

Economic Conversion and Jobs

Is it really possible?

-- Sheldon C. Plotkin, James C. Warf, Bennett
Ramberg, Jr., John Bachar, and Al Yano.

Introduction

In this study we examine the question of whether the ongoing and troubling conversion and jobs problems of our society have an acceptable solution within our present economic system. Sweezy (Ref. 1) argues that the present market system cannot possibly solve the basic long term economic problems of the society. However, there is nothing wrong with trying to initiate modest economic modifications that will ease some of the misery presently prevailing throughout the country during the interim period prior to establishing a true democratic socialist system. It is in this light that the following economic conversion and jobs programs are being presented.

Conversion from a military production economy to a civilian economy has been talked about since the end of WW II. The argument used for not making the change was the alleged military threat from the Soviet Union. Given the waste of human talent and national resources of the military programs over the past forty plus years, the needed economic conversion of the nations economy is long overdue. Presumably, now that the Cold War has ended, the need for economic conversion will now be recognized by the majority of the country, and a real program might begin shortly. One can argue just exactly how much the political right does not agree, but that point is not worth considering here. What is of crucial importance is exactly how the economy should be converted, given the large fraction of that economy currently dependent on military spending.

In anticipation of the outcome of this analysis, it needs to be kept in mind that conversion will undoubtedly necessitate a certain amount of unemployment for the present military system workers because many of the converted jobs will be taken by people presently unemployed. In order to accommodate those put out of work in the conversion process, a jobs program will be required. Of course, providing work for only unemployed military workers is unacceptable, so a jobs program needs implementation for the entire labor force

It is noted that while the debt situation is not particularly good, ie the paying of about 15% of the federal budget for debt interest, it is far less a burden than the unemployment, homelessness, and illness created by present economic conditions. MR editors pointed out some months ago (Ref. 2) that the only solution to debt reduction that won't have negative economic repercussions on the society is the institution of a wealth tax. While there is no argument from us that this is the best solution, the point of view here is that only when the economy has been transformed to a reasonably healthy condition should we even begin to consider the debt problem, i.e. the taking of money out of the normal federal income to pay off the debt as the Clinton administration has indicated it desires.

There also must be no illusions regarding the practical aspect of what is being proposed here. It is clear that there can never be any real solutions to the US economic problems within the present political structure dominated by the wealthiest group in the country. However, as has been demonstrated in the past, there is a dynamic quality to the US society that triggers

substantial revolts at times, e.g. income tax initiation, New Deal programs, Social Security, etc. It seems clear that such dynamic forces might possibly develop, so the proposed programs here might well see the “light of day” in the not too distant future. Thus existing impediments for initiation of the following proposed economic conversion and jobs programs are fully recognized.

Economic Conversion

Of the abundance of material written on economic conversion much refers to job training and employment transfer assistance programs. The fact of the matter, without going into detail, is that the economy cannot be converted by retraining people for jobs that only exist in the policy makers mind’s eye. Another minuscule effort is the finding of a few military projects that have some nonmilitary application, but these cannot possibly provide the jobs needed for conversion. Because the required jobs switch is huge, perhaps four million or so, a very large conversion program is required. One question here is exactly how large the program should be and exactly how can it be established with adequate size, ease, and timeliness.

The conversion efforts of Seymour Melman (Ref. 3) and the late Congressman Ted Weiss from New York resulted in the submission of the Weiss Bills for Economic Conversion over a period of many years. The key feature of these bills was the establishing of an “alternate use committee” in every company of more than one hundred employees receiving military funding. These committees, in fact, were to actually develop precise blueprints on how the company would be converted if the military contract was either canceled or not renewed. This approach seemed generally acceptable to the peace community for all those years with hardly any analytical thought being given to the concept. In fact, an attempt was once made by a local of the United Auto Workers, the Center for Economic Conversion, and the Southern California Federation of Scientists to specify uses for the McDonnell Douglas idle aircraft plant facilities in Long Beach, California, the purpose being to employ laid off union workers.

