

The United States tries to prepare for war

Richard Freeman uncovers the planners who think a wrecked economy can be a military machine

In the past three months a faction has consolidated within the United States to push this country toward the largest war buildup ever attempted. The main track of their program is identical with the 1937-38 factional program of Nazi leader Hermann Goering.

EIR has discovered that at top-level rearmament conferences this month, NATO-linked thinktank and government planners debated policies to 1) retool and divert U.S. industry to military output; 2) achieve Western hemispheric energy autarky, possibly based on seizure of Mexican oilfields; 3) intimidate Europe and Japan with threatened or actual cutoffs of Persian Gulf oil supplies.

Headed by the Hudson Institute, the Georgetown University Center for Strategic and International Studies (CSIS), the Rand Corporation, and the Hoover Institute on War and Peace, these are the same planners largely responsible for weakening U.S. strategic capabilities over the past 20 years.

Their policy was laid out at a closed session during the first week of June at Lawrence Livermore Laboratories, which discussed "The Macro-Economic Effects of a U.S.-U.S.S.R. Confrontation," and a June 16-18 conference sponsored by the Hoover Institute on War and Peace, ostensibly on energy questions, but in fact on problems of war preparedness.

The faction led by Paul Nitze of the Committee on the Present Danger and Herman Kahn, director of the military and energy planning thinktank, the Hudson Institute, remains oblivious to the actual state of the U.S. economy, and is spinning scenarios that would involve,

according to one Kahn aide, "up to one-quarter or more of the GNP for war production." Though it may be hard for some to take this figure seriously, Kahn told the Livermore meeting of scientists and military planners three weeks ago, "The defense budget can be \$500 to \$750 billion by 1983-84," a 300 to 500 percent expansion above the present level.

Such an attempt at military buildup on a decrepit industrial base has its historic precedent. In 1937-38, a huge faction fight broke out in Nazi Germany as to how to prepare for war when the economy, after 1936, had collapsed. The faction around Hermann Goering demanded that resources be immediately mobilized for war, without strengthening the base on which military production would proceed. Despite all its looted capital, raw materials and labor, once the blitzkrieg strategy broke down, the Reich could not sustain in-depth war-fighting, and as the opponents of the "total war" advocates recognized, shutting down all civilian production would only have hastened the collapse.

Under the Kahn approach, it is the U.S. economy that will be destroyed by an attempt to transfer resources for a military buildup from a gravely deteriorated industrial base. This February, *EIR* conducted several variant projections of such a scenario, using the LaRouche-Riemann econometric model that correctly anticipated the economic effects of the Federal Reserve's post-September 1979 policies. The results of the projections were a hyperinflationary collapse. Since defense spending contributes nothing to the physical reproduction of the economy but only consumes resources from it, the U.S.

economy in its present state could not withstand a large-scale military buildup (see graphs).

Others, notably a group of defense planners that includes prominent members of the International Institute for Strategic Studies, have also warned that "a quick fix" for the U.S. defense sector would "repeat the errors of the blitzkrieg economy" of Nazi Germany. What has not publicly come to the fore is the fact that vast military outlays will not only be inadequate, but will terminally weaken the U.S. industrial capability—unless they are focused on crash funding of the most advanced R&D and engineering in the fields in which the U.S. is now number two, starting with plasma physics and laser technology. A "nuclear, coal, synfuels and tanks" approach, pushed at the June rearmament conferences, is a dangerous joke by comparison.

Kahn at Livermore

This month's conference at Livermore, one of the top two or three American science laboratories, was attended by representatives of the U.S. military planning elite, including Paul Nitze, cochairman of the Committee on the Present Danger; Ambassador Robert Ellsworth, a leading member of the London-based International Institute for Strategic Studies; Brent Scowcroft, former number-two at the National Security Council under Henry Kissinger; and General Kelly Burke, director of U.S. Air Force Research, Development and Engineering. Livermore's top personnel were also present.

