemy, her world position is being frittered away, irretrievably, by America's tacit repudiation of the basic value of her currency.

It is true that gold is still exchanged for dollars and dollars for gold at \$35 per ounce. But the ability to continue doing so grows less and less as the months pass. The accumulation of foreign short-term claims upon U.S. gold reserves, despite the willingness of foreign central banks to help alleviate temporary difficulties, will undermine the employment of the dollar as the banking currency of the world. This is precisely how sterling was undermined as a world currency in 1931.

However she may try to escape this trap of her own making America cannot remedy the situation until government expenditures are brought within reasonable bounds. And this cannot be done so long as almost 10% of the gross national product is allocated in military expenditures financed by debt.

The purpose of this paper is briefly to review the embarrassing erosion of U.S. gold reserves and to suggest reasonable and prudent action to curb this erosion.

U.S. GOLD STOCKS LOWEST SINCE 1939

From the end of 1949 to February, 1963, the monetary gold stock of the U.S. Treasury shrank by \$8.7 billions—from \$24.6 billions down to \$15.9 billions. The February balance was the lowest figure for the nation's gold reserves since May 10, 1939. The loss in gold was \$100 million in the first two months of 1963 alone. This drain occurred despite reciprocal currency arrangements with leading foreign banks and the Bank for International Settlements, designed to counter speculative attacks on the dollar and to avoid hemorrhage of gold reserves when foreign central banks accumulate dollars in excess of amounts they deem prudent.

This drainage of U.S. gold stock is not some

short-term phenomenon caused by malproportions which will correct themselves in the natural course of events. It is a persistent problem, arising from sales of gold to foreign governments and central banks in settlement of continuing U.S. deficits in the balance of international payments. In 1962 the overall deficit on international account totalled \$2.2 billions, and the drain on U.S. gold was \$912 millions. In 1961 the deficit was \$2.5 billions and the loss of gold was \$877 millions. In the three years 1958-1960, the U.S. experienced deficits in its balance of payments averaging \$3.7 billions per year. The total adverse balance in the five years ending in 1962 approximated \$15.8 billions.

DEFICITS PERSIST DESPITE FAVORABLE TRADE BALANCE

The most significant aspect of the balance of payments deficits is that they have occurred in the face of a very large excess of merchandise exports over merchandise imports. During 1955-1961, U.S. exports of merchandise to all the world totalled \$122.9 billions and the merchandise imports totalled \$95.1 billions—giving a net balance in America's favor of \$27.8 billions. Yet the loss of gold in these seven years amounted to \$4.8 billions. The stock of monetary gold shrank 22%, even though U.S. commercial sales of merchandise abroad far exceeded purchases from other countries.

For years past it has been a feature of U.S. national policy that a favorable balance of trade on merchandise account has financed government expenditures overseas. During 1955-1961, net exports by the U.S. Government totalled \$28.1 billions, consisting of \$14.8 billions in military supplies and services abroad, and \$13.3 billions in other exports, including all kinds of non-military services abroad, grants, credits, aid and assistance programs. Government net exports during those six years were almost exactly equivalent to the favorable net balance of trade on merchandise account—\$28.1 billions in government exports, \$27.8 billions in merchandise trade.

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To put the matter another way, 53% of the gain in international merchandise transactions had been spent or dissipated in all sorts of military ventures overseas. The balance has been used up in equally costly although, in some instances, both unavoidable and constructive, expenditures by the U.S. Government in all areas of the Free World.

If there were no greatly complicating factors beyond this equation of net merchant gain and government spending abroad, there might be no real cause for concern. One could question whether U.S. resources in all cases were being employed in ways beneficial or detrimental to the national and the world's best interests. But there would be no need to fear erosion of the foundations of the economy by constant pressures against the dollar.

U.S. ROLE IN WORLD MONETARY SYSTEM IS JEOPARDIZED

However, the matter is much more complicated. The role which the United States has assumed in world affairs, specifically its role in the world's monetary system, does not permit this fair equality between a favorable merchandise trade balance and overseas expenditures to harmonize international payments and international receipts. U.S. international deficits persist, and the national currency is increasingly jeopardized in spite of the continued excess of commercial exports over imports.

Nor, for that matter, does the continued movement away from the dollar reflect a weakening of America's position as a creditor nation. In 1940 the U.S. was a debtor nation; long term assets and investments held by foreigners in the United States in that year totalled \$13.5 billions—almost \$1.3 billions greater than American investments abroad. This debtor status persisted through 1945. But by 1950, America had become a massive creditor with \$32.8 billions of investment assets abroad, compared with \$19.5 billions of foreign investment assets in the U.S. This position of \$13.3 billions of creditor status in 1950 grew enormously, so that by 1961 the U.S. had become a creditor on long-term account to the tune of \$27.3 billions.

Yet gold has continued to seep out of the country. This happens, not because governments and business organizations overseas mistrust the basic credit standing of the United States, but because they have come to mistrust profoundly the ability of the dollar to continue to serve as the foundation currency of the world's monetary system, in view of the fiscal

policies consistently pursued by this country.

The situation is classic. For just as U.S. Government expenditures in foreign countries are offset by a favorable balance of merchandise trade, so the massive creditor status of the U.S. on long-term investment account is offset by her debtor status on short-term account. Short-term liabilities to foreigners reported by banks in the U.S. as of December, 1962 amounted to \$25 billions, of which \$12.3 billions consisted of U.S. Treasury bills and certificates. Short-term claims on foreigners reported by banks in the U.S. totalled only \$5.1 billions, leaving the U.S. a net debtor on these short-term accounts to the extent of \$19.9 billions. Here is where the difficulties lie.

The situation resembles that of Great Britain. That once-dominant nation was forced off the gold standard in 1929-1931 because of her inability to realize her long-term foreign investments in time to stem the flight of gold as short-term liabilities were pressed upon her for payment.

The United States today is in much the same position. Rising costs-of-living, increased production prices, unsatisfactory returns upon industrial investment, and resulting industrial stagnation—inescapable accompaniments of persisting inflation induced by fantastically costly arms expenditures financed by debt increases—have caused American capital to seek more profitable and more secure investment opportunities abroad. Hence the \$27 billions of net credit on long-term investments overseas. The self-same factors have caused foreigners to keep their dollar holdings in short-term forms, and not to convert them into long-term investments in the U.S. These foreigners are understandably fearful that the decline of the dollar cannot be arrested while the U.S. national debt continues to mount and the foreign exchange earned from trade is prevented, by fiscal and military policies, extravagance abroad and at home, from being converted into Treasury balances.

THE SOLUTION LIES IN CURBING MILITARY SPENDING

The gold problem is of America's own making. The solution must be of her own finding. Prompt and major reduction of arms budgets for both home and overseas forces, with the bulk of the savings going to bolster U.S. gold reserves, are prerequisites to remedying the situation. Or, such expenditures must be paid out of current taxation, not out of debt

increases, no matter how unpalatable a rise in taxation may be.

Whoever fears that the adoption of such a drastic surgical policy toward the national budget may weaken U.S. influence in the world, might reflect on the British experience. The decline in England's position as a great power dates, not from the end of World War II, but from the time the international financial community recognized that England could no longer meet her short-term obligations with assurance, and that sterling could no longer serve as the base of the international monetary order.

Once thoroughly weakened, world financial power

cannot easily be regained. The U.S. has attained a world position through the integrity of her currency. She will lose this, together with the ability to shape much of the world's political future, if the flight of gold is not soon halted. This can be done only by curbing the extraordinary extravagance in the military area, and by strengthening the U.S. fiscal position so that short-term claims upon her gold reserves will be transformed into long-term foreign investments in the American industrial system.

Statistical data sources: *Federal Reserve Bulletin* (monthly); *Statistical Abstract of the United States* (annual).

5. WHICH WAY SECURITY? HOW WE CAN COUNTER GROWING INSTABILITY IN THE UNDER-DEVELOPED COUNTRIES

by OTTO FEINSTEIN*

The foreign economic and military practices of the United States have not addressed themselves successfully to the key problems of the 1950's and 1960's. Chaos, instability, and the threat of nuclear war, based on the poverty in the under-developed countries is increasing. The United States could direct its resources in a way that will add substantially to the security of this country even as it extends the opportunity for greater economic and political freedom to that two-thirds of the world's population living in misery and squalor.

- The burden of this paper will be to indicate that:
- the under-developed countries are the major source of world instability, presenting threats to world security that are not susceptible of military solution.
 - unless present trends are reversed, the economic gap between developed and under-developed countries will continue to widen.
 - foreign aid from the developed countries has been niggardly compared to the funds allocated for military efforts.
 - there are means of using foreign aid that promise enduring benefits.
 - such expenditures address themselves to the key problems of world security.
 - the U.S. has more to gain from such constructive efforts than from continuing to add to its military overkill capability.