It became quite obvious during the course of this effort that “alternate use committees” were nonsense. People in one military-supported plant cannot possibly plan for that plant's future without detailed knowledge of what government funding will be available and what plans there are for all the other military-supported companies. The one major example of “alternate use committee” efforts was the Lucas Aerospace workers in England (Ref. 4, Chap. 4). Of the multitude of possible products (150 in total) which could be manufactured under conversion, there was one product or “big ticket item” that was to employ about 80% of the Lucas workers. That one product was a hybrid automobile, i. e. a combination of electric and gasoline energy sources, which would be a transition vehicle prior to the wide spread use of electric cars in the future. Unfortunately, the Lucas workers did not perform an engineering analysis which only takes a few minutes by an engineer acquainted with the fundamentals. Results would have shown the Lucas worker-planners that this hybrid vehicle was not a viable engineering/economic project, i. e. it would not serve a need and could not possibly be sold in any quantity to the general public. Additionally, something the Lucas workers never knew was that a corporate officer at TRW in Redondo Beach, California had the same idea at the same time and actually pursued the concept with corporate funding through the initial planning stages before realizing the idea was unsound.

One conclusion here is that profitable new products are very difficult to determine in general and cannot be initiated with confidence without knowledge far beyond that available within any one particular company. In other words, the gross planning for economic conversion cannot be performed adequately at a local level but must be done at a high government level, probably national. It is only the implementation of projects that should be carried out by the workers at the local level. In fact, much experience has shown that workers have to do the implementation planning in order to make certain the fabrication of products or the development programs are carried out properly. The Weiss Bills, while a noble effort, were basically unsound,

the major aspect being that overall economic planning at the federal level is an absolute necessity for any major change in economic activity and a jobs program was required to get worker support for conversion. There are numerous examples for this, e. g. US military conversion for WW II and the Japanese economic development since WW II. Changes affecting the entire country have to be planned at the national level and it is best that workers determine how to actually do the work.

Such overall planning at the national level requires the use of experts with proven experience in such matters plus an organizational structure that provides safeguards assuring the highest attainable quality of planning. Although the behavior of senior government policy makers very often is a serious problem, they do actually perform in an appropriate manner on occasion and can certainly do so more often with active grassroots oversight. The problem for us then is how do we provide overall national planning with local implementation? Fortunately the answer to this question is much easier to come by than anticipated (Ref. 5).

All that is necessary is to simply use the present federal contracting procedures, whereby each government department releases RFPs (Requests For Proposals) for specified programs as well as consider unsolicited proposals within their areas of responsibility and budget. These agencies have always had programs they believe to be worthwhile and would like to carry out but have not had the supporting funds necessary to implement those extra projects. The local implementation is automatically accounted for in this normal government agency RFP process, because the proposals are generated locally. All that is necessary to accomplish our economic conversion goals then is to simply transfer the money from the Department of Defense (DOD) budget and the nuclear bomb development part of the Department of Energy (DOE) budget to other government agencies, e. g. National Institute of Health, National Science Foundation, non-nuclear part of DOE, Department of Transportation, Health, Education & Welfare, Department of Commerce, and other government entities. The point to be emphasized here is that the total amount of money spent by the federal government must be the same after conversion as before to maintain economic stability, the converted projects being work that the society needs anyway.

A reasonable size for the US military/industrial establishment would be dictated by the goal of merely defending the US, and this can easily be done by such an establishment one-third its present size (Ref. 6). As to the question of how quickly such conversion can be done, the transference of 10% of DOD's funds per year for ten years or 20% per year for five years would yield a military establishment one-third the present size at the end of the ten or five year period, respectively. Such a slow transition minimizes dislocations and inconveniences, while simultaneously accomplishing the goal of converting the economy from military to non-military in a feasible and straightforward manner.

