

CAPITALISM AND THE MILITARY-INDUSTRIAL
COMPLEX: A COMMENT*

The recent article by Michael Reich and David Finkelhor on the military budget and the obstacles to conversion¹ is a sobering relief from the sanguine discussions about "reordering priorities after Vietnam" which have been so prevalent of late. Reich and Finkelhor point out, for example, that "the military sector is not an enclave....As the study of input-output economics has revealed, the structure of American industry is highly interdependent. Focusing only on the prime contractors is like looking at only the visible part of an iceberg. This is only the direct impact of the military budget; the indirect impact on subcontractors, on producers of intermediate goods and parts, and on suppliers of raw materials ties military spending into the heart of the economy."² The authors also describe how the concentration of military research and procurement contracts leads to industrial monopolization and how the occupational composition of military-related employment contributes to personal income inequality.³

The heart of the Reich and Finkelhor essay, however, is the contention that "military spending was the American system's only workable solution to the dangerous and profound crisis created by the Depression of the 1930's. No other solution is available which could adequately stem an inherent tendency towards economic crisis."⁴ It is argued that "an adequate substitute for the role military spending presently plays with respect to the economy would have to be equivalent in magnitude and expandability. But the social welfare spending alternatives proposed by many liberals are not an acceptable and expandable alternative. Such spending is neither economically feasible nor politically possible. It disrupts work incentives, profitability in the private sector, and...the existing structure of privilege, thus mobilizing the opposition of powerful vested interests."⁵ They also contended that, on the other hand, a massive and growing military budget can forestall economic stagnation without compromising the private economic interests of American capitalists. "First, a convenient rationalization of the need for massive armaments expenditures exists (i.e. militant anti-communism)...Second, armaments are rapidly consumed or become obsolete very quickly...Third, the kind of machinery required for armament production is highly specific to particular armaments. So each time a new weapon is needed or a new process created...extensive retooling at very great new outlays is required. Fourth, there is no generally-agreed-upon yardstick for measuring how much defense we have."⁶

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This line of argument by Reich and Finkelhor suffers from two substantive defects: one is an error of omission, the other of commission. The oversight is their inadequate analysis of the political economic dynamic which has led to the militarization of American society since 1939. In other words, they attempt to understand the current structure of the American economy without having analyzed the historical process which generated it. Admittedly, they do note and then discard those liberal analyses of the growth of the military budget which "lay the blame... (on) a scheming set of restless militarists in the Pentagon combined with a few large military contractors and... some 'neanderthal' congressmen...."⁷

It is not sufficient, however, to argue that "militarism was not the creation of simple conspiracy or subversion of the normal institutions (of American liberal democracy)."⁸ Even if one assumes that the American economy is depression-prone, one still has to explain how the corporate elite arrived at its anti-stagnation solution. There are at least two conceivable hypotheses about how such a solution could have developed. One is that American capitalists as a class consciously chose a militarist stabilization policy for the postwar period. This approach presumes a fairly highly developed set of institutional mechanisms for defining class strategies and translating them into public policy. James O'Connor has argued that the Federal executive and the national budget have become the focal points of just such a corporate planning apparatus:

"By the turn of the century, and especially during the New Deal, it was apparent to the vanguard corporate leaders that some form of rationalization of the economy was necessary. And as the twentieth century wore on, the owners of corporate capital generated the financial ability, learned the organizational skills, and developed the ideas necessary for their self-regulation as a class... Class conscious corporate capital today profoundly influences or controls the Department of Defense, agencies within the Departments of Commerce and State, Treasury Department, Council of Economic Advisers, and the Bureau of the Budget... Policy is formulated within the highly influential Business Advisory Council, in key ruling class universities and policy planning agencies such as... the Committee for Economic Development, and by the corporate dominated political parties, and translated into law through legislation written and introduced by the Federal executive."⁹

An alternative hypothesis is that American capitalists lacked an effective class planning mechanism in 1945 (and perhaps still do) and that militarist solution was adopted because all alternative fiscal proposals were vetoed by one or more atomistic interest groups within the capitalist class. This "natural selection" thesis does not require a high degree of class consciousness on the part of corporate owners and top managers. All that is required is that the various elements of the capitalist class recognize the need for some sort of fiscal solution, that they dominate the legislative process (e.g., via campaign contributions and lobbying efforts), and that each interest group within the capitalist class veto those fiscal

proposals which threaten its own economic interests.

Admittedly, these two theses represent ideal types, and the postwar situation probably combines elements of both polar cases. However, the distinction between the two is crucial because of the fundamentally different views about the relationship between the state and the capitalist class which they represent. The "class consciousness" alternative implies that the integration of state and corporate bureaucracies has reached an advanced stage and that conflicts within the capitalist class are arbitrated and resolved in a highly formal manner. By contrast, the "natural selection" alternative implies that the corporation and the state are still distinct entities and that struggles among capitalists can erupt very visibly. My impression is that radicals tend to overestimate the degree of self-conscious political control which capitalists exercise as a class. There are numerous economic conflicts within the capitalist class which limit the political cohesiveness of the class as a whole. For example, importers and domestic manufacturers have very different attitudes about import quotas and surcharges. These differing interests are represented by a variety of trade associations, each of which lobbies for a somewhat different set of public policies.

