

THE IMPACT OF MILITARY SPENDING ON THE MACHINISTS UNION

By Marion Anderson

Military Spending Gains

(In 100 top defense contractors with IAM employees)

\$5 billion

\$3 billion

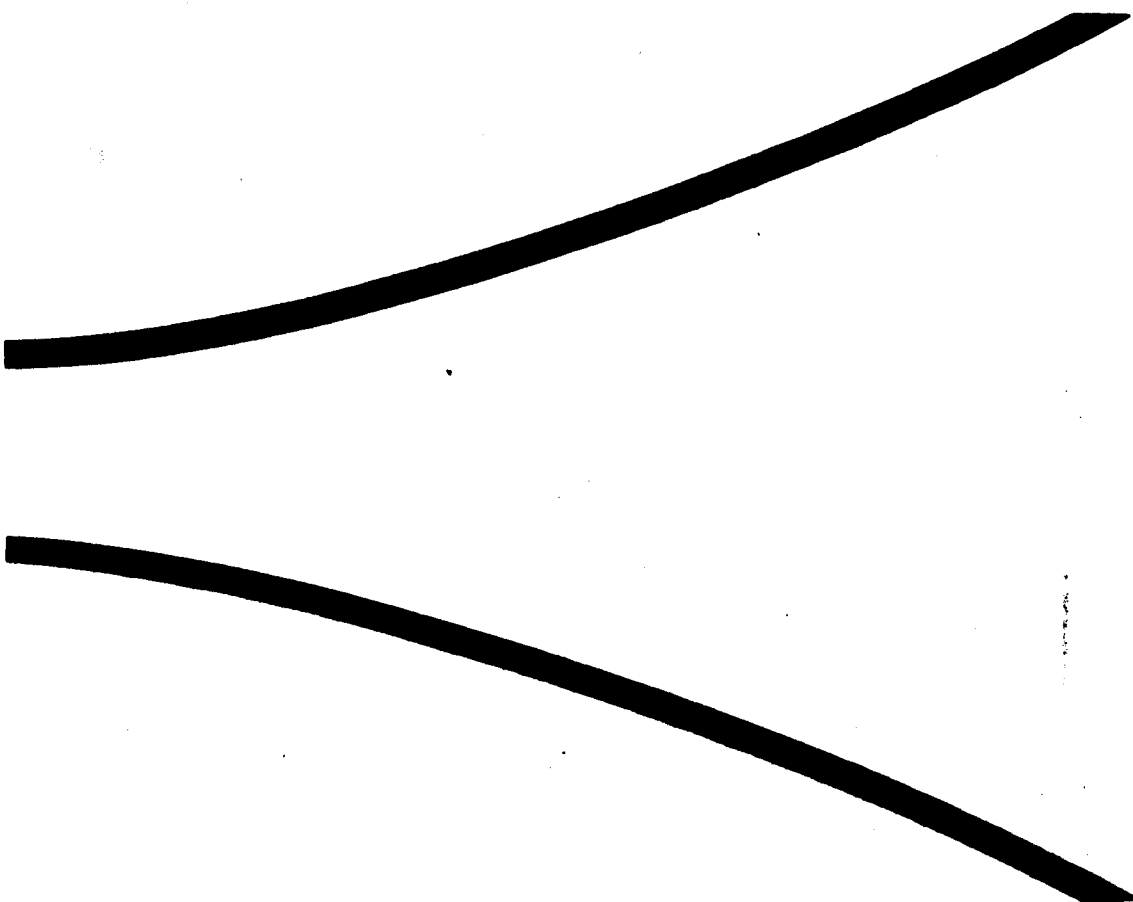
\$1 billion

IAM Jobs Lost

4,000 jobs lost

8,000 jobs lost

12,000 jobs lost



1975

1976

1977

1978

INTRODUCTION

Since 1941, most Americans have believed that a high level of military spending is good for the economy. The facts seemed clear. We had the great Depression, the worst in modern history. Millions were unemployed. Then World War II came, and 11,000,000 young men and women joined the armed forces. Millions more went to work in military plants, and the Depression ended.

So, a simple conclusion was drawn: World War II ended the Depression, therefore, military spending creates jobs and is good for the economy.

Although the military budget goes up every year and is now at the highest level in U.S. history, unemployment remains at levels of six or seven percent in both Republican and Democratic administrations. So the proposition that military spending is good for the economy because it creates jobs has come under intense scrutiny.