POVERTY, UNREST THREATEN WORLD'S SECURITY

Since 1945, there has been no military conquest of any important area that was not an outgrowth of World War II. All the troubles since 1945 have arisen from the disequilibria resulting from the breakup of previously under-developed empires, anti-colonial disturbances in the under-developed areas, or revolts against military regimes in those areas.

47 countries that have been "trouble spots":

Laos, Vietnam, Algeria, Argentina, Arabia, Bolivia, Brazil, Cyprus, Ghana, Rhodesias, British Guiana, Borneo, Malaya, Pakistan, Burma, China, Congo, Colombia, Cuba, Dominican Republic, Ecuador, Egypt, Greece, Guinea, Haiti, Honduras, Indonesia, Iran, Iraq, Jordan, Korea, Lebanon, Morocco, Nicaragua, Panama, Paraguay, Peru, Philippines, Portugal, Angola, South Africa, Spain, Syria, Tunisia, Turkey, Venezuela, and Yemen.

Poverty and unrest in these under-developed areas is the major cause of world instability. (The Rus-

* Assistant Professor, Monteith College, Wayne State University; (Ed.) *Two Worlds of Change*, Monteith College, 1962; "Development Policy and Time," *Journal of the Brazilian Army*, Feb., 1960; research for U.S. Senate, Committee on Foreign Relations, Subcommittee on American Republic Affairs, U.S. Business and Labor in Latin America, Wash., D.C., 1960.

sian and Chinese revolutions can also be traced to problems of instability in under-developed countries under severe political strain.) The military problems that may have existed, or may now exist, arose out of the economic, political, and social problems of under-development.

The overkill capability which has been developed by the world's annual \$120 billions military budgets has not and cannot resolve the problems in the under-developed countries. Few of the "trouble spots" may be said to have presented a basically military problem. In all these cases, the use of military force has been, at best, a temporary solution and often an irrelevant one. As a matter of fact, the massive use of capital, technology, and human skill for military purposes aggravates the problems of the under-developed areas by increasing the scarcity of these resources and thus raising their price.

ECONOMIC GAP THREATENS TO WIDEN FURTHER

That two-thirds of humanity live in wretched poverty has been the subject of much commentary in recent years. However, the basic and alarming feature of this problem has yet to be recognized: *the gap between the developed and the under-developed countries is increasing.*

Over the past 18 years, while more than 60 under-developed nations have gained independence, national efforts and international co-operation in their development have so far failed to bring about the desired acceleration of economic growth. The average growth in per-capita income over the past decade was less than 2% and possibly as little as 1%. The average level of real income per capita in the under-developed countries is now less than one-sixth—and in many cases less than one-tenth—that enjoyed in such countries as Belgium, Norway and the United Kingdom.

A study of the trends in per capita income (see Table 1 following text) in major areas of the world clearly indicates the widening of the gap between the developed and under-developed nations. The predicted population growth (Table 2)¹ will further aggravate this situation. Even according to a moderate hypothesis of this growth the population in the developed zone of the world will grow by 53% while that of the under-developed areas will increase by 146% by the year 2000. This means that the proportion of people living in the presently developed areas will drop from 33.9% to 22.9%, while the proportion of those living in the under-devel-

oped areas will rise from 66.1% to 77.1% of the world population.

Furthermore, *food production per capita has actually been declining or rising only minutely in these areas* (see Table 3). And while three-fifths of the human species lives in these areas, they produce only one-third of the world's agricultural output. While the bulk of humanity is thus slipping into poverty, rather than evolving out of it, the major industrial nations, as well as the under-developed ones, have been spending increasing sums on military budgets. Despite the obvious and inherent dangers in such a continued trend, the absolute gap between the rich and the poor countries has been widening.

FOREIGN AID INSIGNIFICANT BESIDE MILITARY BUDGET

In the fiscal year of 1959-1960 over \$120 billions was spent for direct military purposes.² This sum is between 66% and 100% of the total national income for all under-developed countries during that year. Total world foreign aid and assistance has never reached 10% of the world military budget.

U.S. aid has accounted for more than 75% of all foreign aid. But all U.S. foreign aid from July 1945 to December 1961 was only one-and-a-half times the size of one year's American military budget. A large share of even this modest amount of aid has gone either to developed countries or for military assistance. In all, the U.S. has spent \$33 billions during the past 17 years for non-military aid to the under-developed countries. (Table 4)³

In proportion to U.S. productivity, however, our share of foreign economic aid has been small. If we take 1959, and ask what share of the national income of the developed nations went to the under-developed nations in the form of economic aid, we find that France led with 1.9% and was followed by the U.S. with 0.7%, the United Kingdom with 0.5%, and West Germany with 0.3%. If the United States, the United Kingdom, and West Germany had given the same per cent of their national income as France, foreign aid for 1959 would have been \$10.7 billions rather than the \$4 billions which it actually was. Even such a sum would have been quite a bit

¹ United Nations, *Accroissement de la population mondiale dans l'avenir*, 1961.

² United Nations, *Economic and Social Consequences of Disarmament*, New York, 1962.

³ Source: U. S. Department of Commerce.

less than 10% of the military budgets for that year (see Table 5).

NEED FOR CAREFULLY ALLOCATED FOREIGN AID

Four estimates have been made as to the total amount of foreign capital required by the under-developed areas, over and above their domestic resources devoted to investment.¹ These estimates range from \$6 billions to \$10 billions annually. After allowing for the present flow of foreign capital,² there is a current deficiency between \$3 billion and \$6 billions a year if the modest annual rate of growth of 2% in per capita income is to be achieved. Even this would be but a minimal program. In essence, the only answer to the massive problems of the under-developed areas is to increase the productivity of their labor, natural resources, and capital.

Economic theory now indicates that investment in human capital is the key to economic development with productivity and capital formation as secondary results. Thus, the most effective investment of foreign aid would be in education—primary, secondary, vocational, and technical.

A number of advantages would flow from educational aid. Teachers and intellectuals could obtain constructive employment; the influence of the ideologies of violence would be reduced; and a middle class would be either created or enlarged. Furthermore, the bulk of the people would be given something concrete: advancement for their children and the possibility of their own advancement. The funds spent for education would aid in the development of an effective consumer market even as they stimulated labor productivity and trimmed production costs.

Nor would this have to be a permanent hand-out. The program can be instituted in such a way that our share declines over the years. Popular pressure would be the factor guaranteeing continual education outlays by the local government, particularly as more people are educated, more schools are built and more teachers are trained.

Finally such a program supports social and demographic stability, creates people who can use the parliamentary tools of progress, increases those whose interests are in more limited family size, adds value to labor by making it more productive, and creates markets for domestic and foreign entrepreneurs.

From past experience with foreign aid, it is evident that billions of dollars can be used without

establishing any permanent stability or growth. It is therefore essential that aid lead to the point of self-generating growth. Filling the capital gap by achieving the aid level of France and investing in an extensive educational program are two such practical aid suggestions.

FOREIGN TRADE KEY TO DEVELOPMENT

A key generator of economic development which uses the power of the market mechanism to induce growth is foreign trade. In 1960 total exports of the under-developed areas amounted to four times all foreign aid and investment from the industrial countries. In most countries more than 20% of the national product originates from foreign trade. It provides the foreign currency, technology, profits, and often government revenues that make internal growth possible.

But here too the gap between the rich and the poor is widening. The under-developed areas' share in world exports has declined from 32% in 1953 to 25% in 1960. Total exports since 1956 from the under-developed countries have increased by only 2% while those from industrial areas have grown by 6.5%. While the pattern of trade has shifted from export of primary commodities and import of manufactured consumer goods, to export of primary commodities and import of capital goods (a positive development), the value of raw materials per dollar output of the industrial countries has declined. In 1900 raw materials comprised 22½ cents of every \$1 output of the U.S. economy; in 1960 only 11½ cents of every dollar output consisted of raw materials value. This decline has been most rapid since 1940. The extreme fluctuations of raw material prices has also seriously affected the economic stability of the under-developed countries. GATT estimates that billions of dollars have been lost due to these fluctuations.

¹ United Nations, *The Capital Development Needs of the Less Developed Countries*.

United Nations, *Measures for the Economic Development of Underdeveloped Countries*, 1952.

Max F. Millikan and W. W. Rostow, *A Proposal, Key to an Effective Foreign Policy*, New York, 1956.

Paul G. Hoffman, *One Hundred Countries, One and One-Quarter Billion People*, Washington, 1960.

P. N. Rosenstein-Rodan, "International Aid for Under-developed Countries," *Review of Economics and Statistics*, Volume XLIII, May 1961.

² During the past few years, the total net flow of capital from private-enterprise-developed countries to under-developed areas averaged between \$3.5 billion and \$4 billion annually. Half represented official grants and the remainder consisted mostly of private lending.