Of concern next is how many jobs will be provided in the conversion, ie can we expect to re-employ not only all those whose military related jobs are eliminated but also a significant fraction of those presently unemployed? An analysis of the present military funding procedures discussed below as well as other studies reveals that one can expect a 50% to 100% increase in the total number of funded jobs after conversion (Ref. 7) plus details below. At present the total number of people supported by military expenditures is about six million (Ref. 8). The reduction of military and military-supported personnel will be about four million with an increase in nonmilitary related employment of at least six million, assuming a 50% increase for the total number of nonmilitary jobs. A major realistic point here is that many of the six million re-employed will be people who were previously unemployed, and many of the previous military-supported workers would become unemployed in the conversion process. Because it is necessary to initiate a jobs program for these previous military workers that are now unemployed, it is then required to provide a jobs program for everyone. Needless to say, the country needs such a

program anyway regardless of the economic conversion requirements, so the goal of employment for all need not be belabored further, recognizing in passing that a multitude of interrelated social problems must be addressed in the process.

Jobs Program

When considering a jobs program, the initial question is how many added jobs will result from the economic-conversion efforts and, therefore, how large must a jobs program actually be. It was pointed out above that a 50% to 100% increase can be expected but the rationale was left for this section. A prevalent error made in economic conversion circles in the past has been that of taking military contract dollars and dividing by the number of people to be employed by the program in order to obtain the dollars per job. This usually comes out to be between \$200K and \$250K per job which indicates erroneously that if the economy could be converted, at least a factor of five to ten times increase in the number of jobs could be obtained at \$20K to \$50K per job. This analysis is in error because the "indirect" expenses being paid out of the military contracts are not taken into account. By including the overhead personnel (secretaries, corporate executives, supervisors, personnel department, contracting department, reproduction facilities, security guards, etc), rent, phones, in-house Research & Development, contingency funds, operating expenses, and the usual 8% profit, the final number of extra jobs that one can expect from economic conversion will be only two fold at most and probably something more like one and a half times. This job increase basically reflects lower salaries for converted jobs, eg. \$35K to \$40K per year rather than the \$60K to \$70K per year average at present for military workers. The economic conversion conclusion here of 50% to 100% increase in the number of jobs is identical to that from Ref. 7, although the basic analyses are entirely different.

Referring back to our specified two-thirds reduction of the military from six million people to about two million (Ref. 8), the number of new jobs would be about six million, i. e. 150% of four million, with expectations that a large fraction of the four million converted military workers would be re-employed in the converted projects. An increase in two million to four million jobs in the process, while certainly not to be held in disdain, hardly approaches the levels actually required in the present economy. Additionally, transferring some people into the unemployed ranks while transferring others out is hardly acceptable, because it is not a solution.

Thus at this point in the analysis we need to know how many jobs are really required, postponing till later exactly what we mean by the term "job," i.e. what people are going to do for pay. The official 1993 number of approximately 7% with a working force of 120M is much too low. One must factor in an estimate for how much larger the unemployment ranks really are by including those who have actually given up, all those on welfare, and those working involuntarily on only a part time basis. A final number is much more likely to be 15M to 16M (Ref. 9 and Fig. 1), of which about 2M to 3M will be paid for out of the economic conversion programs. Additionally, there will generally be about 2M to 3M people in transition between jobs at any one time. Thus the final number of jobs required from a WPA-type jobs program, referring to the Works Progress Administration program of the 1930s, will be about 10M in addition to those extra jobs provided in the economic conversion process.

Salaries for these jobs will vary depending upon the job and the personal needs, e.g. a single person might be paid a lesser amount as compared with another supporting a family who might warrant a higher salary. Regardless of such details, the point for this study is that an approximate overall average salary for living adequately under present economic conditions would be about \$30K per job. The results are, therefore, a total jobs program of \$300B is

required besides the economic conversion program specified above, the basic problem now being to specify the source of this amount of money.