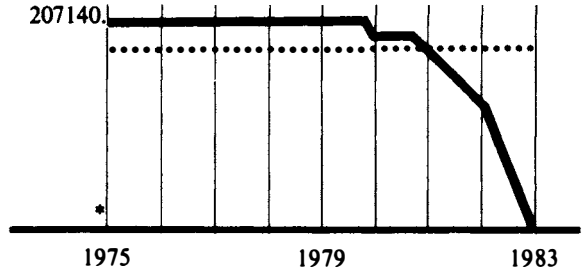
Hudson Institute director Herman Kahn told the closed meeting, according to his top aide, Neal Pickett, that "the U.S. is behind the U.S.S.R., and we cannot expect that our allies will think us capable of helping them out unless we launch an all-out buildup." He proposed a \$500-750 billion U.S. defense budget by 1983-84.

Kahn made two basic assumptions shared by the Nazi German economy: 1) the U.S. might have to operate like an autarchy, especially if the City of London blew up Arab oil fields; and 2) that productive sections of the U.S. economy could be 50 percent or more shut down and diverted to military production with few harmful effects.

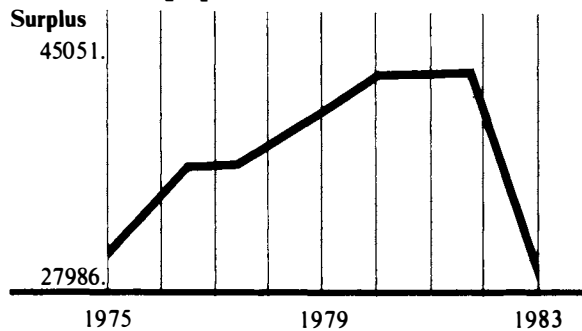
Stated Kahn's assistant Pickett in a June 18 interview: "If we had to, we could live without Arab oil and much of our trade. The U.S. could throw up a wall around itself, and operate within this wall. Of course this would mean accepting doing things inside in a different way and also a lower standard of living." When asked if the U.S. needed Mexican oil to partially make up for the projected lack of Arab oil, but Mexico were unwilling to grant it to the U.S., Pickett answered, "We'd take Mexico. We'd go in there and take it . . . but don't quote me on that."

Kahn's concern with a cutoff of Mideast oil is not

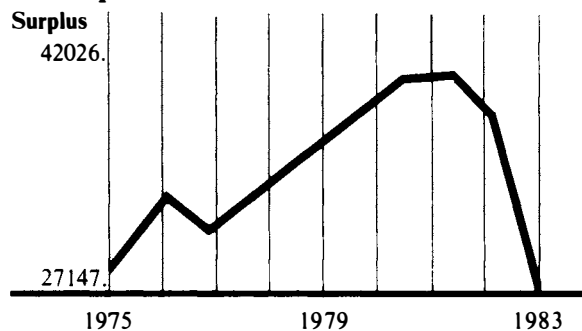
Net investible surplus



Electrical equipment



Metal products



In these computer simulations, the diversion of physical resources to military production in an already unhealthy U.S. economy inflicts a dramatic collapse in that economy's ability to reproduce its tangible assets. Net investible surplus is the output of a given production period remaining over and above the goods consumed in the categories of wages, fixed capital, and circulating capital. A negative surplus means that the economy is not even able to replace facilities and labor power, but has entered a phase of self-cannibalization. The computer-generated results are shown for the U.S. economy as a whole, and for two militarily essential sectors, electrical equipment and metal products. A full report on this study appeared in the Feb. 5, 1980 issue of *EIR*.

* Indeterminate

entirely an uninvolved one. Factions in and around British intelligence continue to work on the scenario that brought the Ayatollah Khomeini to power, the next step being to blow up or sabotage the Gulf oilfields, and bring Western Europe and Japan to their knees economically.

Kahn has his eyes on reconverting specific sectors of the U.S. economy. First, he would take over the construction industry. "To build fallout shelters, 50 percent or more of all construction output would be needed for two or three years. Homebuilding would have to be curtailed," Pickett said. Kahn would also convert the auto industry to military production, which explains one of the prime causes behind the rigged bankruptcy of Chrysler Corporation and a parallel attempt, fostered by credit rationing and recalls, to weaken Ford Motor Company. "We are asking ourselves," stated Pickett, "whether if we didn't produce a single car, could we squeeze by with enough military production?"