The removal of U.S. restrictions against primary products from Latin America would result in increased yearly earnings for that area of \$850 millions to \$1.7 billion a year. Rapid economic growth in the U.S. and the opening of U.S. markets for the under-developed areas' products would be the greatest aid to their development.

A reduction of the overkill budget resulting in a sizeable tax cut could help provide such an increase in U.S. economic activity. The utilization of the vast research talent, now in the defense area, for mapping development plans and producing new and low cost capital goods would greatly facilitate trade, efficiency and growth.

U.S. GROWTH ESSENTIAL TO WORLD DEVELOPMENT

Representatives and officials charged with allocating our nation's wealth in a way that will best protect our freedom and our security should have a clear idea of the threats which jeopardize these cherished rights. It is the belief of this author that events since 1945, as well as the obvious problems looming on the horizon, indicate that the threat is currently more closely connected with the problems of under-development than with those of direct military or nuclear attack. It would seem folly to divert funds and talents in a direction where the problems seem to be coming under control while practically ignoring the vast and complex problems facing us.

It is fortunate that the solution of the problems of under-development would help resolve some of our internal problems, such as unemployment and insufficient economic growth.

A program of foreign aid in the form of bank credits, grants for massive educational efforts, and accelerated foreign trade will lead to economic progress, political stability, and social development in the under-developed areas. Such conditions would inevitably encourage the flow of private direct foreign investments and might even lead to the rebirth of long-term portfolio investments and other capital market features.

If such changes are not made, or if only half-hearted measures are taken, then social unrest, increasing instability, and guerilla wars will plague us within a very short time.

TABLE 1

	Population (millions)			
	1960	1975	1990	2000
Africa	235	303	410	517
Asia (Not Japan)	1,525	2,093	2,951	3,717
South America	139	204	304	394
Central America	66	99	151	198
Total Under-developed ..	1,965	2,699	3,816	4,826
Japan	95	117	139	153
USSR	215	275	339	389
Europe	424	476	540	568
North America	197	240	283	312
Oceania	16	21	26	30
Total Developed	947	1,129	1,327	1,452
Grand Total	2,912	3,828	5,143	6,278

TABLE 2

Food and Agricultural Production per Capita

	1948/49 1953/54				
	Before War	to 1952/53	to 1957/58	1958/1959	1959/1960
Western Europe	100	96	110	113	117
East Europe and USSR	100	108	123	145	145
North America	100	112	110	111	111
Latin America	100	91	93	97	96
Oceania	100	95	95	102	100
Far East (Not China)	100	84	92	94	95
Near East	100	99	109	114	112
Africa	100	102	107	105	102
All areas	100	99	106	113	113
Under-developed areas	100	91	97	99	98

Source: Food and Agricultural Organization, *World Food and Agricultural Report* (1960), p. 14.

TABLE 3

Trend of Per Capita National Income in Major Areas

	1913	1929	1952-53	1957
North America				
(Excluding Mexico)	\$917	\$1,243	\$1,810	\$1,868
Oceania	572	680	964	1,110
Northwestern Europe	454	528	681	790
Soviet Union (USSR)	162	178	535	750
Union of South Africa	177	221	300	318
Southeast Europe	200	181	285	360
Latin America	170	196	260	300
Japan	85	152	184	240
Far East (excluding China and Japan)	93	106	109	115
Southeast Asia	65	68	64	67
China	50	50	50	61

	Index (1913=100)			
North America				
(excluding Mexico)	100	136	197	204
Oceania	100	119	169	194
Northwestern Europe	100	116	150	174
Soviet Union (USSR)	100	110	330	463
Union of South Africa	100	125	169	180
Southeast Europe	100	91	143	180
Latin America	100	115	153	176
Japan	100	179	216	282
Far East (excluding China and Japan)	100	114	117	124
Southeast Asia	100	105	98	103
China	100	100	100	122

Note: Figures in dollars of 1952-54, not corrected for differences in price levels between countries.

Source: L. J. Zimmerman, *Arme en rijke landen*, Alboni, The Hague, 1960, pp. 29-31; from Jan Tinbergen, *Shaping the World Economy*, Twentieth Century Fund, 1962, p. 9.

TABLE 4

United States Foreign Aid (in billions of dollars)				
	1 July 1945 to 31 December 1961			
	Total	1961-57	1956-51	1950-45
Net non-military grants.....	36.8	8.4	11.2	17.2
Net credits	12.8	1.9	1.6	9.3
Net other aid (PL 480, etc.)	3.0	1.9	1.1	—
Net military grants	29.3	10.2	17.2	2.0

Source: U. S. Department of Commerce.

TABLE 5

Foreign Aid from 1954-59 (in millions of dollars)			
West Germany ¹	274.5	Australia	181.6
Belgium	54.2	Canada	215.3

TABLE 5 (Cont.)

France	2,825.9	Denmark7
Italy ¹	72.9	U.S.A.	12,025.5
Japan ¹	53.2	Norway	6.1
Netherlands	133.0	New Zealand	23.3
Switzerland6	United Kingdom	1,058.7
USSR and bloc ²	342.0	Sweden	4.3
Total—\$18,271.9			

Source: Department of State Bulletin, 22 August 1960 and J. S. Berliner *Soviet Economic Aid*, Praeger, New York, 1959.

¹ Germany paid \$428 million, Japan \$200 million, and Italy \$181 million in reparations to under-developed nations.

² Soviet and Eastern bloc figures are from 1953-57.

6. U.S. MILITARY ASSISTANCE OF DOUBTFUL VALUE IN LATIN AMERICA

by EDWIN LIEUWEN*

Despite more than a decade of operation of the present United States military assistance program in Latin America, the military power and war-making potential of those nations to the south counts for practically nothing. The Latin American armed forces have shown a marked unwillingness to combat collectively the communist threat either from without or from within the region itself. For instance, only Colombia responded to the U. S. call to arms in Korea. And there was little concerted action in the case of Guatemala during the period 1950-1954 or in the case of Cuba today. Thus, as a purely military proposition, the concept of collective planning and defense would seem to have little or no practical application.

The purpose of this paper is to review briefly the elements of the U.S. military assistance program in Latin America and to appraise its effects on both the U. S. and Latin America. From this case-study, it is possible to draw conclusions on the value of such programs in a vital region of the world.

U.S. MILITARY AID PROGRAM IS EXTENSIVE

Under the U.S. Mutual Security Act, military assistance to Latin America is granted for the purpose of obtaining the cooperation of that area in resisting any threat to security of the hemisphere. The assumption is that there is a threat by communist aggressors both from without and within and that resisting that threat is a common responsibility.

This collective defense machinery consists of:

1. A military alliance—The Inter-American Treaty of Reciprocal Assistance, signed in 1947.
2. A collective defense planning organization—The Inter-American Defense Board.

3. A U.S.-sponsored military mission system under which the armies, navies, and air forces of all the republics, except Mexico and Cuba, receive training and instruction from U.S. military personnel.
4. A military school program for Latin American officers and men at institutions in the U. S. and the Canal Zone.
5. Military assistance grants in the amount of approximately \$55 million annually to eleven countries — Ecuador, Peru, Colombia, Chile, Brazil, Dominican Republic, Uruguay, Nicaragua, Honduras, Haiti, and Guatemala—with whom the U.S. has military defense assistance pacts.
6. Credit sales of military equipment in the amount of approximately \$25 million annually to all the Latin American countries except Cuba under the reimbursable aid provisions of the Mutual Security Act.
7. Sales of U.S. military equipment in virtually unlimited quantities at bargain prices.

OBJECTIVES OF PROGRAM ARE MAINLY POLITICAL

Though expressed in military terms, the objectives of the U.S. military assistance program for Latin America are primarily political. Realistically recognizing the major role played by Latin America's armed forces in the internal political life of

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their respective countries and recognizing their desire for arms, the U.S., during the past decade, has been granting military assistance primarily as a quid pro quo for Latin America's friendship and cooperation. Military assistance has been frequently justified on the ground that it helps preserve internal stability in Latin America.

While it is true that the U.S. influence over Latin America's armed forces helps exclude Soviet influence there, it is questionable whether our security position is always thereby advanced. In countries where the military now dominate politics, such as Paraguay, Peru, Argentina, Nicaragua, and Guatemala, the primary opponent of the armed forces is internal civilian opposition rather than world-wide communism.

Latin America's armed forces have frequently employed the equipment sold or granted by the U.S. to overwhelm civilian political organizations.

"In Brazil, for example, following the receipt of nearly \$300 millions in Lend-Lease equipment and the sending of a token expeditionary force to Italy during World War II, the armed forces assumed the right to depose President Vargas when the war was over. According to Laurence Duggan, the United States equipment and experience in European fighting built up the role of the officer corps in the country's politics; thenceforth they began making and breaking governments. Again in 1954, following receipt of more military aid and the assumption of a new defense-of-the-hemisphere role with the signing of the 1953 MDA Pact, they arrogated to themselves the right to depose Vargas again, although this time he had been freely elected to the presidency.