The failure of Reich and Finkelhor to distinguish the "natural selection" and "class consciousness" hypotheses apparently stems from their hasty dismissal of theories which "emphasize the politics of bureaucracy and characterize militarism as essentially a political aberration."¹⁰ But the crucial question is what role the concept of bureaucracy plays in any particular analysis of American military and foreign policy. Those theories which rely upon bureaucratic "misperceptions" and "miscalculations" as the fundamental determinants of U.S. policy abroad are certainly not very satisfying. It does not follow, however, that the concept of "bureaucracy" should be discarded from studies of the dynamics of American Imperialism. As Gabriel Kolko has put the question,

"If, in the last analysis, the structure of power can only be understood in the context in which it functions and the goals American power seeks to attain, the fact that the magnitude of such a vast description requires a full history of twentieth century America should not deter social analysts from highlighting the larger contours of the growth of modern American bureaucracies, if only to make the crucial point that these bureaucratic structures are less the sources of power than the means by which others direct power in America for predetermined purposes." ¹¹ (emphasis added)

The second limitation of the Reich and Finkelhor essay is the recurrent insistence that military spending has been and continues to be the only fiscal device which can stimulate full-employment production without compromising important interests of American corporate capital. If there were a tendency towards stagnation in the private sector and if military spending were indeed the only politically feasible means of ensuring full-

employment growth, one would expect to observe a secular increase during the postwar period in the share of G.N.P. going to the defense sector.* In fact, although the relative size of the defense sector increased dramatically during the Korean War and failed to return to its immediate postwar share during the post-Korea 1950's, the military sector did not grow in relative size during the 1960's despite Vietnam. Annual national defense purchases as a percent of G.N.P. averaged about 5 percent during 1946-1950, rose to an average exceeding 12 percent during 1951-53, fell to an average of about 10 percent during 1954-60, and averaged about 8.5 percent during both the earlier and later 1960's. (See Table 1)

These data do not, of course, controvert the stagnationist thesis of Reich and Finkelhor. Total government purchases of goods and services at the federal, state, and local levels have increased almost continuously during the postwar period relative to G.N.P., a tendency which is consistent with the stagnation hypothesis. Annual government purchases as a percent of G.N.P. averaged nearly 13 percent during 1946-50, increased to an average of 20.5 percent during the Korean War years, remained almost static at nearly 20 percent during the years 1954-65, and averaged nearly 22.5 percent during the Vietnam War years of 1966-70. However, the factor which has contributed most consistently to this relative growth of the public sector is the uninterrupted relative expansion of state and local purchases, which have grown from an annual average of about 6 percent of G.N.P. during the immediate postwar years to 11.5 percent during the Vietnam War. (See Table 1) These data suggest that the military budget has not been the only dynamic element in the public sector during the postwar years, in the combined senses of being absolutely large and having grown rapidly relative to G.N.P. For example, during the Vietnam War years of 1965-70, annual purchases for education increased from \$29.1 billion to \$52.5 billion, an increase of 80 percent; and national defense purchases expanded from \$50.1 billion to \$76.6 billion per year, an increase of 53 percent; whereas G.N.P. as a whole grew from \$685 billion to \$977 billion, an increase of 43 percent. One concludes that it is not so obvious that spending on education and other social services is incompatible with the interests of monopoly capital: what is crucial to the capitalist class is the distribution of the benefits and the control of social service programs. As Gintis has pointed out, repressive schooling on a mass scale is actually an indispensable source of workers who can function in alienating state and corporate bureaucracies. 12

*This proposition presupposes a constant national-income multiplier for defense purchases, an assumption more plausible than the secularly increasing multiplier which would be necessary in order to avoid growing unemployment without relative expansion of the defense sector.

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It would appear then that we need some criteria in addition to those suggested by Reich and Finkelhor in order to predict which budgetary items are likely to expand rapidly in the future. James O'Connor has suggested three major criteria:

"The first major category of expenditures consists of facilities which are valuable to a specific industry, or group of related industries...The second major determinant of state expenditures stems from the immediate economic interests of corporate capital as a whole. The budgetary expression of these interests takes many forms--economic infrastructure investments, expenditures on education, general business subsidies, credit guarantees and insurance, social consumption, and so on...The uncontrolled expansion of production by corporate capital as a whole creates still another fiscal burden on the state in the form of outlays required to meet the social costs of production...The third major category of state expenditures consists of the expenses of stabilizing the world capitalist social order: the costs of creating a safe political environment for profitable investment and trade. These expenditures include the costs of politically containing the proletariat at home and abroad, the costs of keeping small-scale, local, and regional capital at home safely within the ruling corporate liberal consensus, and the costs of maintaining the comprador ruling classes abroad." ¹³

