In the U.S. Economy, the Root of All Evil Is War

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Unemployment, Inflation Grow With Military Budgets

The twin plagues of unemployment and inflation that confound today's economists could well become a permanent part of the American economic landscape.

Both forces, which were presumed to be mutually exclusive, are in fact rooted in the same all-pervasive war economy that has dominated American industry and productivity for 30 years. And both forces, resistant to all traditional solutions, will continue to sap the diminishing strength of the American economy so long as military spending continues to rise and eclipse the consumer sector.

The conventional wisdom—that military spending stimulates the economy and provides greater employment—has been put to the test in recent years by various studies that have concluded just the opposite. Pentagon dollars, which now represent over 50% of our national budget, actually drive consumer prices relentlessly upward, cause industries to become less competitive and cost American workers millions of jobs.

For more than a century, one of the main strengths of American industry was its ability to offset cost increases by redesigning products and production technology. The result was improved productivity. American firms could pay their workers two to three times more than workers in other industrialized nations, and still produce high-quality goods at competitive prices.

But this capability to offset cost increases has diminished drastically, as the lion's share of American capital and technology has been channeled to the military.

For more than 25 years, the Pentagon has received three-quarters of the research and development money provided by the federal government. It has been given more capital each year than was left to the managements of all corporations after paying taxes.

As a result, the growth rate in American manufacturing industries plummeted to record lows by the mid-1960s. In 1965, the national productivity growth rate had slipped to 2.1%. By 1975 it was down to 1.8%, the lowest rate ever recorded in the U.S.

At the same time, productivity was increasing in other industrialized countries at a much faster pace. France, Italy, Germany, Belgium, Sweden, Switzerland, Japan, the Netherlands, Canada and even financially troubled Great Britain had much higher growth rates.

Another major cause of inflation is inefficiency promoted by the Pentagon, which is the major customer for more than 20,000 industrial firms that, in turn, employ another 100,000 firms as subcontractors. Unlike firms making products for civilian customers, these military-related companies do not seek to keep costs down. They make more money by maximizing costs and passing them on to the military as "cost overruns."

In effect, the government subsidizes these firms to operate inefficiently. The special managerial, engineering and internal practices demanded of them by the Pentagon also drive up costs. For instance, in 1972, U.S. manufacturing firms averaged 42 administrative workers for every 100 production workers. But in the main Pentagon-related industries the ratio was 69 administrators per 100 production workers.

This process also affects civilian industry, because defense contractors are among the largest firms in this country, and most, if not all, have civilian divisions. Invariably, the same administrative and production practices prescribed by their major customer—the Pentagon—are adopted by the civilian divisions of these companies.

Adding to the inflationary pressures has been our large-scale overseas military spending in support of wars and the more than 300 U.S. bases on foreign soil. These expenditures have resulted in a negative trade balance, meaning we spend more outside the United States than we take in by selling our goods to other countries.

In an attempt to offset this huge trade deficit, the government began selling large amounts of grain and military equipment to foreign countries in the early 1970s. The 1971 grain sale to the Soviet Union brought badly needed dollars into the U.S. treasury and helped offset our trade deficit, but it also drove up grain prices in this country.

In addition, the people who produce these military products and services are paid in dollars which they use to purchase consumer and other goods. This results in greater inflationary pressures, since these people do not contribute to the supply of consumer goods, only to the demand.

Between 1946 and 1976, the United States spent $1.6 trillion for economically non-productive military goods and services. This has generated constant upward pressure on prices and seriously weakened our economic base.

Heavy military spending also contributes directly to our high unemployment rate. The diversion of capital and research and development funds to the military has caused our industries to fall behind those of other nations in product design, production methods and productivity.

When we import goods because they can be produced better and cheaper abroad, we further reduce job opportunities in this country. The number of jobs lost because of our growing reliance on imported goods increased dramatically between 1964—the year before the escalation in Vietnam—and 1972, the last full year of direct American involvement.

Even the devaluation of the dollar in 1972, which made American labor less expensive in relation to foreign labor, did not halt this trend.

The situation is further aggravated by the fact that our industrial machinery is aging and not being renewed rapidly enough. In Oct. 1973, American Machinist Magazine reported that 67% of the machine tools in use in American industry were at least 10 years old.

Thus, the United States has the oldest stock of metal-working machinery in any industrialized economy. Older machinery yields a lower rate of productivity, gives industry less opportunity to offset cost increases and gradually makes it less price competitive.

For all these reasons, investors looking for money-making opportunities discovered that civilian economic growth proceeds more rapidly in countries that do not have war economies.

There are several other serious aspects to the economic picture. During the 1960s, Americans invested $47 billion abroad, resulting in the transfer of between 3 and 4 million jobs to foreign countries—leaving U.S. workers further disadvantaged.

Moreover, it is known that military spending generates far less employment than does money invested in civilian industry. Dr. Roger Bezdek, a Department of Energy economist, estimates that $1 billion spent on the B-1 bomber would create about 58,000 related jobs.

But that same $1 billion spent on law enforcement would create 75,000 jobs. If it were spent on sanitation, it would yield 78,000 jobs; on mass transit, 83,000 jobs; on conservation, 88,000 jobs; and on education, 118,000 jobs.

Thus, when we overemphasize military spending in our national budget we forego the creation of new jobs. Analysts estimate that between 1968 and 1972, the nation lost an average of 844,000 jobs each year because of its excessive military spending.

This, combined with the jobs lost because of American capital invested abroad, and the growing noncompetitiveness of our industry, brings the total effect of sustained heavy military spending on our economy to between 7 and 9 million lost jobs.

If we continue to produce economically nonproductive military goods and services at record rates, our economic problems can only get worse. The alternative is to transfer about 40% of our huge outlays for the military into areas like transportation, the planned conservation and development of our natural resources, environmental quality control, improved health services, education, economic development, law enforcement and urban development.

Such a transfer can be achieved without an appreciable effect on the ability of American military forces to meet their commitments. In addition, investment redistribution would serve to strengthen U.S. security by increasing our output of economically productive goods and services, by reducing unemployment and by stemming the rising tide of inflation that today has become a serious threat to the entire Western world.

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