In Colombia, prior to the military coup of 1953, the army had been receiving both grant and reimbursable aid from the United States. The officer corps, its confidence bolstered both by its fighting role in the Korean War and by its assumption of the task of 'preserving order' during the civil war, could not resist the temptation to seize power. United States military aid must certainly be considered as one contributing factor that helped to tip this balance, bring the Colombian army back into politics after a half-century of civilian rule...

The strengthening of the armed forces, for defense or for preserving internal order, seems only to give encouragement to the Latin American officer corps to convert themselves into even more highly political instruments than they are already. The in-

tentions of the donor are, as in the past, perverted by the recipients."¹

Recently, Senator Ernest Gruening (Dem. Alaska) reported that:

"1. A military coup overthrew the existing government of Peru last July even as the Presidential election ballots were being counted. Army officers invaded the Pizarro Palace, seized and imprisoned President Manuel Prado and established themselves in power.

The tank which crashed through the palace gates was a Sherman tank made in the United States and supplied by us to Peru as a part of our military-aid program. The officer who carried out the capture of the palace, Colonel Gonzalo Briceño, was trained at Fort Benning, Georgia. Others of the junta and of its military cabinet likewise received their training in the United States. Several had been only recently awarded the U.S. Legion of Merit: in their citations, services to the 'objectives of democracy' were stressed.

Seven candidates had been vying for the Presidency in Peru; three were closely bunched far in the lead. They were General Manuel Ordia, a former President who had come into power in 1948 through a military coup; Fernando Belaunde, candidate of the Popular Action Party; and Raul Haya de la Torre, long the head of the moderate left-wing anti-Communist APRA Party. None of these had secured quite the one-third of all the votes cast required by the Peruvian constitution, which provides that in such an event election shall be by the Congress. The military apparently feared that Haya de la Torre would be chosen and would institute what to them were objectionable social and economic reforms. To prevent this they took over.

The Kennedy Administration promptly announced that aid to Peru under our foreign aid program would be suspended, and withheld recognition of the new government.

2. Several weeks earlier, a similar sequence of events had taken place in Argentina. There the military, dissatisfied with the results of the general elections, seized President Frondizi, imprisoned him on an island and installed a creature of their own, Jose Guido, in his place. The Kennedy Administration, however, recognized the new Argentine regime and

¹ Edwin Lieuwen, *Arms and Politics in Latin America*, Praeger, New York (1961), pp. 230, 231.

continued its aid. Shortly thereafter, several hundred million dollars were pledged.”¹

Although reluctant to fight communism abroad, the various forces of the Latin American military have not hesitated to use U.S. given equipment to conduct internecine warfare. During the November 1961 political crisis in Ecuador, air force jets battled army tanks and troops in downtown Quito. In June, 1962, army tanks, troops, and air force jet fighters battled a marine corps battalion for control of the Puerto Cabello Naval Base in Venezuela. Three months later, the cavalry (tank) branch of the army and the air force successfully fought the infantry, which was supported by the navy, in the streets of Buenos Aires for control of the Argentine government. And in November of 1962 the air force battled the army for three hours in Guatemala City, the main casualties being innocent civilian bystanders.

MILITARY ASSISTANCE CONTRIBUTES LITTLE TO DEMOCRACY

Does military assistance thwart the progress of democracy in Latin America? Insofar as military aid programs have increased the political influence of the armed forces, the prospects for democracy appear to have suffered. The military tends to resort to non-democratic procedures to achieve internal order and stability, which both the local military and the U.S., for different reasons, ardently desire. The 1962 military take-over from freely elected civilian governments in Argentina and Peru are cases in point.

Does the political advantage of gaining the cooperation of Latin America's armed forces with military assistance outweigh the disadvantages of alienating democratic civilian elements by the continuance of such aid? It matters little whether the U.S. arms are really the determining factor in provoking military intervention in internal politics. The point is that most civilian elements believe this is true.

It should be borne in mind that U.S. military assistance to Latin America is supported only by that area's military forces comprising less than 0.5% of its total population. Most civilian forces are opposed to these programs, fearing their own armed forces far more than they do the Russians.

Finally, our military assistance programs in Latin America appear incompatible with social reform objectives of the Alliance for Progress. This would

seem to be the case wherever military assistance tends to abet the kind of stability that puts a damper on social change and reform.

We should be extremely wary of conservative forces' solicitude for military assistance, for their aim is to use it not to halt Soviet aggression from without, but rather to suppress social change from within. In Nicaragua, Argentina, Peru, Paraguay, Ecuador, and Guatemala, where an unintended effect of U.S. military assistance has been to stifle reform, the result has been to break down the barriers between the Communists and true democratic forces, both of which tend to see their immediate enemy as the military of their own country. As the recent case of Cuba has amply demonstrated, the Communists are quick to seize the opportunity to cooperate and make common cause with the democratic civilian resistance to militarism.

MILITARY ASSISTANCE WILL FRUSTRATE “ALLIANCE FOR PROGRESS”

Conclusions expressed by this writer three years ago still hold true: “For the great majority of Latin Americans, who see no great danger of aggression from outside, the U.S. military program compounds their internal problems, interferes with the process of social change, and hinders progress in economic development. The reimbursible aid program, the evils of which are magnified by the new credit policies, gives license to the armed forces to squander money on flashy military ‘toys’. . . the provision of U.S. arms to military regimes often stymies the popular urge to political freedom.”²

Viewed in retrospect, the present military assistance program for Latin America is a somewhat anachronistic carry-over of a fundamental decision made 15 years ago. At that time our cold war policy for Latin America reflected the strong military influence prevailing in our foreign policy.

In 1947 the Defense Department proposed to include Latin America in our cold-war strategy via alliances, arms, aid, bases, and a general military build-up. The late Gen. George C. Marshall, then Secretary of State, overruled his subordinates and accepted the military proposal. Thereafter, as the cold war intensified, military and strategic considerations were increasingly emphasized in U.S. for-

¹ Ernest Gruening, “Exporting Trouble,” *The Nation*, October 6, 1962.

² Edwin Lieuwen, *Arms and Politics in Latin America*, Praeger, New York (1961), pp. 240.

eign policy toward Latin America.

The subsequent social crisis in Latin America, however, has made the military considerations increasingly untenable. The political freedom, social reform, and economic development principles out-

lined in the "Alliance for Progress" program appear to be inconsistent with our military assistance programs in Latin America. Unless this inconsistency is removed, frustration and failure may crown our whole Latin American policy.

7. CIVILIAN MARKETS FOR U.S. MILITARY INDUSTRY

by JOHN E. ULLMANN*

Reduction of military spending to a maintenance-of-present-forces level would result in a budget cut of \$22 billion. As this represents a substantial amount of economic activity, we feel it incumbent on us to suggest alternative markets and activities.

It is the purpose of this paper to suggest alternative expenditures. Their sum exceeds the proposed reduction by a substantial margin.

But first it should be noted that it would not be necessary to seek alternatives for the full amount if it were deemed fiscally advisable to convert some of the saving into a tax cut. For example, such a policy might permit sustaining the entire tax-cut program proposed by the Administration—\$13.6 billions—without administrative and legislative countervailing moves that would partially neutralize it. In line with this kind of reasoning, the President's Labor Management Committee in the fall of 1962 recommended a \$10 billions cut without concurrent reform.

SOME ALTERNATIVES WOULD BE SELF-LIQUIDATING

The alternatives that will be suggested involve government initiative in varying degrees, but not necessarily the federal government. Some activities such as urban renewal are probably best handled on a local or regional basis. Some of the alternatives envisioned are self-liquidating and may be carried out by private enterprise. These alternatives would replace the military procurement which is supported entirely by the federal government. Such procurement, of course, represents expenditures that do not return their capital outlay.

The alternatives differ considerably in the extent to which they can be used to employ existing staffs, managements, and facilities. It is desirable to conserve existing institutions, whether they be firms or government agencies, by finding them other tasks. This is important in order to prevent stranding of populations and dislocations of the kind that are dif-

ficult to cope with on the local political level. Individual conversion problems would occur, but would be susceptible of solution, provided an adequate level of economic activity was maintained.

SCHOOLS NEED \$5 BILLIONS MORE A YEAR

In 1961, expenditures for public primary and secondary schools was at a level of \$455 per pupil. This outlay included capital improvements which made up about 17% of the total. Increasing these per-capita expenditures to a level approximately halfway between the national average and that for the highest state (New York), would require about \$5 billions. Raising them to the New York level (\$678) would mean an extra \$9 billions. An increase of approximately \$8 billions per year was recently suggested by the American Association of School Administrators.

