Defense capacity and 'buildup' plans

by Richard Freeman

The Weinberger-Reagan Defense Department budget for the next five years rests on one fundamental assumption: U.S. living standards must be cut sharply and continue to be cut if the spare industrial capacity is to exist to provide for the military buildup.

This assumption is implicit in a new defense study released by the New York Federal Reserve Bank in the Summer 1981 edition of its *Quarterly Review*. This premise is made even more explicit in practice by the way in which the high interest-rate policy of Federal Reserve Board Chairman Paul Volcker is being carried out.

By cutting consumption, and thus cutting consumer goods production, to provide capacity for military buildup, the Weinberger Defense Department crew has joined hands with Fed Chairman Paul Volcker in a short-term fix. But it's not a defense policy that works, and the Soviets will not be fooled by it.

The United States does not currently have the industrial capacity to carry out a military buildup on the scale of the World War II mobilization. Perhaps it does not even have the capacity to carry out a buildup of the size of the Korean War venture. U.S. plant and equipment has grown obsolete. Machine tools over 20 years of age now account for 30 percent of all machine tools, up significantly from 10 years ago.

A zero-growth war machine

It is apparent that the thinking guiding the Weinberger defense policy is that the United States will avoid the World War II mobilization mode, which built brand new steel and aluminum plants, constructed entire new aircraft factories, and absorbed millions of workers into the industrial labor force. The Weinberger-Carlucci team at the Defense Department is instead attempting a zero economic growth military buildup to slash the production of goods for the civilian side of the economy, principally consumer goods production, and shift that capacity to military goods production.

The *Quarterly Review* article is entitled, "The National Defense Budget and Its Economic Effects." Its author, James Capra, a graduate of the Naval Institute, identifies six areas where there is considerable civilian-military competition for the use of productive facilities:

- aircraft and parts
- ordnance and accessories
- communications and equipment
- shipbuilding
- electronics
- trucks, vehicles, and armored vehicles.

Military production consumes between 20 and 90 percent of these sectors' output. Over the last year and a half, these sectors have been devastated by the Volcker policy and by the "free enterprise" deregulation of transportation services.

Slashing output

For example, until last year, the production of civilian aircraft was booming, as the airlines were planning major expansion and the conversion to "fuel-efficient" planes. But the "free enterprise" deregulation of the airlines, along with the provoked Professional Air Traffic Controllers Organization (PATCO) strike, will lead to a 30 percent reduction in air flights. As a result, Lockheed and McDonnell Douglas airframe producers say that civilian aircraft production is down 6 to 8 percent this year, and falling fast.

Shipbuilding is a similar story. Under the influence of the Heritage Foundation and budget director David Stockman, the Reagan administration decided to cut out all federal investments in port expansion and waterways, and to charge users' fees for every craft traveling on domestic waterways. The U.S. government has rejected the idea of federal subsidies to the U.S. civilian maritime fleet. (Former House Maritime Committee chairman John Murphy had strongly favored federal subsidies to American merchant fleet production, but he has been Abscammed out of office.) The result has been that shipyards are only operating at 60 percent of capacity this year, leaving ample room for Weinberger's planned production of Navy ships.

Then there is the auto industry. High interest rates have slashed U.S. domestic auto production from a level of 9.3 million units per year in 1978 to 6.6 million units per year in 1980 and again in 1981. However, as New York Fed author Capra notes, the auto industry can thus alternately produce military vehicles. Volcker has "freed up" capacity. Even in the area of large forgings, which are constantly cited as a bottleneck area for defense production, Alcoa, the owner of one of the U.S. two large forging plants, reports that capacity is only being used at 65 percent, far below normal.

All this helps to explain why Weinberger et al. have almost no plans to create additional production capacity. Only $500 million per year is allocated in the Defense Department budget for "surge" industrial production capacity expansion.