

SURVIVAL FOR THE SIXTIES

primer **3**



**the economics
of disarmament**

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The economics of disarmament

WITHIN THE FRAMEWORK of the present, increasingly dangerous arms race, about one-tenth of our economy is involved in defense spending, much of it for the development of weapons systems capable of annihilating entire populations. However, now more than ever before serious consideration is being given to embarking on a process of disarmament with inspection. Although a world disarmed down to police levels may be years away, the beginning of the transition period could be close at hand.

We look forward to the day when the economy of the United States will be totally geared to peaceful pursuits in a disarmed world. Unless there is careful advance planning, however, this transition may cause hardship to those corporations, industries, and communities heavily involved in defense work, as well as to individual workers, members of the armed services, and their families.

Disarmament will likely not result immediately in the end of military forces, but become a staged and balanced reduction of forces over a number of years, leaving inspection and probably some national and international police in existence at the end of the process. This would conceivably involve a pattern of reduction in defense expenditures such as cuts of five to ten billion dollars a year for a period of four to six years.

Virtually no advance planning was done at any level in the United States through the end of 1960, despite the fact that economic re-conversion from military production has already become a problem in some areas even without disarmament. Swift technological changes in weapons systems have led to the sudden cancellation of numerous defense contracts, creating difficulties for those directly affected. If disarmament agreements are reached, the resultant cuts in arms spending could make the problem more widespread. It is therefore important for the nation to consider seriously the factors involved in conversion to a peace-time economy.

The needs

It has often been pointed out that there exists a large backlog of social needs which have accumulated during the cold war. Helping to satisfy these needs could absorb a significant part of the combined public spending during the transition to disarmament:

1. **MORE SCHOOLS.** Over 130,000 new classrooms are urgently needed. This number would not eliminate overcrowding and double sessions.
2. **MORE AND BETTER PAID TEACHERS.** The national shortage of teachers is estimated at 220,000. More teachers are leaving the teaching profession than entering it, and their average salary is only \$4,650.
3. **HOUSING AND SLUM CLEARANCE.** The Rockefeller Brothers Fund recently estimated that 10 million substandard urban dwelling units would cost an average of \$10,000 each to replace—a total of \$100 billion.
4. **HEALTH RESEARCH AND ADDITIONAL HOSPITALS.** Over 1,200,000

more hospital beds are needed for adequate standards. An adequate building program alone could absorb \$15 billion.

In addition, America needs to give immediate attention to these neglected areas: water and air pollution control, special facilities for the elderly, roads, airports, adequate public transportation to link the sprawling suburbs to downtown metropolitan areas, public parks and beaches, and flood control and conservation. Public expenditure in these areas has been starved during the cold war, in order to approach a balanced budget.

An estimate was made by the National Planning Association to show the following cumulative outlays over a five year period if deficiencies in these areas were to be eliminated:

Education		\$ 30 (Billion)
Classroom construction	\$16	
Current operation	\$14	
Highways and skyways		\$ 75
Urban renewal, slum clearance		
Low cost housing and community redevelopment		\$100
Water supply and conservation		\$ 60
Health and hospitals		\$ 35
Other programs (air pollution, research and development, etc.)		\$ 30
		<hr/>
Total		\$330 Billion

In addition to these needs which can be met by public expenditures, production could be stimulated for consumption by low-income groups through reduced taxes.

Aid to underdeveloped countries

As the competition with the Communist bloc shifts from the military to the economic and political plane, an additional opportunity for the American economy will lie in providing assistance to the underdeveloped nations of Asia, Africa, and Latin America. In the long run, the world balance of power will probably be determined by the people of these lands. They now face enormous problems of poverty, health, and education. Their governments are under tremendous pressure from their people to catch up with the more prosperous industrialized countries. Under this pressure, they may abandon democratic government and develop societies based on coercion. Helping them build both strong economies and free institutions could be a major contribution to a more secure world.

According to Paul Hoffman, Managing Director of the United Nations Special Fund, the underdeveloped countries during the next ten years could absorb a five billion dollar technical assistance program and \$30 billion of outside capital in addition to what they are now receiving from outside sources.

The Problems

Clearly there is much to be done with the savings which would result from a disarmament program. What about the dislocations which would occur? Simply because needs exist, it must not be assumed that the transition will automatically be smooth or painless. The following considerations indicate that studies should be undertaken well in advance of a disarmament program:

1. Does the political will exist to mobilize quickly enough the alternative public or private expenditures which could replace defense spending?
2. Are economic conditions today sufficiently like those after World War II (1945-47) or after the Korean War (1953-54) so that

transition will be easy? (a) In 1946-48 excess demand existed. From 1942 to 1946 individuals accumulated reserves of over \$160 billion. Spending on consumer goods more than tripled between 1944 and 1948. Expenditures on non-farm residences rose more than tenfold. (b) In 1953-54, the economy was operating at substantially full employment. Recently, we have been operating with over five per cent unemployment, and with substantial under-utilization of capacity. (c) Between 1945 and 1959, consumer debt rose from \$5.7 billion to \$52 billion. Any such further rapid expansion is unlikely and unwise.

3. Can adequate demand be maintained during the transition to stabilize the economy?

(a) Congress is not well organized for making prompt decisions about which new demands should replace the old. Congress must choose between various alternative non-defense public works and services, and possible alternative tax cuts which will affect various groups differently. In addition, some of the public services which most require expansion are largely the responsibility of state and local governments. Indeed, Congressional and public support for government spending on health, research, higher education, resource development, and other vital programs may not yet sufficiently exist except in terms of defense and war. (b) The desire to use defense savings for a substantial reduction of the national debt may have a seriously depressant effect. Business activity depends on debt formation in our economy because a large part of our savings must be invested not in equities but in debts. Unless there is a sufficiently rapid formation of debt, it is difficult to find investment outlets. Efforts substantially to reduce the national debt may throw a burden on private debt formation which it is unable to carry.