At least one-third of these amounts could now be profitably invested in new teaching aids such as educational television and other audio-visual aids, thus providing a market for the electronics industry.

An additional \$500 millions should be earmarked for further aid to higher education. This would be in the form of scholarships for technical specialists previously associated solely with military work to enable them to retrain for equivalent professional jobs in non-military endeavors.

\$10 BILLIONS NEEDED FOR URBAN RENEWAL

Estimates on the need for urban renewal vary greatly and range up to the complete rebuilding of large sectors of all our metropolitan areas. Expenditures up to \$110 billions a year have been suggested.¹ No effort of this size could be mounted

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¹ *U. S. News & World Report*, Feb. 25, 1963, p. 70.

promptly without gravely dislocating the entire construction industry, currently operating at a rate of \$70 billions annually. This figure includes private and public construction and maintenance. However, additional construction expenditures on the order of \$10- to \$15-billions would be in order without severe dislocation of the industry. With preparation, the industry could be expanded to handle a much greater work load. The \$10- to \$15-billions figure would represent an expansion of construction activities of 14% to 21%, allowing for the elimination of military construction which now runs about \$1.2 billions a year.

The new scale of effort would be substantially more than is currently planned. For fiscal year 1964, total federal outlays for housing and community development are estimated at \$276 millions, excluding the trust funds of Federal National Mortgage Association.¹

Existing industry in the military field could provide manufacturing capacity for prefabricated units and the required administrative and planning staffs.

\$4 BILLIONS NEEDED TO RECLAIM DAMAGED LAND

The total damaged land of the United States has been estimated at 778 million acres.² A further 280 million acres have been rendered useless for agriculture. Assuming that all activities of the Army Corps of Engineers and the Bureau of Reclamation are directed toward conservation, the average reclamation expenditure is \$1.04 an acre. This amount could certainly be increased. An expenditure of \$5 per acre of damaged and ruined land would represent an added expenditure of \$4 billions. This is little enough for land improvement. Substantial increase of effort will be urgently needed before the end of the next two decades if suburban settlement continues encroaching on farm land.³

URBAN TRANSIT WOULD REQUIRE \$500 MILLIONS

Plans for mass urban transit have been made by many metropolitan areas and have reached the stage of specific plans in several localities. Annual expenditures envisioned for a few localities are as follows:

Bay Area (San Francisco)	\$100 millions
Washington, D. C.	100 millions
New York City-Nassau County	100 millions
All others	200 millions
Total	\$500 millions

These projects are in various stages of planning

and financing. As noted, funds for these largely self-liquidating projects do not necessarily have to come from federal sources.

Transit systems also offer opportunities to electronics firms in the supply of controls. The vehicle market thus created is already attracting sectors of the airframe industry, in addition to regular suppliers.

\$1.5 BILLIONS COULD BE USED FOR PUBLIC HEALTH

Federal public health expenditures for fiscal year 1964 are estimated at \$1.6 billions. This amount is an 18% increase over fiscal year 1963 appropriations. Even so, the fiscal 1964 federal budget points to the inadequacy of medical staffs, the need for more hospitals, and the modernizing of existing facilities. A further \$1.5 billions could justifiably be spent. This would include substantial amounts for up-to-date diagnostic equipment and the automation of hospital operation, providing potential markets for firms with electronic capabilities. An effort on this scale would speed the solution of major mental and physical health problems.

ALTERNATIVES WOULD REQUIRE \$32- to \$44-BILLIONS

Summarizing alternative expenditures suggested thus far we have:

<i>Item</i>	<i>Cost (Billions of dollars)</i>
Education	5.5 — 9.5
Urban renewal	10.0 — 15.0
Conservation, soil renewal..	4.0
Urban transit5
Public health	1.5
Net tax cut	10.0 — 13.6
Totals	31.5 — 44.1

The alternatives proposed could quite easily accommodate cuts of \$22 billions that would be possible with a maintenance-of-present-forces budget. The programs suggested are based on activities likely to be of vital national importance in the future.

There is pent-up demand for a wide variety of rehabilitation and recreational projects—ridding our air and our streams of pollution, developing our park areas, protecting our shores against erosion—that would require a wide variety of research and

¹ *Federal Budget for Fiscal 1964*, p. 92.

² R. Rienow, *American Problems Today*, D. C. Heath, Boston (1958).

³ E. F. Higbee, *The Squeeze*, Morrow, New York (1960).

mechanical skills and a healthy boost in expenditures. Desalination of sea water, for which the Interior Department now has some pilot projects (1964 Budget request is 12 million dollars) is but one activity that would have national and international significance, and which could be funded from savings in the military budget.

8. A NEGLECTED HOME MARKET— 38 MILLION AMERICANS IN POVERTY

by JOHN E. ULLMANN

“. . . for all its wealth and progress the U. S. has still too much distress and poverty in its midst, and . . . here surely is one frontier which clamors for attention.”

—John Davenport

“In the Midst of Plenty” *Fortune*, March 1961, p. 107

The task of eliminating poverty in our society has languished for the past decade while we have devoted ever greater resources to the military effort. A redirection of our economy would allow us to correct these imbalances.

With nearly 10½ million families and almost 4 million unattached individuals living in poverty in 1960, the total comes to approximately 38 million Americans—more than one American in every five.

The total of those with annual incomes of less than half the amount required to place them above the poverty level, involving in 1960 nearly 3½ million families and almost 2 million unattached individuals, comes to 12½ million Americans—about one in every 14.

My purpose here is to sketch very briefly some aspects of the problem of poverty in the United States and to indicate a few approaches to alleviating the problem. The shift of resources from the military to the civilian section of our economy would greatly facilitate the elimination of this national problem.

SOME ASPECTS OF AMERICAN POVERTY

The number of Americans living in poverty was reduced very rapidly from the depression level reached in 1935-36 to about 38 million in 1960. The number with less than half the income required to lift them above the poverty level was reduced to about 13 million by 1953, with no further reduction by 1960.

Altogether, the reallocation of military expenditures as suggested in this paper would permit considerable choice as to method of organizing the investment of capital. The adoption of any of these alternatives would have a tonic effect on the economy and would allow us to proceed with long-deferred projects of rehabilitation and improvement.

The nature of poverty has been well described in *Poverty and Deprivation in the U.S.: The Plight of Two-Fifths of a Nation*, Conference on Economic Progress, Washington, D. C., April, 1962:

“In 1960, there lived in poverty 43½% of the families whose heads were unemployed; 42% of the families whose heads were laborers elsewhere than on the farm or in the mine; 37% of those whose heads were service workers other than in private households, and about 58% of those whose heads were farm operators. Two-thirds of hired farm workers earned less than \$1,000 a year.

Among families in the South, 68% lived in poverty or deprivation. Among all U.S. nonwhite families, 80% lived in poverty or deprivation.

Among multiple-person families with heads aged 65 and over, nearly two-thirds lived in poverty; among unattached individuals 65 and over, four-fifths. Among families whose heads had less than eight years of elementary education, only about one-seventh were above the deprivation level. Ill health and inability to work because of physical defects, and substandard housing, are far more concentrated among the poor and the deprived than among others.

Stated in another way, looking at all people living in poverty in 1960, far more than a fourth were in consumer units (families and individuals) where the head was not employed. Far more than half were in units whose head had eight years of education or less; and almost a third were in units whose head was female. About a fourth of the total number of people living in poverty had consumer unit heads aged 65 and over. More than a fifth were nonwhite. More than a sixth were farm people. More than two-fifths lived in the South.

About two-thirds of all farm workers in 1959 earned less than \$1,000 annually in money wages, including not only their earnings from farm work but also their earnings from nonfarm work. The total number of days worked per year was shockingly low. The average annual money wages were only \$1,025 for a man and \$447 for a woman for migratory workers, and only \$1,278 for the man and \$314 for a woman for nonmigratory workers."

REDUCTION OF POVERTY, HIGH ECONOMIC GROWTH GO HAND IN HAND

There are those who, giving priority to higher economic growth, say that this priority has little bearing upon reduction of poverty and deprivation. They give as their reason that most or much of these low-income conditions exist in "pockets" of the economy or are due to "special" causes—such as under-developed or depressed areas, lack of education or skills, bad health, lack of personal discipline, and discrimination based on age or sex or color.

These factors are present and require attention, but they explain only a fraction of the widespread poverty and deprivation today. For while many people are poor because they are uneducated or in bad health or low morale, the cause and effect is just as frequently in the reverse order. Similarly, people may be without jobs because they are unskilled, or vice versa.

To be sure, the weaker claimants are likely to be the first to be skipped when there is not enough to go around, but the main difficulty lies in the shortage of total economic opportunity. Periods of high economic growth and reasonably full utilization of productive resources have generated the most rapid reduction of poverty and deprivation. Any workable program for economic growth in the future must include the very programs and policies which would remedy the "special" causes of poverty and deprivation.