One social cost of production which has become increasingly visible is environmental pollution which results from the dumping of economic wastes. It is conceivable that during the 1970's public spending on environmental protection will partially substitute for military spending in the federal budget. Martin Gellen¹⁴ has recently identified an emergent "pollution-industrial complex" in which conglomerate giants develop and produce abatement equipment which they then sell to their own industrial divisions, the federal government providing lucrative fiscal incentives. "Like the defense suppliers and the educational-manpower conglomerates, the pollution control industry now enjoys the good fortune of being legislated into success. Lavish profits will come from ready-made markets bolstered by special laws controlling pollution levels of factories, special tax write-offs for the industrial buyers of abatement equipment, and plenty of R&D money for the pollution controllers themselves. As government outlays on abatement grow, so will the profits accruing to the pollution control industry." ¹⁵ Massive expenditures on pollution abatement can be justified by dramatizing the "environmental crisis." The need for larger abatement outlays in the future flows immediately from the increasing waste loads associated with a growing G.N.P.*

*Although spending on pollution abatement equipment may be a means of ameliorating the immediate problem of inadequate aggregate demand, there may be a longer-run contradiction between accumulating enough abatement capital to avert ecological disaster and maintaining the rate of (continued)

Thus, environmental protection may emerge during the 1970's as a partial substitute for military spending, not unlike the manner in which the space program was promoted as a "peaceful" alternative to the arms race during the 1960's. Of course, this would not preclude continued absolute (and even relative) expansion of the military budget. Whether military spending will be the primary dynamic element in the American economy of the 1970's depends upon such factors as the military and political stance of the Soviet Union and the strength of liberation movements in the Third World. It is reasonably clear, however, that the defense budget need not be the only dynamic element driving the American economy. In closing, the work of Reich and Finkelhor is an important contribution to our understanding of American Imperialism, but it leaves a number of questions confused or unresolved.

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(continued) expansion of aggregate supply, or productive capacity. For an exposition of the thesis of the forthcoming stationary-state economy, Herman Daly, "Towards a Stationary-State Economy," in John Harte & Robert Socolow (eds), The Patient Earth (Holt, Rinehart and Winston, 1971).

Table 1

TYPES OF GOVERNMENT PURCHASES AS A PERCENT OF G.N.P., AVERAGE

	<u>national defense</u>	<u>other federal</u>	<u>state & local</u>	<u>total govt.</u>
1946-50	5.1%	1.8%	5.9%	12.8%
1951-53	12.3	1.7	6.6	20.6
1954-60	9.9	1.5	8.4	19.8
1961-65	8.4	2.2	9.9	20.5
1966-70	8.5	2.4	11.5	22.4

Table 11

SELECTED PUBLIC PURCHASES, BY FUNCTION, IN
BILLIONS OF CURRENT DOLLARS

	<u>national defense</u>	<u>space</u>	<u>federal, state, and local</u>			
			<u>education</u>	<u>health & hospitals*</u>	<u>highways**</u>	<u>police & corrections**</u>
1955	\$38.6	-	\$11.9	\$2.8	\$6.3	\$1.8
1960	44.9	0.57	18.7	4.4	8.9	2.7
1965	50.1	5.6	29.1	6.5	11.9	3.8
1970	76.6	3.5	52.5	12.4	15.9	6.8

Table III

PERCENTAGE GROWTH OF ANNUAL PUBLIC PURCHASES BETWEEN
DESIGNATED YEARS, BY FUNCTION

	<u>national defense</u>	<u>space</u>	<u>education</u>	<u>health & hospitals*</u>	<u>highways**</u>	<u>police & corrections**</u>
1955-60	16%	-	57%	60%	42%	53%
1960-65	12	875	56	48	33	40
1965-70	53	-37	80	91	34	79

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- Notes: (1) National defense purchases category includes military assistance and atomic energy programs, but not space program.
 (2) * includes Federal veterans program, 1970
 (3) ** state and local only, 1970

Sources: Tables I, II, and III were calculated from U.S. Department of Commerce, National Income and Product Accounts of the United States, 1929-1965, Table 3.10; and U.S. Department of Labor, Manpower Report of the President, 1971, Table G-12.

Footnotes

- 1 Michael Reich and David Finkelhor, "Capitalism and the Military-Industrial Complex: The Obstacles to Conversion," Review of Radical Political Economics, Vol. 2, no. 4.
- 2 ibid., pp. 3 and 5
- 3 ibid., pp. 10 and 12
- 4 ibid., p. 3
- 5 ibid., p. 3
- 6 ibid., p. 17
- 7 ibid., p. 2. Many radical analyses of American imperialism are imbued with this "devil" theory as well.
- 8 ibid., p. 3
- 9 James O'Connor, "The Fiscal Crisis of the State," Socialist Revolution, Vol. 1, no. 1, p. 20.
- 10 Reich and Finkelhor, op. cit., p. 2.
- 11 Gabriel Kolko, The Roots of American Foreign Policy, (Beacon Press, 1969), p. 4.
- 12 Herbert Gintis, "The New Working Class and Revolutionary Youth," Socialist Revolution, Vol. 1, no. 3.
- 13 James O'Connor, op. cit., pp. 37 and 48, Vol. 1, no. 1; pp. 38 and 40, Vol. 1, no. 2.
- 14 Martin Gellen, "The Making of a Pollution-Industrial Complex," Ramparts, May, 1970.
- 15 ibid., p. 24.