The Hoover conference

Under the direction of Ronald Reagan's energy adviser Edward Teller, the three-day Hoover Institute conference June 16-18 discussed whether the United States could survive without outside energy sources, and whether the present U.S. economy could achieve a World War II mobilization level today.

The conference was cosponsored by Scientists and Engineers for Secure Energy, whose president is Frederick Seitz of Rockefeller University. It followed a Hoover conference two months ago on how to finance a war buildup, featuring Frank Ikle of the Arms Control and Disarmament Agency and former Rand Corporation planner Albert Wohlstetter, currently at the Los Angeles-based Panheuristics organization. This week's sessions (see box) centered on energy and industrial synthetics, and auto conversion to war production. The context was established by U.S. NATO ambassador Robert Strausz-Hupe's address on "Military Problems of the Middle East," the June 17 keynote speech. Frederick Seitz is also a NATO adviser.

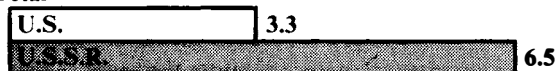
Presentations included "Institutional Structures of Wartime" (Robert Nathan), "Synthetic Rubber" (DuPont), "User-Fuel Substitution" (EPRI), "Expansion of Coal" (Bechtel), "Reallocation of Oil Supplies Within the U.S." (Harvard), and "Possibilities for Mitigating the Crisis" (CSIS). Other speakers came from GM, Socal, Oak Ridge, Westinghouse, GE, Commonwealth Edison, Stanford and Purdue Universities, and the San Diego Energy Center.

These discussions intersect a joint effort between CSIS and House Banking Committee chairman Henry Reuss (D-Wisc.) on implementation plans for Reuss's March 1980 proposal to give the U.S. Federal Reserve

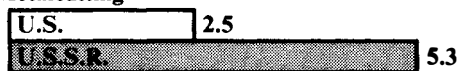
Machine tool inventory

(1978, million units)

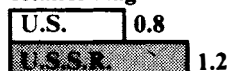
Total



Metalcutting



Metalforming



Source: Dr. James Grant, "Soviet Machine Tools: Logging Technology and Rising Imports," in *Soviet Economy in a Time of Change*, Vol. 1, Joint Economic Committee of the U.S. Congress, 1979.

Board the power to reorganize American industry, starting with the auto, shipbuilding, electronics and banking sectors. Within this Mussolini-modeled structure, priority credit extension would go to military output; a few weeks ago, CSIS began a study with the Federal Emergency Management Agency "on converting the auto industry to war production." Through Richard Allen and other advisers, CSIS has largely shaped candidate Ronald Reagan's policy proposals, as reflected in Reagan's announcement this week to the *Washington Post* editorial board that when elected, he will embark on a mammoth arms race to damage the Soviet economy.

The machine tool crunch

However, one faction of military buildup strategists is assessing not only reconversion, but expansion. Currently, at the U.S. Department of Commerce, under General Industry Division chief Robert Hungsbergter, and at Lawrence Livermore Laboratories, under the direction of George Sutton, as well as at the Departments of Defense and Air Force, a 120-man task force has been constituted considering the best way to overhaul and increase productivity of the machine tool industry so that a sufficient supply of machine tools would exist in time of war emergency. The two-year study now involves the top 150 of the 500 to 600 U.S. machine tool companies—which produce 90 percent of all machine tool output—to determine what their material, power supply, plant and manpower requirements are and how fast their capacity could be expanded. "One study," reported Hungsbergter June 13, "shows that a new machine tool plant could be built for \$5 million over 5 years time. But without much change in the cost, we know that the plant and equipment

if it had to be, could be up and operating within one and a half to two years." Hungsbergter reports that the project is considering putting as much as 50 percent of its expanded output into military use.