20% OF U.S. IS AN UNDEVELOPED MARKET

These 38 million Americans living in poverty are virtually no market for either soft or durable consumer goods. Their purchasing power is restricted to the barest requirements for sustenance. The marketing implication is that about 20% of the American domestic market remains to be developed by

improving the productiveness of 38 million Americans, and thereby boosting their purchasing power.

DIVERSION OF MILITARY SPENDING WOULD SPUR SOLUTION

The alternative budget allocations to domestic efforts (Part 7) and to international efforts (Part 9) would make it possible to advance the solution of these problems. Let us examine a few possibilities:

1. The stimulating effects of a tax cut would tend to be concentrated in consumer and capital spending for goods and services. Many of the industries involved would thereupon be able to operate at higher levels, thus reducing unemployment, and with it poverty, in the depressed industrial areas.

2. Increased spending on education would make it possible, along with other steps, to correct the lack of training which is a handicap of the poor.

3. A vigorous effort to solve the problems of public health would certainly direct itself to the mental and physical health of the lowest income groups. The Michigan Employment Security Commission concluded on the basis of a study of the "unemployables" in Michigan that many were highly demoralized and alienated from their surroundings. Individual counseling was often necessary. A real job of reconstructing our "damaged" human resources is feasible in the context of improving our national health.

4. Urban renewal would mean rehabilitating slums and blighted areas which generally are inhabited by the poorest people. Jobs, often of low skill, could be found on the spot in projects of this kind. Indeed, urban renewal can help provide new jobs for many displaced by today's automating industry.

5. Agricultural rehabilitation would return a substantial number of the rural unemployed to productive work.

6. An imaginative program of world industrialization, sponsored by the U.S., would reinvigorate our machine industry and thus give new economic life to many depressed areas, for example in the Northeast, the Midwest, and New England. At the same time, the use of our food-producing capacity toward this goal would greatly stimulate farming and reduce substantially the problems of rural poverty.

9. U.S. FOREIGN AID CAN BE MORE PRODUCTIVE

by SEYMOUR MELMAN*

"A lot of the criticism of foreign aid is because the critic thought the objective was to get economic growth, and this wasn't the objective at all. . . . The objective may have been to buy a lease, or to get a favorable vote in the UN, or to keep a nation from falling apart, or to keep some country from giving the Russians airbase rights, or any one of many other reasons."

—Dr. D. A. Fitzgerald, former deputy director of the U. S. International Cooperation Administration; *US News & World Report*, Feb. 25, 1963, p. 48.

Since the end of World War II Americans have supported government programs designed to assist European recovery from the war and to spur economic development in many parts of the world. These mutual security programs have been justified on the grounds of strengthening free societies, offsetting communist expansion, or as humane, constructive acts of a rich society on behalf of the impoverished.

The transfer of U.S. military spending to civilian purpose as suggested in Part 2 of this series would permit substantial increases in foreign aid programs. However, this would be no license for either unlimited or wasteful efforts.

The proposals given in this paper suggest possible ways for accelerating the process for economic development in the rest of the world under such conditions and at such a rate as to enhance the personal and political freedom of the peoples of Asia, Africa, and Latin America. Emphasis is given in these suggestions to measures which improve local competence for a development "takeoff" that is locally powered.

AID PROGRAMS COULD CREATE HUMAN CAPITAL

High rates of illiteracy and a lack of trained people are major factors that hold back the processes of economic development. We in the U.S. are in a unique position to invest some "seed money" in the form of relatively low-cost systems that would make possible very rapid development of literacy and training in the basic mechanical arts.

Television transmission systems with transistorized receivers, powered by solar (or hand-generator charged) batteries, can reach into the most remote village at about \$150 per set or less. Television is a dramatically inexpensive device as compared to the

cost of training teachers (and training teachers to teach teachers). Breaking the literacy barrier in many countries means also breaking the barrier for accelerating economic development on a self-powered basis. Grant money ought to be concentrated on high-payoff operations of this sort.

MEANS FOR IMPROVING FOOD SUPPLY AND LAND TENURE

In January, 1962, Morris Forgash¹, presented "A Plan for an International Bank for Economic Acceleration of Backward Countries" to the Atlantic Convention of NATO Nations meeting in Paris. The essential idea here is the use of a major banking operation relying primarily on private financing as an instrument for accelerating land reform and thereby economic development in Asia, Africa, and Latin America.

The plan for this bank was presented on the basis of an impressive analysis of agricultural productivity and land tenure systems, and the role that land reform can play as a catalyst in economic development.

One of the major difficulties in carrying out foreign land-redistribution measures—in Latin America, for example—resides in the unwillingness of the landowners to accept bonds in exchange for their excess land holdings. To give them cash as they would like is often impossible, because of the inflation that would result immediately, but payment in conventional long-term bonds smacks of outright expropriation because of the long experience with inflation.

Acceptance of payments in long-term bonds could be eased by attaching a purchasing power guarantee to the principal and the interest of the bonds—a guarantee that might be underwritten by the NATO countries. An institution like the International Bank for Economic Acceleration of Backward Countries would actually provide an incentive to accelerate serious measures toward land redistribution.

* I am pleased to acknowledge valuable suggestions for this discussion from Professor Albert O. Hirschman, Department of Economics, Columbia University.

¹ M. Forgash, President, U.S. Freight Corp., 711 Third Avenue, New York City.

MEANS OF STABILIZING COMMODITY PRICES

During the last decade, prices of raw materials sold by Latin American and other under-developed countries have tended to decline relative to the prices of industrial goods which these same countries purchased abroad. The result has been an important decline in the foreign exchange income of countries relying on exports of a few primary products.

Ways of dealing effectively with this problem without interfering with the price system have been canvassed recently¹ and have resulted in the proposal of an insurance system which, at most, is likely to cost the industrial countries \$500 millions per year. A U.S. share of \$250 millions is indicated.

PROGRAMS SHOULD ENCOURAGE LOCAL PARTICIPATION IN INVESTMENT

Undivided ownership of foreign agricultural, mining, and manufacturing enterprises by U.S. private interests turns out to be more and more of a liability to the U.S. and hamstring its desire to establish friendly relations with the governments and peoples of emerging countries. Attempts to bring local domestic capital into joint ventures have not changed the picture to any substantial extent. Total direct investments by U.S. firms in the less developed areas amount to approximately \$14 billions.

It is proposed that the U.S. government announce a program of progressive local participation in control of these properties, making it possible for foreign governments or their citizens to take over up to one-half of these properties in a period of ten years—at an annual cost of \$700 millions. This would be a once-and-for-all operation. Thereafter, U.S. capital would be permitted to go overseas only

if it does not amount to more than 49% of any venture on an equity basis. On the other hand, investment of capital on such a minority basis should receive powerful tax and other incentives—the cost of such incentives to the treasury may well amount to \$200 millions to \$300 millions a year.

Strong support has lately been marshalled for federal insurance on U.S. private investments abroad. A well-conceived program of U.S. private investment that is coupled with scheduled increases in local participation and control could very well make a program for insuring assets redundant.

MEANS FOR CONTAINING INFLATION IN UNDER-DEVELOPED COUNTRIES

There has long been a need to supplement existing project lending as engaged in by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Export-Import Bank. Bank capital is needed for general-purpose balance-of-payments and inflation-averting loans.

If projects are successful, this means that they will have a multiplier effect on more economic activity and investment through income and linkage effects. Hence, successful projects will give rise to additional balance-of-payments and inflation pressures unless these pressures are cushioned by the availability of general-purpose funds. Depending on the ratio in which such funds would be made available in relation to the “project” funds (a one-to-one ratio would not be unreasonable), a yearly sum of \$1 billions to \$2 billions would be required.

¹ United Nations Report, *International Compensation for Fluctuations in Commodity Trade*, 1960.

10. FISCAL STRATEGIES FOR SHIFTING \$22 BILLIONS TO CIVILIAN ECONOMY

by WILLIAM VICKREY*

Managing the shift of \$22-billions worth of resources from military to civilian use is no small assignment. There seems to be no valid military reason why this diversion should not take place with all the promptness that can be managed. There are strong humanitarian and economic reasons for making these resources available for productive and life-enhancing purposes. The only delay justified is that

needed to avoid gross inefficiency and excessive hardship resulting from unduly severe and sudden dislocations.

* Professor of Economics, Columbia University; recently, consultant to the Calcutta Metropolitan Planning Organization; author of many economic studies including “Utility Strategy & Social Decision Rules”, *Quarterly Journal of Economics*, November 1960; named Social Scientist of the Year by the *American Social Scientist*, 1961.

While the transfer proposed is a relatively small one compared to that which took place with notable success at the close of World War II, the circumstances of the relatively smooth 1945-1946 transition no longer exist. We do not start from a situation of intense high employment, backlogs of demands of all kinds, and accumulated savings and liquidity in excess of normal to finance the filling of those backlog demands.