4. Can the rate of economic growth be maintained and increased? There exists a fear that defense cuts might depress the rate of

our economic growth below that of our rivals. This fear is one possible reason for resistance to disarmament. Since our most rapid periods of economic growth have occurred during wartime, or during the time of meeting war-created backlogs, these fears may not be entirely baseless, and should be studied. Defense spending has made a substantial contribution to growth in education, science, research, product development, construction, and heavy equipment, and it has been able to do this without regard to the profit motive. It may be possible to preserve the best features of these growth-producing investments by earmarking defense savings for higher education and research, while orienting these programs toward non-military ends. Similarly, rapid development of promising new processes and products might be subsidized. Tax reductions on risk-bearing work and innovation might also help.

5. Can reconversion be accomplished smoothly? Profit incentives in industry, the need for wages by workers, and sufficient demand will gradually bring about a reshaping and reallocation of the economy to peace-time production. However, experience indicates that this is a slow process which can result in serious losses and suffering. It is therefore important to undertake quantitative and qualitative surveys of the reconversion problems of defense-centered communities and industries.

It is important, too, to recognize the public responsibility which exists to assist in the changeover. Some of the following measures ought be considered: (a) Termination pay on a liberal scale might be made a deductible cost. (b) Extended unemployment compensation payments for defense workers might be established. (c) Liberal retraining, relocation, and education grants and/or loans might be government-financed and made available to former armed service personnel and defense workers. (d) Small business and mortgage loans might be made available on the same basis. (e) Special tax concessions might be made

to defense companies, and generous terms of settlement might be instituted with regard to cancelled defense contracts.

6. What would be the international effect of disarmament? (a) A disarmament program might create some acute, if temporary, problems in the export of primary products upon which underdeveloped countries largely depend, since disarmament by Western countries would undoubtedly mean a decline in some raw material imports. (b) A disarmament program would mean termination of defense support aid, which has contributed to the general economic progress of some backward countries. (c) A U.N.-centered world development program, financed from armament savings, could be expected greatly to counterbalance these effects.

In the Fall session of the 15th General Assembly, the U.N. voted 66 to 0 to ask the Secretary General to conduct a study of the Economics of Disarmament. He was asked to examine: "(a) The national economic and social consequences of disarmament in countries with different economic systems and at different stages of economic development, including in particular, the problems of replacing military expenditures with alternative private and public expenditures so as to maintain effective demand and to absorb the human and material resources released from military uses; (b) The impact of disarmament in international economic relations; and (c) The utilization of resources released for the purpose of economic and social development in particular of the underdeveloped countries." The survey is scheduled for completion early in 1962.

Summary

The substantial termination of defense spending will result in the opportunity for vast increases in the application of productive capacity to useful ends. It is in this light that the prospects for disarmament

should be viewed. While the backlog of private demand is not as great as previously, the areas of public need here and abroad are vast and represent a challenge worthy of American productive capacity and ingenuity.

Even though disarmament and transition are gradual, some painful dislocation will occur, unless proper and adequate planning is done well in advance. In the last analysis, a smooth changeover depends on the will which exists or which can be created to adopt the necessary policies and attitudes.

Recommendations

1. The Kennedy Administration should make the planning of the economic transition to disarmament one of the top items on its agenda for action. This will require an adequate professional staff within the Executive Branch to direct the necessary research. The Administration should lend all assistance to the Secretary General in the preparation of the U.N. study on the economics of disarmament, and in its wide circulation.
2. The Legislative Branch of the U. S. Government, especially the Joint Congressional Economic Committee and the Senate Disarmament Subcommittee, should also conduct hearing and studies.

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*We wish to acknowledge our indebtedness to Dr. Emile Benoit, whose work we have drawn heavily upon in the preparation of this paper.

Here Is What

1. Write a letter to President Kennedy in your own words urging that the U.S. work vigorously to plan for reconversion before substantial disarmament begins.

Send this to: President John F. Kennedy
The White House
Washington, D. C.

If you have time to write two additional letters with the same message, send them to the following:

Secretary Dean Rusk
Department of State
Washington 25, D. C.

Mr. John J. McCloy, Adviser,
Disarmament Administration
Washington 25, D. C.

2. Write letters to both your senators (Senate Office Building, Washington 25, D. C.) and to your congressman (House Office Building, Washington 25, D. C.) urging them to support the policies given in this booklet. Enclose a copy of this primer.
3. Visit key leaders in your community (businessmen, educators, labor officials, etc.), talk to them about this issue and give each a copy of this primer.

You Can Do

4. Visit the appropriate editor or editorial writer of your local newspaper and talk to him about this issue and give him a copy of this primer.
5. Discuss this issue with your minister, priest, or rabbi and urge him to deliver a sermon on the topic.
6. Urge appropriate education and action projects on this issue culminating in the adoption of a resolution in the clubs, civic associations, political parties, unions, veterans groups, and church or synagogue to which you belong.
7. Order quantities of this primer (and companion primers on "Disarmament: What Kind? How Much?" and "Nuclear Test Ban Treaty Now") for distribution. There is a special quantity price of 12 primers (all similar or four of each) for \$1.00 postpaid.
8. Keep in close touch with National SANE and other national peace organizations for further developments on this issue.

To Keep Informed/SANE-USA

To work effectively for world peace today, concerned citizens must be fortified with facts and figures. World peace has become a complicated study, but in our democracy the people must make the decisions and not abdicate responsibility to any small group of policy-makers.

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