This report first shows the impact of the military budget upon employment nationwide. It shows how many jobs are gained through military contracts and salaries and compares this figure with the number of jobs which would have been created if the tax monies going to the Pentagon had stayed in the taxpayers hands to be spent on consumer goods and services. Then the report focuses on the impact of the Pentagon's budget on Machinists Union members in terms of job opportunities gained or lost on a state-by-state basis.

The principal question asked in preparing this report was: Do IAM member gain or lose jobs as the military budget goes up?

There are two key questions which must be answered in analyzing the impact of military spending upon the Machinists Union. First: What is the impact upon Machinists working on civilian goods and services? Does the military budget increase or decrease their job opportunities? Second: What is the effect of the growing military budget upon IAM members working directly on military contracts? Are their job opportunities increasing as procurement contracts rise?

The answer to the second question is: as the military budget goes up, and procurement contracts rise, Machinists jobs in military industry steadily decline. In October, 1978, 88,000 IAM members were employed on military contracts either industrial or governmental. In 1975, that figure was 12,300 jobs higher. The drop can be seen clearly in defense dependent states like California and Washington. Much of this job loss can be attributed to technological development. As military industries become increasingly capital intensive, jobs decline.

SUMMARY

This study has found that far fewer Machinists Union members are employed in military production than has been reported. For at least a decade, it has been assumed that from 25% to 35% of the total IAM dues paying membership has been employed in military and military related work. That would mean roughly 185,000 to 260,000 IAM members working in military production. **This report finds that only 12.9% of the total IAM membership — 88,000 members — are engaged in military work.**

A finding of even greater significance is that in 30 states, many of them recipients of major military contracts, IAM members suffer a net loss of job opportunities when military spending is high. This is because the number of IAM jobs foregone in civilian goods and services because of tax monies going to the military exceeds the number of jobs generated by military contracts.

A Pentagon budget of \$124 billion costs the Machinists over 118,000 civilian jobs. When the 88,000 jobs generated by this level of military spending are subtracted, the net job loss to the union is 30,000 jobs a year. (See Table 2, pg. 4.)

JOBS: A CASUALTY OF MILITARY SPENDING

Two separate research projects were required to complete this report. The purpose of the first was to determine the impact of the military budget upon employment nationwide. It resulted in a report by Marion Anderson released in 1978 by Senator Edward M. Kennedy called *The Empty Pork Barrel: Unemployment and the Pentagon Budget*. It showed that military spending costs jobs in every sector of the economy.

The Empty Pork Barrel documented that military spending at a rate of \$78 billion a year is responsible for the annual loss of 907,000 jobs. Every additional \$1 billion of Pentagon spending causes the loss of 11,600 job opportunities in the United States. The current \$124 billion military budget is costing the jobs of 1,440,000 Americans.

It is a common sense conclusion based on the simple proposition that the same dollar cannot be spent in two different places at the same time. If the taxpayer's dollar is being used to support troops in Korea, it cannot simultaneously be spent by him to buy a new car or take a vacation. Professor Bruce Russett of Yale University did an analysis showing where Americans would have spent their tax money if it had remained in their pockets instead of going to the Pentagon. He found that each billion dollars

paid in taxes for the Pentagon would have been spent in the following ways:

TABLE 1
Expenditures Foregone By Sector Of The Economy For Each Billion Dollars Spent On The Military

\$187,000,000	on services
163,000,000	on durable goods
128,000,000	on state and local government consumption
114,000,000	on residential structures
110,000,000	on producers' durable equipment
71,000,000	on non-durable goods
68,000,000	on non-residential structures
53,000,000	on transportation*
48,000,000	on federal civil purchases
25,000,000	on imports

*A separate regression analysis was run on transportation. This was substituted for Russett's regression on exports.

By applying these percentages to a given level of military expenditure, it can be determined how much money the Pentagon's budget siphons off from each sector of the economy.

The Empty Pork Barrel carries Russett's analysis a step further — from money never spent to jobs never created.

There are three steps to this analysis. First, it was determined how many fewer jobs there were in each of these sectors of the economy in every state when \$78 billion of tax money was going to the Pentagon. Second, the number of jobs generated by military contracts and by stationing military personnel in each state was calculated. Finally, finding the difference between these sets of numbers, on a state-by-state basis, shows the net job loss or gain at the given level of military spending.

As indicated by Russett's Table 1 above, workers in services, durable goods, state and local government, and construction suffer the most in lost job opportunities when military expenditures are high.