Rather we must start from a period of economic doldrums in which such unfilled needs as do exist are poorly supported with effective purchasing power. But we should recall that while the 1945-1946 transition proved much smoother than many anticipated, it was not achieved without considerable thought, planning, and effort. The problem of engineering an equally smooth transition, even of smaller magnitude, at this juncture is going to need more than casual good will.

The key essentials for a program designed to accomplish such a transition are adequacy and flexibility. One certainly cannot expect to produce a major change in the tempo of a \$600-billions economy with minor tax adjustments of \$2- or \$3- billions a year, particularly if they are spread over several years in the future, any more than one could expect to steer the Queen Mary with a canoe paddle. A shift of \$22-billions of resources out of the military and into other sectors, however, is beginning to get out of the paddle class. The way we handle an assignment of such a magnitude is going to have very substantial effects on the economy.

Just what these effects are likely to be, however, is something for which we have relatively little hard experience. We have had almost no experience with deliberate transfers of this direction and magnitude undertaken from a state of relatively low-pressure economic activity. We have a number of fairly reasonable theories as to how this should work out in a qualitative way, but the success of quantitative predictions based on such theories in analogous situations has been only moderate.

PLAN FOR \$22-BILLIONS' TRANSITION MUST BE FLEXIBLE

As we proceed, we shall have to keep close watch on how measures work out and be prepared to modify our actions according to their effectiveness and the readiness of responses. It would be foolhardy for even an experienced pilot to undertake to get the Queen Mary out of the harbor if he is re-

quired to lash the helm in a fixed position for half an hour at a time. For an apprentice to attempt this would be almost certain disaster. We are still no better than apprentices in the techniques of controlling major shifts in our economy.

With a \$22-billions shift under consideration, it would be extremely dangerous to the health of the economy to attempt to decide in advance for one or two years, or longer, just what the magnitude of the net government contribution to aggregate demand is to be. Such a commitment would carry grave risks of allowing the country to run into difficulties of inflation on the one hand or unemployment on the other. Accordingly, one should not even attempt to lay out the precise magnitudes of the measures to be taken. One can only indicate alternative directions which policy might take in dealing with the problems and suggest an over-all strategy for selecting policies and then modifying them in the light of developments at monthly or quarterly intervals.

POLITICALLY ATTRACTIVE METHODS COULD PROVE DANGEROUS

One can indicate from the outset that some methods of handling a \$22-billions shift from military to civilian activity, while politically attractive, are almost sure to produce poor and possibly disastrous results. Looking at the climate in which such a shift is likely to be considered, one can think of groups eager to make the shift primarily an occasion for the expansion of government welfare, international aid, research, and other programs. Other groups might seize the occasion for tax reduction. Still other groups would clamor for reduction of the national debt. In the give and take of political compromise, a program might emerge, calling for, say, an \$8-billions increase in government civilian activities, \$7-billions worth of tax rate reduction, and projecting \$7-billions worth of public debt reduction—each on an annual basis.

The actual consequences of such a compromise might well be other than would be naively expected. A reduction of \$14 billions in the amount the government would be directly pumping into the income stream would be only partially offset by perhaps \$6-billions of increased consumer spending out of the \$7-billions of tax reduction.

In the face of this over-all reduction in final demand for goods, any major investment in new production facilities of the funds thus released by liquidation of government bonds, would be unlikely.

One could expect, as a result of such a policy, an immediate increase of at least 1% in the unemployed. If the tax and expenditure rates thus adopted were persisted in, the cumulative effect could well be the rise of unemployment to levels representing severe depression. The consequent reduction in tax revenues would mean a failure to realize the intended reduction in the national debt. A transfer of this magnitude from military to civilian activity cannot be managed satisfactorily on the basis of mere political compromise. A basically consistent policy must be worked out.

THERE IS A RANGE OF CHOICES FOR ACCOMPLISHING SHIFT

Such a shift can be managed in a number of ways without plunging the economy into a tailspin. It will require big thinking commensurate with the size of the problem. Even an \$8-billion increase in civilian government expenditure would mean, in terms of the federal government, a doubling of all direct non-military expenditures for goods and services.

Conceptually the simplest way of effectuating a transfer of resources from military to civilian use would be to expand government civilian programs at the same pace that military programs are reduced. This is possible, but would mean a tremendous expansion of government civilian activity. If considered in terms of federal civilian expenditures alone, it would mean more than trebling them. If considered in terms of the combined civilian expenditures of all governments—federal, state, and local—it would mean an increase of over 30 per cent. An attempt to channel such an increase through the various state and local agencies, even if largely financed by the federal government, would necessarily encounter serious delays.

One of the more attractive ways of applying the bulk of the resources released from military use would be to increase our civilian assistance to underdeveloped countries. Admittedly there are difficulties to be surmounted in doing this. On a technical economic level the problem of maintaining a balance in the flow of international payments is not an inconsiderable one (See Part 4).

The balance of payments would not represent a serious problem if the aid were to take the form of distributing materials from accumulated stockpiles. Essentially, however, such a release of stockpiled materials would have to be in addition to other transfers of resources, as such a release of itself

would not generate any income or purchasing power for new products. Thus such aid would not have the same employment-creating effect as the purchase of goods and services currently being produced.

ROLE OF BUSINESS AND INDUSTRY

It is not necessary to rely primarily upon big government to absorb effectively the resources released by a massive military spending cutback. Adequate stimulation of consumer demand through tax reduction can also do the job if carried out to the required extent. The difficulty is in rethinking the relationships involved so as to accept the budgetary consequences.

At one extreme the entire \$22 billions could be picked up by about a 6 per cent increase in personal consumption expenditures, but to induce personal consumption expenditures to expand by \$22 billions—say, from a \$350-billion level to a \$372-billion level—would probably require tax cuts in the neighborhood of \$25 to \$30 billions. In such a case, there would be no reduction in the national debt. Rather, there would be an increased deficit. Yet, this road is a feasible one, as would be various intermediate programs between these extremes.

Military resources can be transferred effectively to other purposes in a number of different ways. This will require imaginative policies of appropriate magnitude and free of mutually inconsistent goals. One may long for an economy with a low level of government expenditure, a balanced budget, a stable price level, and full employment, but with today's technology and today's demands for individual security, simultaneous achievement of all four of these objectives simply is not possible. Full employment with a reduced level of government activity cannot be had without either an increased deficit or an imminent threat to price stability. Full employment with a balanced budget and stable prices would require a greatly increased level of government activity.

There is of course no gold-plated guarantee that unforeseen and possibly serious economic problems may not arise in attempting a shift of this magnitude. The two most obvious threats are of course inflation and unemployment. While both of these are serious, it would be a mistake to regard them as threats of equal seriousness. Inflation is indeed theft, but unemployment is vandalism. Inflation indeed transfers unjustly a share of the economic pie from

TABLE I

ILLUSTRATIONS OF HOW FIRST-YEAR MILITARY BUDGET REDUCTIONS OF \$22 BILLIONS
COULD BE USED EFFECTIVELY TO CREATE ECONOMIC OPPORTUNITY

A Range of Private-Public-Responsibility Budgets for Using \$22 Billions
of Reduction in 1964 Military Budget in Terms of Areas of Deficiency in U. S. Economy

Class of Activity	Primarily Private Productive Initiative	Mixed Private and Government Productive Initiative	Primarily Government Productive Initiative
(In Billions of Dollars)			
<i>U. S. Domestic</i>			
Additional Private Expenditure*	15.0*	10.0*	4.0*
Education	1.5	2.0	4.0
Urban Renewal	1.6	3.0	4.0
Urban Transit	0.2	0.3	0.4
Public Health	0.3	0.7	1.0
Capital Investment in Human Resources (Poverty and Depressed Areas)	0.5	1.0	1.3
Water, Air, Soil and Other Resources Conservation	0.2	1.5	2.5
<i>Subtotals</i>	<i>19.3</i>	<i>18.5</i>	<i>17.2</i>
<i>World-Wide</i>			
Capital Investment in Human Resources	0.2	0.2	0.3
Bank for Economic Acceleration	2.0	2.0	2.0
Commodity Prices Support	—	0.1	0.2
Capital Repatriation**	—	0.2	0.3
Loans and Grants	0.5	1.0	2.0
<i>Subtotals</i>	<i>2.7</i>	<i>3.5</i>	<i>4.8</i>
<i>Totals</i>	<i>22.0</i>	<i>22.0</i>	<i>22.0</i>

*If these additions to private expenditure are to be induced by a tax cut, the cut will have to be larger than the induced spending; how much larger being partly conjectural, to be determined on the basis of experience.