At the same time, reports Lawrence Livermore machine tool project head George Sutton, "we've been looking into the types of technology required. We have a high-turning machine out here at Livermore that has a tolerance of 1 millionth of an inch as opposed to the normal range of 1 thousandth." Livermore, which conducts some of the most advanced nuclear fission and fusion research in the nation, has in addition 1200 machine tools on its huge premises with which it experiments.

The overall work of the machine tool task force is operating under something called the "Machine Tool Trigger Program" at the Dept. of Commerce, which was last used during the Korean War. This program for rapid order build-up, has already sent out the paper work for billing new machine tools. "Everything has been done in advance except the transfer of money. This will save us 6 to 12 months when the demand for machine tools is finally put through," reported the DOC's Hungsbergter.

However, key in the machine tool area is the question of the shortage of skilled manpower. This is the most severe restraint that the industry has, enabling it to only staff a thin second shift of operations. The average age of most skilled machinists is 55 years old and apprentices are not coming along as fast as they're needed.

Some strategists in the industry are talking about moving toward robots—industrial machines—to replace the skilled manpower. But as others recognize, while robots represent a useful addition to the industrial process, and will displace some job categories while creating others, they cannot operate without skilled manpower of some kind.

From reality into fantasy

However, it is precisely the most important questions that have to be raised in terms of the real constraints on U.S. economic growth by labor skill and capital shortages which the crew around Herman Kahn refuse to address. For that reason, they have attempted to take all the work that is going on concerning a U.S. military buildup into the realm of utter fantasy, assuming that economic constraints don't exist and that simply willing a military buildup is sufficient to make the U.S. economy respond.

To examine the effects of the proposed Kahn military buildup, it is necessary to look at an economy from the standpoint of a productive machine. Military production is non-productive and thus constitutes a deduction from productive economic life and must be considered strictly

as an overhead cost (or tax) on the economy. There are security justifications for incurring such a tax. Yet, by piling non-productive overhead costs onto the economy, while simultaneously subtracting from the productive U.S. industrial base, as Kahn recommends, will lawfully produce a hyperinflationary depression.

The *EIR* has simulated the effects of such a defense buildup in early February, when the push toward militarizing the U.S. economy surfaced. Using the LaRouche-Riemann computer econometric model, for purposes of projection we assumed a \$30 billion per year rise in the defense budget during the next four years. This was a figure that represented a middle range of the proposals for defense budget increase then circulating. By 1984, this assumed a defense budget of roughly \$270 billion, far below the Kahn figure.

For the purposes of simulation, it was assumed that the \$30 billion per annum defense spending increment would be assigned to the sectors with the highest proportion of defense shipments (by Standard Industrial Classification): metals, metal products, transportation equipment, electrical equipment, non-electrical machinery, and instruments. The \$30 billion assigned to these sectors reflected steel plate, copper wire, specialty steels, forging facilities, bearings, silicon chips, machining capacity and so forth which would then be unavailable to other sectors, proportionally according to their capital intensity. This study assumed no new major breakthrough in the types of technology applied and few structural changes in U.S. armaments production.

For the total economy, this reads out as a \$30 billion per year transfer among sectors, and a cumulative \$30 billion per year reduction of surplus tangible product available for reinvestment.

The results are startling. The demands of the defense sector will so disrupt other sectors that defense production itself will begin to fall. In late 1982, the economy will enter the kind of crisis that Germany experienced in 1938-39, with well-known consequences. During 1983, even those industries which benefited earlier will begin to contract sharply and begin to fall below their 1980 production levels by 1984.

The extreme importance of the Kahn policy option is that he is not working in isolation, but with a policy matrix of people in both the Carter and Reagan campaigns as well as U.S. industry and the science community. Kahn spent this week at NATO meetings. Above all, while many people smugly deride his conclusions, it is his erroneous methodological approach on economics that they all share. In considering whether Kahn's viewpoint can be contained before his policy options become the law of the land, it is important to consider how and with what counterpolicies this group and its representatives in the Carter and Reagan camps can be neutralized.