A \$78 billion military budget costs:

- 1,560,000 jobs in services, some of which would include airline and auto mechanics, flight attendants, baggage handlers and clerks;
- 1,011,000 state and local government jobs of which there are few in the IAM;
- 476,000 construction jobs;
- 663,000 civilian durable goods jobs with heavy concentrations of IAM members, especially in the metal working, machinery producing and transportation equipment industries.

TABLE 2

*States Which Suffer A Net LOSS of IAM Jobs
When Military Spending Is \$124 Billion*

State	Civilian Jobs Foregone	Military Jobs Generated	Net
1. Illinois	-21,300	+2,200	-19,100
2. Wisconsin	-5,100	+1,000	-4,100
3. Washington	-7,750	+4,200	-3,550
4. Pennsylvania	-6,750	+2,950	-3,800
5. Ohio	-6,550	+2,950	-3,600
6. California	-24,450	+21,000	-3,450
7. New York	-8,100	+4,750	-3,350
8. Michigan	-2,400	+200	-2,200
9. Minnesota	-2,800	+50	-2,750
10. Indiana	-1,950	+130	-1,820
11. New Jersey	-2,000	+300	-1,700
12. Tennessee	-1,450	+550	-900
13. Iowa	-1,550	+800	-750
14. Montana	-750	+30	-720
15. Kentucky	-1,000	+200	-800
16. Maryland & D.C.	-1,200	+700	-500
17. Colorado	-450	+80	-370
18. Arkansas	-550	+200	-350
19. Oregon	-1,450	+1,150	-300
20. Massachusetts	-1,650	+1,400	-250
21. Maine	-200	+40	-160
22. W. Virginia	-450	+300	-150
23. Alaska	-80	0	-80
24. Nebraska	-250	+180	-70
25. Nevada	-40	0	-40
26. Wyoming	-25	0	-25
27. Vermont	-55	+30	-25
28. Idaho	-40	+20	-20
29. Delaware	-20	0	-20
30. S. Dakota	-21	+20	-1

*States Which Have A Net GAIN of IAM Jobs
When Military Spending Is \$124 Billion*

State	Civilian Jobs Foregone	Military Jobs Generated	Net
1. Missouri	-3,500	+12,900	+9,400
2. Texas	-2,300	+4,000	+1,700
3. Connecticut	-3,600	+5,750	+2,150
4. Georgia	-1,300	+3,250	+1,950
5. Arizona	-400	+1,950	+1,550
6. Hawaii	-150	+1,700	+1,550
7. Virginia	-800	+1,900	+1,100
8. New Mexico	-250	+1,300	+1,050
9. N. Carolina	-150	+1,050	+900
10. Mississippi	-200	+1,000	+800
11. Alabama	-900	+1,600	+700
12. Florida	-1,300	+2,000	+700
13. Kansas	-1,150	+1,750	+600
14. Oklahoma	-450	+800	+350
15. S. Carolina	-150	+400	+250
16. New Hampshire	-80	+300	+220
17. Utah	-150	+300	+150
18. Rhode Island	-500	+550	+50
19. N. Dakota	-20	+40	+20
20. Louisiana	-250	+260	+10

Machinists Total Job Loss -30,000

Workers in construction, the food and clothing industries, state and local government, services, automobile and other durable goods production, and the light and heavy industries which service the above businesses and occupations suffer when the Pentagon's budget is high.

When military spending is only at \$78 billion level, far lower than today's, it costs 3,253,000 civilian industrial and service jobs. The jobs generated by military contracts and by hiring soldiers, do not nearly make up the difference.

Every state in the country suffers a net loss of industrial jobs when military spending is high. Even Texas and California, despite their large military contracts, suffer a net loss of civilian industrial, service, and state and local government jobs. California is currently losing over 500,000 jobs in civilian industry, police, fire protection, and teachers. Texas loses over 200,000 civilian industrial and service jobs.

Spending money on either military industry or on military personnel increases the country's unemployment. If a billion dollars were transferred from military industry to civilian industry, 14,000 more jobs would be created. If a billion dollars were used by state and local governments to hire teachers, police and firemen, 30,000 more jobs would be created than if the same billion dollars were used to hire military personnel. Either way, the economy gains and unemployment goes down.

TABLE 3
Jobs Created Per Billion Dollars Of Expenditure

Jobs created by:	If spent to create jobs in industry	If spent to create jobs in government
\$1 billion spent in civilian sector	59,000 jobs	88,000 jobs*
\$1 billion spent in military sector	45,000 jobs	58,000 jobs
Jobs foregone by spending on the military	14,000 jobs	30,000 jobs

*State and local government

JOB LOSS FOR THE MACHINISTS

What happens to the membership of the Machinists Union?