**See Part 9 above, Section on "Programs should encourage local participation in investment."

creditors to debtors, but unemployment spills part of the pie on the floor. Inflation is still compatible with growth both at home and abroad; unemployment is a waste and a betrayal of our stewardship of the lion's share of the world's resources. Big government is of course also something of a threat to free institutions; yet the maintenance of a superficial prosperity on the basis of an extravagant and even dangerous level of military expenditure is the very worst kind of "big government."

ILLUSTRATIONS FOR FIRST-YEAR USE OF
\$22 BILLION TO CREATE ECONOMIC OPPORTUNITY

The figures shown in Table 1 give three alternative ways in which resources released by a \$22-billion cut in military expenditures could be applied to

productive civilian uses. These are illustrations only, and not in any sense recommendations.

It is to be noted that the figures given in the first row are the amounts that will be added to expenditures by the public as a result of the tax cut, and not the amount of the tax cut itself. The tax cut may have to be from ten to thirty per cent larger than this, particularly in the first year, to allow for that part of tax reduction that will fail to get put back into effective circulation through increased consumer expenditures or private investment. It is not, indeed, to be expected that much net additional private investment will result from the additional consumer expenditures, since to a considerable extent, such investment would be taking the place of the private investment formerly stimulated by mili-

tary expenditures. It is likely that the tax cut might have to be relatively higher in the first year of the transition than in subsequent years, in order to assure a prompt and reasonably smooth transition. In any case, freedom of action should be retained to permit an appropriate portion of the tax cut to be rescinded whenever it is no longer necessary to bolster consumer demand.

The figures illustrate that at one extreme it is possible to provide for almost the entire \$22-billion reduction in military expenditures to be reflected in an

immediate tax cut, and still leave room for the amounts that individuals will decide to save out of this tax cut to be borrowed by the government and invested in education and other resource-creating activities that will increase the productivity of the economy in future years, and enhance the heritage that we pass on to future generations. At the other extreme, it is not at all difficult to develop worthwhile government-sponsored projects that could absorb nearly the whole of the resources thus released. There is a wide range of choice.

11. OUR POLICIES SHAPE THE NEXT GENERATION

by BENJAMIN SPOCK, M.D.*

American children, recent studies show, are being made increasingly anxious by the cold war. Between 25 and 50 per cent of our children in U.S. schools today expect nuclear attack. The young ones worry most about being poisoned by fallout, about being separated from their parents in a disaster, about the maiming or death of their families and themselves. Adolescents speak with some bitterness about the uncertainty of their future, about the possibility of their giving birth to deformed children, about the futility of working hard at school.

Children have also been infected with an unhealthy suspiciousness. When a fifth-grade class, for example, was looking at a picture of the Russian countryside showing a tree-lined road and one child asked what the trees were for, others quickly suggested, "So the people won't know what's going on beyond the road" and "It's to make work for the prisoners."

Until very recent times America has been an outstandingly buoyant nation. We have imbued our children with optimism. We have brought them up believing that they would be able to cope with whatever life offered, and so they've usually succeeded. We've never restricted their vision with narrow traditions or cautions, so they have been extraordinarily creative. We have given them a natural trust in people and a trust in their own ability to deal with people. As a result, they've impressed the world with their self-assured friendliness.

Up to a few years ago, America's influence in the world was always on the ascendent. Whatever we've set our minds to—whether it was expanding our ex-

ports, helping to win wars, developing the atomic bomb, rehabilitating Europe with the Marshall plan—we've succeeded. But in recent years, we've run into repeated conflicts with the Communists and we have had to be satisfied with stalemates. In certain psychological aspects, we have reacted neurotically to these setbacks. Instead of calmly pursuing the course which would serve our long-time aims, we have often seemed obsessed with the fear of what the Communists would do to us.

To the degree that we adults become fearful and suspicious, we pass such attitudes on to our children. Specific studies have shown that when children are taught to fear others, it is always harmful to their personalities. Educated parents no longer try to control a youngster with threats of the bogeyman. If an adolescent boy is convinced that members of any group other than his own constitute a threat to him—physically, scholastically, socially, or economically, his assurance and ability to deal with people will be undermined, even though he believes he belongs to a stronger group.

The exaggerated fear of Communist nations that will be carried into adulthood by an increasing number of today's children will lower their optimism, their self-reliance, and their total effectiveness. Furthermore, this fear and its consequences could be played upon by an unstable leader, just as fear in Germany was exploited by Hitler, to push

* Professor of Child Development, Western Reserve University, Medical School; *Baby and Child Care*, Duell, Sloan and Pearce, Inc. and Pocketbooks Inc. (many editions); *Problems of Parents*, Houghton, Mifflin Co., Boston, 1962.

this country into war. The repercussions of fear of outside aggression could be extended disastrously into a wholesale mistrust of all one's fellow men, including one's neighbors.

We will continue to undermine our children's confidence unless we can substitute positive aims for passive fears and suspicions. Children respond to a challenge even more readily than we adults. The poverty, hunger, disease and injustice that have always plagued humanity—today as extreme as ever in many parts of the world—are no longer neces-

sary. We in America have the scientific knowledge and the enormous industrial power to begin to change the face of the earth now, if we should choose to do so. Such a course would compel the Communist nations to follow our lead. Such a course would give our children not only courage but a deepening sense of inspiration and dedication.

For data I am indebted to:

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B.S.

NOTES ON MILITARY STRATEGIES

SEYMOUR MELMAN

ALAN L. MADIAN

Conventional Military Assumptions

1. Addition to offensive capability increases military power (or deterrence).
2. Defensive systems can effectively protect sufficient numbers to insure an on-going society.
3. With plausible technological break-throughs the shores of the United States can be shielded against military assault.
4. With sufficient nuclear delivery capability, the military power of the USSR could be destroyed and the U. S. spared a counterblow.
5. A nuclear war would be composed of a series of nuclear weapons exchanges.
6. For military security a lead must be held in all relevant research and technology, together with a preponderance of military materiel.

Strategic Changes Due to Overkill Capability

1. Addition to offensive capability in the overkill range does not add to military power (or deterrence): overkill of 1000 is not greater than overkill of 100.
2. All defensive strategies and technologies can be saturated, overwhelmed or evaded by variety and quantity of offensive power. A 99% effective defense against overkill of more than 100 leaves overkill.
3. See proposition 2.
4. Hardened missile sites and submarine based missiles on both sides renders this strategy inoperative.
5. Major portions of military communication networks would be destroyed. Under stress of combat some military and civilian leaders could be expected to react independently, releasing the nuclear weapons at their command. (For example the Commander of a Polaris Submarine has control of 16 missiles carrying the equivalent of 8 megatons of TNT.)
6. This assumption is nullified by propositions 1 and 2 (above).

7. The total strength of our military system is maximized by improving the strength of each component.
8. We must be competent to cope with all military contingencies.
9. The United States must be prepared to absorb a nuclear first strike and have sufficient reserve power to strike back, punish the aggressor, and stop hostilities.
10. Preeminent military power is the decisive requirement for successful conduct of American foreign policy.
7. Our total military power cannot be defined as the sum of the parts. Sub-optimization—making a better warhead, a better anti-missile missile, a better vehicle—is the prevailing approach of the Department of Defense, despite its nullification by propositions 1 and 2 (above).
8. The United States is a wealthy society but not an infinitely wealthy society. For example, incomplete protection from fallout, which could cost 50 to 300 billion dollars, can only be gained at the expense of generating economic weakness which in turn weakens the security of the United States.
9. In 1960, Dr. Jerome Wiesner advised that studies by the U.S. Army and Navy indicated that two hundred secured missiles would be an adequate deterrent. We now possess 940 such missiles. The assumption that we need additional weapons to destroy Soviet missiles and allied weapons overlooks the relatively small Soviet delivery capability (and the relatively invulnerable Soviet Polaris-type submarines). The Soviets would have to use their entire strength in a first blow in order to minimize the power of the counter-attack. Our counter-attack on military targets would be on empty holes.
10. When potential opponents each possess more than 100 times overkill, neither can be preeminent. Over 600 million Chinese went under Communist rule while the West had a nuclear monopoly. Industrial-economic power is crucial for shaping the social and political systems of developing nations.

PRESENT ASSUMPTIONS ABOUT THE MILITARY ECONOMY

Present Assumptions

1. As our economy enlarges its military research and production for ourselves and our allies, we stimulate our domestic economy and remove the drain on our gold reserves.
2. The recent and recommended scale of military spending does not undermine the traditional features of the American economic system.

Present Conditions

1. Military production is inhibiting investment in the civilian economy; military expenditures abroad have converted our favorable balance of trade into an unfavorable balance of payments, which results in a drain on our gold reserve and jeopardizes the value of the dollar. Military research and production has preempted two-thirds of our engineering and scientific personnel.
2. The Department of Defense has imposed restraints and increasingly detailed regulation upon industrial contractors who produce over 20% of all manufactures.

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