

the presence of long-term projects in the work programs of some of the big prime contractors, such as North American, Lockheed, and Douglas, insulates them to some extent from annual fluctuations in the DOD budget.

TRANSFERABILITY OF RESOURCES FROM DEFENSE TO NONDEFENSE USE

Underscoring the foregoing is the fact that despite frequent forays into diversified commercial markets, defense-oriented companies have had disappointing sales and profits. The reasons may be summarized as follows:³¹

1. Low capitalization of defense contractors;
2. Little marketing capability;
3. Limited experience in high-volume, low unit-cost output;
4. A technical workforce unaccustomed to producing for a competitive market.

As Dr. Weidenbaum testified before the Senate Subcommittee on Employment and Manpower on November 21, 1963, aside from the handful of companies producing commercial aircraft (at little profit), the large defense suppliers have not been producing commercially beyond 1 or 2 per cent of total sales:³²

"The surviving efforts continue generally at marginal levels—either actually losing money, barely breaking even, or showing profit results considerably below military levels."

He noted the almost complete absence of personnel transfer from military to commercial work within the same company. The commercial departments of a defense company might be hiring engineers at the same time as its military department was laying off experienced technicians. There has been an inward movement of professionals and technicians from other industries and universities but no appreciable outward movement. In the aerospace industry, for example, between 1959 and 1963 production workers declined from 673,000 to 653,000 while the number of white-collar workers rose from 455,000 to 600,000.³³ In the six months ended March 1964, employment was down 10 per cent in missiles production and 1 per cent in aircraft, but up 11 per cent in space equipment over the preceding year.³⁴

It will be recalled that Dr. Stewart, in the *Nation's Business* article previously cited, referred to the "bumping" process that occurred in Los Angeles defense plants resulting from contract cancellations: less skilled workers lost their jobs as higher skilled workers took their places. Although some slack will be taken up by increased spending on the space program, a recent canvass of leading defense contractors indicated that this type of procurement was also expected to taper off.³⁵

THE LOCAL VS. THE NATIONAL PROBLEM

What is the principal economic problem of disarmament? Is it a problem of the level of national economic activity, or of local readjustments? The literature surveyed and the evidence available strongly suggest that it is the latter; and the prospect is that, with continued economic growth, the national problem will wane but not the local one. If there is a national problem, it is that of promoting vigorous growth while the local-regional problem will be to overcome barriers to the mobility of capital and the mobility and quality of labor so that these resources can be shifted to civilian use.

Resource transfer has both a local (regional) and national dimension. When Dr. Grampp writes³⁶ that the unemployment caused by curtailed defense production would cost society nothing if the labor and capital employed in defense industries had no alternative use, he is clearly referring to the national economy. Along this line he has noted that if labor, as the transferable resource involved, were to be absorbed into expanding civilian industries, the gain to the national economy would be about 5 percent of GNP.

Actually, the problem to which Dr. Grampp is addressing himself is the level of resource-use, not its industrial and regional pattern. As previously pointed out,

³¹ *Ibid.*, p. 3.

³² "The Transferability of Defense Industry Resources to Civilian Uses," a statement prepared for the Subcommittee on Employment and Manpower of the Committee on Labor and Public Welfare of the U.S. Senate, November 21, 1963, in the *Nation's Manpower Revolution*. Hearing of the Senate Subcommittee on Employment and Manpower, Washington, D.C., 1964, Part 9, p. 3146.

³³ Richard Rutter, *New York Times*, August 16, 1964, Sec. 3, p. 10.

³⁴ "Defense: Bad, But How Bad?" *Forbes*, July 15, 1964, p. 15.

³⁵ *Wall Street Journal*, July 7, 1964, p. 18.

³⁶ William D. Grampp, "Defense and Disarmament: Some Economic Surprises," *Michigan Business Review*, January 1964, p. 12.