The second part of the research was to determine the impact of the Pentagon budget upon the IAM.

Two steps were necessary: First we had to determine how many Machinists jobs were foregone in durable goods, non-durable

goods, services, construction, and state and local government. Then we had to find out how many members of the union were actually involved in working on any kind of military contract.

The first part of the analysis was similar to the one done for *The Empty Pork Barrel*. We determined on a state-by-state basis, how many fewer jobs there were for Machinists members when military spending is at the current level of \$124 billion. We found that this level of spending was having a heavily negative impact upon civilian industries and thus upon IAM members.

There are today, over 118,000 fewer jobs for IAM members in civilian industry because of the military budget. These are the civilian jobs foregone when people are heavily taxed to pay for the military and are unable to spend the money upon their own needs.

The members of the International Association of Machinists are overwhelmingly involved in the production of durable goods and services. These are two of the hardest hit categories of the economy when military spending is high.

When taxpayers feel pressed by high taxes and are worried about inflation, they will put off their purchases of durable goods. This causes stores to cut back on inventories, manufacturers to buy less machinery, and Machinists to see their job opportunities diminish.

Service industries are also hard hit. People have to buy food and clothing, they have to pay their fuel bills. But they do not have to take a vacation they had been looking forward to, they put off servicing their car, and families decide they cannot afford a plane trip to see each other.

All of these individual decisions to not buy, to not take a vacation, and to not add to plant and equipment, cost jobs — Machinists jobs. (See Table 2, pg. 4.)

After determining the number of IAM civilian jobs foregone, we had to find out how many IAM members were working on military contracts.

The Research department sent out two questionnaires to all of the Districts and Locals to get this information. These questionnaires were followed up with hundreds of phone calls to the Districts and Locals which had not responded. We heard from over 93% of the membership and estimated the military contract jobs in the remaining 7%.

Currently 88,000 members of the IAM are engaged in military industrial work or other kinds of military work. This is 12.9% of the total membership.

When the 118,000 civilian jobs foregone are combined with the

88,000 military jobs created, the net job loss to the Machinists union is 30,000 jobs. This means that every time the Pentagon's budget goes up, jobs disappear for members of the IAM.

Even the members who are currently working on military contracts suffer lessened job opportunities, for if there are fewer Machinists' jobs available nationwide, a member who is dissatisfied with his present job, who wants to move, or who wants to negotiate his wages upward has just that much less opportunity to do so. Businesses spending less on capital goods, people buying fewer cars, both business and government allowing our railroads to decline, all of these decisions cause a drop in job opportunities, pay, and mobility for union members.

INFLATION

Military spending not only generates unemployment, it is highly inflationary. About half of the budget controlled by Congress goes for military purchases and salaries. It is the most inflationary form of federal spending. There are several reasons for this:

First: most military contractors produce on a cost-plus basis. They have no incentive to improve efficiency and cut waste. Contractors get guaranteed profits no matter what the costs incurred. As their profits are calculated as a percentage of their costs, their basic incentive is to increase their costs and thus their profits.

A recent report by the General Accounting Office* showed that 55 major Pentagon projects were initially estimated to cost \$125 billion. As of September, 1978, the total cost of those projects was put at \$210 billion. The GAO reported that 33% of the \$85 billion increase can be attributed to inflation. The other \$57 billion is the clear result of waste, bad planning and mismanagement. This \$57 billion cost the average American family \$1140.

Second: resources are used in the production of military hardware and services at the expense of their availability to the civilian sector. Bombs, missiles, submarines, and tanks cannot be bought by the public. They add nothing to the supply of consumer goods and cannot be either reused or utilized in the production of other goods. Therefore, the stock of civilian goods and services is reduced and the market prices of raw materials is bid up thus pushing up prices along the production chain for all goods and services.

*Systems Acquisitions Report, Quarterly Update, General Accounting Office, Washington, D.C., Sept. 30, 1978.

Third: the federal government must borrow money in the open market to finance the military. This not only adds to the federal debt, it adds to the interest costs of servicing that debt, and it bids up interest rates - the price of money - which everyone has to pay.

Fourth: contractors themselves enter the money markets to borrow capital for military production. This reduces the availability of capital for the civilian sector and gives an additional boost to interest rates.

