

# The 'Key Log' in America's Economic Logjam

By Seymour Melman

**A** logjam that stunts the downriver flow of logs is a recurring problem in logging. The logger's task is to discover the key log, whose extraction unlocks the jam. Similarly, a tangle of short- and long-term problems incapacitates our economy.

They include vast trade and budget deficits, the dollar's falling and unpredictable value, low rates of growth in productivity, the exportation of capital and jobs, a decayed infrastructure, and the growth of poverty, homelessness and mass hunger. How did the economy get into this logjam?

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This year is no replay of 1929. The central factor now is incompetence in production, and the prime cause of this is the 40-year military-economy extravaganza. It has pre-empted huge quantities of capital resources, turned out economically useless products and installed a counterproductive decision-making process in industry.

America's cumulative economic crisis cannot be exclusively attributed to the military system. Other factors play a part: managerial short-term thinking, the myth of a "service" economy in which production is by definition unimportant, and the exporting of capital instead of modernizing factories. Nonetheless, military spending is the "key log."

Ours was once a first-rate industrial economy, pre-eminent worldwide as a producer of real wealth. First-rate meant paying top wages and offsetting them, by efficiency at

work and by managers seeking out new technologies. All this was supported by a stable currency and a good infrastructure, and delivered a rising level of living.

From 1950 to 1970, growth in manufacturing productivity averaged 4.3 percent per year, but from 1970 to 1984 it averaged only 1.4 percent. This drop was caused by a transformation in two core elements needed for a high rate of growth in productivity.

First, cost minimizing must be the dominant rule in industry. Together with improved efficiency, it results in greater profit, reduced prices or both. Under cost minimizing, wages grow more rapidly than prices of machinery and products. That encourages mechanization and thereby furthers the productivity of labor and capital.

Second, high productivity requires sufficient resources like machinery and technical skills. Since the war, the Pentagon has pre-empted nearly twice the resources needed to repair our industry and infrastructure.

Cost minimizing has been replaced by cost maximizing, notably by military contractors. Maximizing involves indifference to cost and to efficiency. That is why Pentagon "procurement reform" plans never succeed. Some 35,000 industrial establishments are prime contractors to the Defense Department; in addition, there are more than 100,000 subcontractors. All are on a cost escalator.

America's first-rate economy began to unravel in the 1960's. By 1980, our industrial workers' hourly earnings ranked eighth worldwide. During the 70's, their hourly earnings grew by 72 percent, but prices of new machine tools rose 85 percent. Consequently, sales of new machinery fell off, and by 1978 our factories con-

tained the oldest stock of metalworking machines of any industrialized country. By the 80's, as the main conditions for possessing a first-rate industrial economy were checkmated, America dropped to second-rate industrial status.

The emphasis on military instead of civilian industrial and research expenditures has led to our dilapidated industries and infrastructure. Reducing the military burden would cut the Federal deficit, ease borrowing and spur cost minimizing and productivity — resulting in more competi-

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## Blame military spending.

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tence in production. Less dependence on imports would cut the outflow of dollars and raise their value.

Is the military "key log" a necessary evil? Consider the strategic nuclear forces: 11,786 warheads on planes, missiles and submarines with intercontinental capabilities, reaching about 220 urban-industrial centers of the Soviet Union. American military forces can destroy those places more than 50 times over. This pointless capacity reflects an assumption that our real wealth is unlimited, that it is possible endlessly to produce overkill junk without injuring the rest of the economy.

Let us reduce our strategic nuclear force by 75 percent. That amounts to a saving of \$54.6 billion for 1988, leav-

ing in place an overkill capability of 12 times while making possible a sizable, meaningful reduction in the Federal deficit.

For the first time since the war, parts of the American and Soviet governing elites agree on the need for military cuts in order to cope with domestic economic problems. Thus, a negotiated reversal of the arms race with large cuts by Ronald Reagan and Mikhail S. Gorbachev is now discussable and perhaps feasible. Such a reversal would require a capability for eventually converting as much as \$295 billion in annual activity from military to civilian purposes. The necessary planning for economic conversion is defined by a 1987 bill sponsored by Representative Ted Weiss, Democrat of New York, and 50 more House members.

It would set in motion a decentralized process emphasizing local responsibility and authority for using the people and facilities of factories, laboratories and bases that now serve the military for civilian work instead. City, state and Federal governments would be marshaled to plan the capital investments needed to upgrade the decayed infrastructure. This would portend large new markets and work opportunities.

If the economy's "key log" is not extricated, the logjam will grow and become progressively less manageable, and our economy will become third-rate. We will lack resources to repair even key industries and will suffer a declining level of living. Then, as in a nonindustrialized country, teams of workers, technicians and managers would have to be sent abroad to acquire needed skills, or foreigners would have to send in staffs to train the natives. □