At the outset, we note that the total \$300B does not have to be raised, because of the economic multiplier effect which was first postulated by Kahn in 1931 (Ref. 10) and used by Keynes in 1936 (Ref. 11). Each worker making \$30K pays about 20% in federal income tax, leaving an amount, "x", after savings of perhaps 60% to 75% to be spent. Then of that 60% to 75% perhaps 20% will also be paid back to the government in personal income taxes with 60% to 75% of the remainder spent again etc. Taking the sum of the infinite series $[1/(1-x)]$ in this specific example, i. e. the overall multiplication factor, the result is a factor between 2.5 and 4.0. What this implies is that 50% to 80% of the \$300B being spent by the federal government for a jobs program actually comes back to the government in due course. Keynes himself used a multiplication factor of 4.0 many years ago (Ref. 11) and a value of 3.5 was specified in Ref. 7 (p 48) from a recent Los Angeles study. The number we need here is only an approximate value because a firm number can only be determined after implementation of the program. Using a value of 3.0 seems reasonable, and under this assumption approximately 60% of the jobs program dollar outlay actually returns to the federal coffers, with only about 40% left to be "invested" by the federal government in the massive WPA-type jobs program which actually revitalizes the economy in the process. The government agency RFP-type work management process specified above could also be used here as part of the WPA-type jobs program, but the money "invested" has to be in addition to that required for economic conversion. Thus for a \$300B jobs program, only about \$120B will actually have to be raised in the overall picture, the question then being what the source of that money could possibly be.

Funding

Utilizing the basic Watergate analysis philosophy of "following the money," increasing federal income revenue means looking closely at where the large caches of money are in the US -- namely wealthy people and large corporations. Initially it seems obvious that raising the corporation profit tax from the present 34% to the old pre-Reagan/Bush value of 50%, which was in effect since the mid thirties will raise about \$50B (Ref. 12). So far so good; \$50B down and only about \$70B to go.

Next we look at what the wealthiest 1% of the population have actually paid in federal income taxes during the Reagan/Bush era, i. e. people having a taxable income of over \$600K per year (Fig. 2). We see that in 1991 this group saved \$84B as compared with 1977 using the pre-Reagan/Bush income tax percentages (Fig. 3). The authors, using Refs. 12 and 13, made a "ballpark" calculation which resulted in an indicated federal income tax savings for the wealthiest 1% of \$90B comparing 1981 with 1991. The average tax savings apply to the super-rich group as a whole so an increase in income tax revenue for a jobs program could certainly be made progressive with the more wealthy of this wealthiest 1% group paying a higher tax rate. Considerations here are not to increase this groups taxes but merely require that they pay what used to be considered their fair share. The additional \$84B (or \$90B) so acquired is somewhat larger than our goal of \$70B. Obviously, the money needed to fund a WPA-type jobs program to provide full employment and revive the country's economic health by means of increasing consumer demand or purchasing power is readily available. In addition to the increased federal income from the super-wealthy, there is also the saving from elimination of the Aid to Families with Dependent Children, relief and unemployment programs which was at least \$15B in 1990 (Ref. 14). Needless to say, additional sources include reasonable estate or inheritance taxes and/or a wealth tax on interest or unearned income.

As for the possible need for capital to increase production facilities because of an increase in consumer demand, any such new capitalization required would only be after the idle plant facilities had been placed back in production. Any new capital needed should be readily available from present surplus capital that now has difficulty being invested in profitable ventures. Anticipating that at some point in the future many of the directly useful projects will have been completed (Ref. 15), there is then the requirement of what work the then-surplus workers will perform. We thus have to address exactly what our definition of the word "job" is going to be.

Job Definition

After the country has established a viable transportation system serving the urban areas and the entire country, has built all the housing, schools and hospitals required, has reestablished adequate urban infrastructure, and has automated most assembly line production facilities, (Ref. 15), etc, there is the possibility that much needed "work" in the traditional sense will have been done. It may be that we do not need all the engineers and scientists used by the military to provide the basic technical goods and services required for a satisfactory country-wide standard of living, although there is no limit to the useful research & development efforts these scientists and engineers can be engaged in. In the meantime, we have many potential educators and artists performing mundane service tasks today that can easily be eliminated tomorrow if we choose to do so, utilizing these talented people to enhance the general culture. Reviewing the types of efforts funded under WPA during the 1930s provides the realization that the term "work" can be broadened quite effectively.