The inflation hits IAM members in two ways. The value of members' pay checks is reduced as their raises do not keep pace with the inflation. Union members are then forced into a cruel spiral in which if they bargain for higher wages which anticipate price rises, they are blamed for causing the inflation. But if they do not anticipate coming price rises in the bargaining sessions, they take a yearly pay cut.

IAM members are also hit by the inflation through their jobs. As purchases of durable goods and services are the first things that people put off, job opportunities are diminished. When the interest rate goes to 12% or 13%, the average businessman is going to think long and hard before investing in new plant and equipment.

Machinists, like other union members, are caught in the crunch: higher prices, fewer jobs, and more blame placed on unions for causing the problems.

THE UNDERMINED ECONOMY

The preeminence given to military industry and technology over the last three decades, has had a delayed but serious impact upon the civilian industrial economy. In stark contrast to the enormous sums allotted over the years to military technology, civilian technology has been starved for capital and thus for talent.

Over half of the U.S. scientists and engineers have been working on military and space contracts. This has meant that this great pool of talent has not been available to work on civilian commercial designs and applications of new technology. There is no mystery why the Germans, Japanese, or Swedes have pulled equal to or ahead of us in steel, machine tools and electronics. Virtually all of their scientists and engineers are working on civilian technology.

As the productivity of our trade rivals rises rapidly while ours stagnates, the costs of our goods, but not their quality rises. This means that it becomes cheaper for many firms to build factories abroad or to import finished materials and components. These business decisions also export jobs. The control may still rest with an American management, but the jobs have been moved to Germany, Taiwan, or Korea.

People have little sense of the magnitude of the investment in the Pentagon in relation to other investments in the society. *During the 1960's and 1970's the Pentagon spent more money than the after tax profits of all U.S. corporations combined.* This includes ATT, ITT, General Motors, Ford, Sears - all of them. This is where our taxes have been going, and the results have been the deterioration of American industry and therefore both inflation and unemployment.

The capital siphoned off through taxes to the Pentagon has meant that it is unavailable for civilian enterprises. Less capital investment means fewer jobs. Important areas of the economy are severely undernourished. Railroads, mass transit, and the solar energy industry are all areas which need massive infusions of capital both because of declining oil supplies, and to enhance the quality of life while depolluting the environment.

As the publication of the Machinery and Allied Products Institute stated: "This country cannot count on further major devaluations to maintain its competitive posture in world markets. If the U.S. is to continue its position of political and economic leadership in the world and to maintain the world's highest standard of living, an improvement in productivity is crucial.

"The evidence....strongly supports the proposition that productivity is dependent upon the relative level of fixed investment. We must intensify our efforts to expand and modernize U.S. industrial capacity. This will require a high level of capital formation."

New taxes are not needed to bring about badly needed change in our country. The federal government is taking enough. But some of our taxes can be productively rechanneled.

CONVERSION

In order for any conversion program to be successful, there has to be both an actual transfer of capital from military to civilian production, and a parallel transfer of skills.

There are four areas of the civilian economy which need large amounts of capital and which need it now. They will generate far more jobs per \$1 billion dollars spent than if the money remained with the Pentagon and they will use the skills of members now employed in military industries. Investment in these industries will mean more jobs for members of the Machinists.

Philip Webre, in his excellent new report, *Jobs to People-Planning for Conversion to New Industries*, suggests four key industries for massive upgrading or development: railroads, mass transit, solid waste disposal, and solar energy. The development of

all of these industries would result in an upgrading of our environment, increased independence as we would not need so much Middle Eastern oil, and more jobs utilizing the skills which defense workers have developed.

Railroads - 474,000 more jobs per year

An investment of \$7.7 billion a year in railroads, both in upgrading track and station facilities, and in building rolling stock, will generate 164,000 jobs each year for the next fifteen years. A substantial number of these jobs would be for members of the IAM. For as Webre states in his report, "The 1970 census indicates that in the manufacturing of rolling stock, over 25% of the workers are craftsmen, machinists and tool and die makers. 40% are operatives (of precision instruments, etc.) This distribution isroughly comparable to the skill spread of defense workers."

164,000 jobs per year would be in direct job creation. There would be an additional 310,000 jobs generated every year in indirect job creation.*

Mass Transit - 192,000 more jobs per year

Mass transit could easily absorb \$3.1 billion a year for the next fifteen years. If major new subway systems were built, this amount would skyrocket. Using the money for buses, light rail (a modern trolley) heavy rail (usually some form of subway), and commuter rail would generate 78,000 jobs per year in direct and 114,000 jobs in indirect employment.