WPA-type "jobs" during the 30s included support for the compilation of many mathematical tables, the performance of public concerts, the painting of murals on public edifices, Civilian Conservation Corps work, enhanced educational programs at elementary and secondary schools, and the creation of many construction programs, to name some examples. Needless to say, the support for cultural activities can certainly be considered "jobs" for the people so employed because the activity enhances the quality of life for the society as a whole. Such things as child care facilities in the work place as well as outside the workplace near homes or at shopping malls provides useful employment dedicated to taking care of children. There's also nothing wrong with paying parents to raise their children, for who's to deny that this is very hard and essential work much of the time? The point to be made is that the term "jobs" needs to be used in the broadest sense. Services and cultural activities traditionally not considered to be work ought to be included. It seems clear that an increase in the workforce would bring jobs to many women and minority people now unemployed.

Another type of activity that is not generally considered a job in the traditional sense is that of being a student. We all know that if a student does his/her work properly, a great deal of time and effort is required. A prevailing view adopted in some other societies, basic to our philosophy for public schools, is that all education of the people adds to the general welfare and, therefore, should be supported by the society as a whole by means of the government. Sending some of the unemployed to school for compensatory education because of past deficiencies or for advanced degrees benefits the entire nation. Such student support entails not only the institutional costs but also the personal living expenses as well. Perhaps our experience here in the US with the GI Bill program after WW II provides an understanding of the significant impact the education of our people can have on the country as a whole. In fact, a prevalent viewpoint is that all education should be 100% supported by public funding in the context of the proposed programs here.

Basic Obstacles

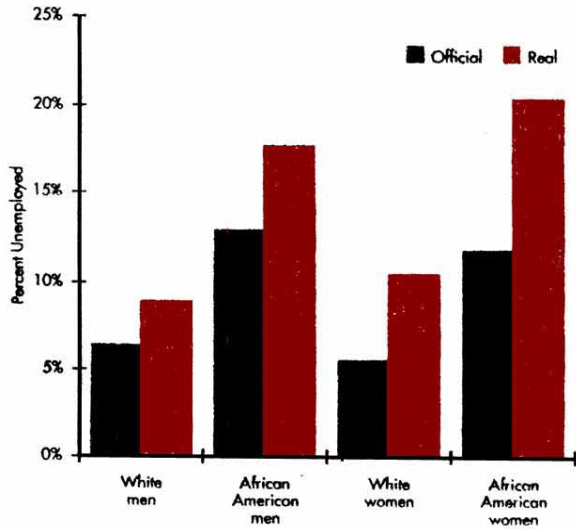
It can be argued quite effectively that the fundamental human problem for humans is overpopulation of the planet. It is also a fact that in terms of squandering natural resources, US citizens are by far the worst because they consume about one-third of the total resources, whereas they only number about 6% of the world's population. So it is most important that the US population reduce its wasteful use of natural resources. The present trend toward zero growth, conservation, and more responsible environmental behavior may eventually provide for the necessary population reduction. In the meantime the solution of the economic problems dealt with above is necessary regardless of any progress in population control.

In view of the fundamental thrust of the proposals above, namely a shift in wealth in large measure from the super-rich to the unemployed, the reaction of the wealthy section of our society must be confronted. We all saw what happened when President Clinton tried to institute a minuscule \$16B jobs program when in reality the real need was for a program of \$300B magnitude. Obviously, the super-rich will fight by whatever means they have at their disposal, especially their inordinate influence over legislators. Nothing, therefore, can be expected to really happen in a practical sense until the stranglehold the rich have over elected officials is broken. Simply by funding short political campaigns from public funds, by highly publicizing the issues and candidate positions through the media, and by precluding any private contributions to any political campaign will do an enormous amount to breaking the stranglehold held by the super rich. All we have to do is do it.

References

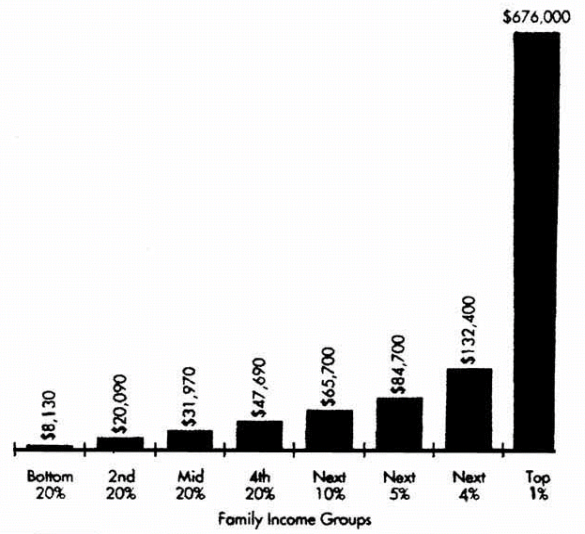
1. Sweezy, Paul M, "Socialism: Legacy and Renewal," Monthly Review, Vol. 44, No. 8, pp 1-9, January, 1993.
2. Sweezy, P. M. and Magdoff, H., "Notes from the Editors," Monthly Review, Vol. 44, No. 9, February, 1993.
3. Melman, Seymour, The Demilitarized Society, Harvest House, Montreal, 1988.
4. Cooley, Mike, Architect or Bee?, South End Press, Boston, 1980.
5. Williams, Theodore, personal communication, (Mr Williams is the CEO of Bell Industries whose corporate offices are in Los Angeles and is also a member of the Southern California Federation of Scientists).
6. Center for Defense Information, The Defense Monitor, Vol. XXI, No 4, 1992.
7. Institute of Electrical and Electronic Engineers, "Conversion Special Issue," Spectrum, December, 1992.
8. Wiesner, James B. et al., "Ending Overkill," Bulletin of Atomic Scientists, p. 23, March, 1993.
9. Amott, Terisa, Caught in the Crisis, Women and the US. Economy Today, Cornerstone Books, Monthly Review Press, 1993.
10. Kahn, R., Selected Essays on Employment and Growth, Cambridge University Press, Cambridge, 1972.
11. Keynes, J. M., The General Theory of Employment, Interest and Money, Macmillan, London, 1936.
12. The 1992 Information Please Almanac, Houghton Mifflin Company, Boston.
13. The 1982 Information Please Almanac, Houghton Mifflin Company, Boston.
14. 1992 Statistical Abstracts of the U.S.
15. Gorz, Andre, Farewell to the Working Class, South End Press, Boston, 1982.

Figure 1 *
Official Unemployment and Real Underemployment Rates by Race-Ethnicity and Sex, 1991



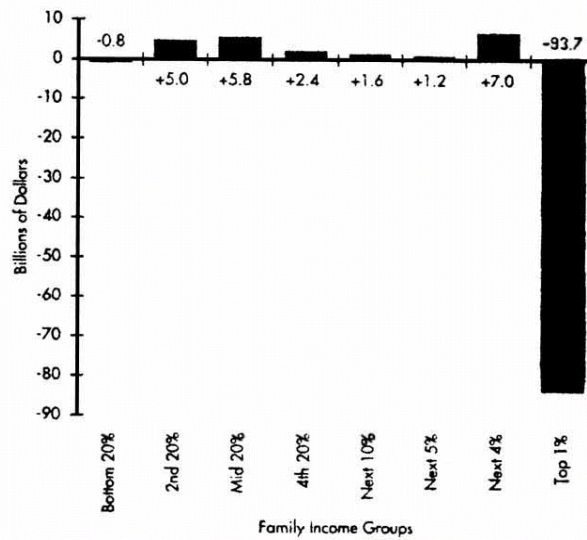
* Reprinted from Ref. 9 (Fig. 3-4)

Figure 2 **
Average Income for Family Income Groups, 1992



** Reprinted from Ref. 9 (Fig. 2-4)
 Values in 1992 dollars.

Figure 3 ***
Changes in Tax Payments Since 1977 (in billions of dollars)



*** Reprinted from Ref. 9 (Fig. 2-3)
 The original source is dated 1991, meaning 1991 tax payments versus 1977 tax payments and not cumulative values.