About half of this sum would go into manufacturing, the other half into construction. The trades involved, says Webre, would include many IAM members as they would be "craftsmen, mechanics, millwrights, operatives, welders, and other technical workers."

Resource Recovery Systems - 40,000 more jobs per year

As Americans are generating increasing amounts of trash, and cities are running out of room for landfills, resource recovery systems are becoming increasingly important. Their attractiveness is increased by the fact "that each ton of garbage has more energy than a barrel of oil."

Although the resource recovery industry is not fully developed, "the skills and equipment to manufacture much of the needed equipment can be found in any large and well equipped machine

*All estimates of job creation in railroads, mass transit, resource recovery, and solar power are based upon the table Summary of Conversion Project Employment Estimates from Philip Webre's forthcoming report *Jobs to People*. Specific quotations in this section on conversion are also from this report. It is to be published by the Exploratory Project on Economic Alternatives, Washington, D.C.

shop. Therefore, many defense facilities should be adaptable to the work."

An expenditure of \$1.4 billion a year for 12 years would generate 22,000 direct jobs in resource recovery and 18,000 jobs in indirect employment. It would also have the effect of stimulating new businesses in a large variety of locations as resource recovery plants will be needed in such a large number of counties and cities.

Solar Energy - 71,000 more jobs per year

Solar energy development has caught the imagination of the American people, and Congress has begun to respond. But the large capital investments necessary to make equipment marketable at a price the average American can afford is yet to come.

IAM members would be heavily involved in the various types of solar equipment manufacture. A substantial number of IAM members would be needed to make wind generators. The large scale manufacture of wind generators would "increase the need for assemblers, electricians, mechanics, winding machines and precision machine operatives. Manufacture of the generator's extensive gear works would require metal workers and machinists. Electrical and electronic equipment would also be needed. Helicopter plants would be well suited to the manufacture of windmill blades."

Manufacturing solar collectors "for use in heat engines, or for industrial, commercial or residential heating and cooling, would generate a need for sheet metal workers and assemblers." People experienced in work with glass and plastics would be needed as well as heating and cooling equipment specialists and other specialized mechanics.

A \$2.1 billion per year investment for the next 7 years, would produce 19,000 direct jobs and 52,000 indirect jobs in the solar industry alone.

A total of \$14.3 billion per year invested in these four industries would generate over 777,000 jobs per year. They would draw heavily on the skills which IAM members and others who have worked in military industries have developed. But they would be working in a relatively stable, expanding civilian market.

Legislation to protect workers' employment has been written and is being promoted by the IAM. Its passage can be the beginning of a major shift in this country as some of the brains, the skills and the capital long devoted to armaments are turned to the civilian commercial pursuits which have historically employed our people and supported both our democracy and our standard of living.

CONCLUSION

No nation can afford to be undefended. But neither can any nation afford to indulge in wasteful procurement processes which encourage inefficiencies, bad management, and extravagant overruns.

The foundation of a nation's security is its economic strength. Practices which undermine this strength diminish our country's security. We can no longer afford to siphon off to the Pentagon such large sums of taxes that our civilian industries become non competitive in the world market and hundreds of thousands of our citizens are thrown out of work.

This report has suggested a conservative figure to cut the Pentagon's budget - \$14.3 billion. This sum transferred to job generating, secure civilian industries, would begin the crucial process of conversion.

This sum is substantially less than the hard pressed American taxpayer has been promised since 1970. During the war in Vietnam we were promised a \$20 billion "peace dividend" when the war was over. When the war ended, the military budget was \$80 billion. Four years later while the country was at peace, the Pentagon was getting \$105 billion. Two years after President-elect Carter had promised an *annual* reduction of \$5-\$7 billion, he was asking for \$127 billion.

The \$14.3 billion needed for a serious start on conversion is less than 14 months' *increment* for the Pentagon. This is the capital which could give us a major start on solar energy, bring our railroads and mass transit into the late twentieth century, reduce our dependence on foreign oil and give hundreds of thousands of our people jobs.

It is clear from this study that the money is there. Our Congressmen, Senators and President must be told that we want jobs, job security, an end to inflation, and a reduction of the Pentagon's swollen budget by transferring the unneeded money into job creating activities in the civilian sector.

This article has been reproduced with the kind permission
of the International Association of Machinists & Aerospace
Workers, 1300 Connecticut Ave, NW. Washington D.C. USA