

Arms Conversion

Converting arms factories to producing civilian goods.

Where to now?



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CONVERSION - WHERE DO WE GO NOW?

INTRODUCTION

Quite a lot of people still think in terms of Kidney Dialysis machines and Road-rail buses when the phrase arms conversion is mentioned. The implication is that activity around conversion is somehow associated with thinking up good ideas for what an arms plant could produce instead of its current product range. Apart from the fact that the debate over conversion has moved on considerably since the days of the Road-rail bus, the things which need to be done now to make conversion a possibility have to be taken account of too. Conversion is, in practical terms, almost impossible in Britain, so it is important that campaign work associated with it is directed at making it possible.

THE LUCAS MODEL

In the mid 1970's, following the election of a Labour government committed to cutting defence spending, a number of trade union organisations raised the question of support for those workers who would be affected by cuts. In effect they were lobbying for the defence budget not to be cut. In 1975 a delegation from the Lucas Aerospace Joint Shop Stewards Committee (JSSC) were faced with the probability of substantial redundancies in their company and went to see Tony Benn, then a government minister. His response was that it was pointless lobbying for more defence orders since he felt that cuts were more or less inevitable, and that the trade unionists should be looking for other work which could be done by their establishments. He was sympathetic to finding ways of supporting those companies in the transition from defence to civilian work.

The JSSC went back to their workplace and made an assessment of what their company consisted of and of what other work could be done with the skills and equipment available. They asked their members for suggestions about what they felt could be made. The response was remarkable; several thousand suggestions were received from the workers. The JSSC went through these and selected over a hundred they felt were real runners and had prototypes made to prove their viability. One was a cheap Kidney Dialysis machine and another was a bus which would be capable of travelling on railways. Both have become icons within the peace movement culture of what arms conversion means.

The company refused to consider the suggestions but were forced to reconsider their redundancy proposals. The JSSC were able to present their alternative plan to the company on a number of occasions when redundancy proposals were proffered by Lucas management and the company was forced to reconsider, even though they were not prepared to consider the plan. One magazine aimed at managers at the time said that if the company were not prepared to consider the plan this suggested the workforce were better able to run the company than the management were. One of the

reasons for the company's intransigence was clearly to do with their fear of democracy creeping into the management of their company.

For the people involved in the plan the exercise was very successful. Their intention was to save jobs and that is what they achieved.

Although this model - of auditing the skills and the productive capacity and of then coming up with alternative products for the company - could still be a very useful exercise for a company to go through, the problem lies elsewhere in our economy.

THE DIFFERENCES NOW

In 1975 Britain's engineering industry employed twice the number of people it does now and the government had in it some able imaginative people committed to maintaining a healthy economy, like Tony Benn and Eric Heffer. The situation now is drastically different.

One of the differences now is that a number of companies and business organisations, such as the CBI and the Engineering Employers Federation are supportive of the type of measures which could make arms conversion a possibility.

Another difference is that having been through 15 years of an insane industrial policy our arms industry is one of the few parts of our manufacturing base which is viable. We now have a massively distorted economy with an arms industry way out of proportion to the rest of the economy and a civil manufacturing industry devastated by insane industrial policies. Shifting production is a question of establishing new markets and management strategies rather than of overcoming technical problems associated with the production process.

Yet another difference is the significance of research and development. An arms race is essentially a technology race. The cost of designing modern weapons systems is now significantly greater than 20 years ago and the need to spread the cost over a long production run is that much greater. Over the past 15 years or so the gap between what Britain spends on civil R&D and what is spent by our industrial competitor has reached startling proportions.

We also now face significant reductions in a number of markets for weapons and savage competition from other producers, some of whom have far greater resources to devote to winning orders and have far greater production runs/R&D facilities etc.

So the scale of the problem is now vast compared to 1975.

THE PROBLEMS AND THE SOLUTIONS

i) The nature of legislation in Britain covering investment and finance does not lend itself to encouraging investment. The reasons, for instance, why Rover sought a partner from abroad were to do with the fact they could not raise the long term investment capital they needed to develop a new model of car. This short termism affects the arms industry also and it means that large scale new developments based on private capital

are out of the question. While arms companies in Britain are selling upgrades of older systems the competition are developing wholly new systems.

This has bred a culture within our financial institutions which demands rapid returns. The return in dividends from share in Britain is twice the norm for the rest of the world and ten times what would be the norm in Japan. The only way now to break this cycle would be to create a legislative structure which penalised excessive dividends and encouraged investment. At the moment the opposite is the case - if you buy a machine in Britain then in practice you pay 27% tax, but if you pay the money out in dividends you pay 16%.

Every successful manufacturing country in the world does not tax capital investment. In some cases they also give subsidies on investment capital.

ii) Much is made of the fact that Britain spends about half of the government-funded research and development on weapons while other developed manufacturing nations devote a fraction of this (in Japan for instance, it is less than 4%). According to the Defence Manufacturers Association, however, Britain uses a different set of criteria for assessing R&D to that used by our competitors and the real figure is about 20% (that is still twice what the Germans spend on theirs). When a warship tests its guns, this is classed as R&D in Britain. This is done to disguise the fact that R&D in Britain is pitiful compared to that of our industrial competitors.

Any serious attempt to develop our economy has to include a massive increase both in the amount our government spend and in the amount companies spends on R&D.

iii) The government is a huge market in itself. Other countries use this fact to support their own industries - ours does the opposite. The indecision and dithering over what to buy and what to cut in recent years has become a major headache for the companies concerned and one of the effects has been job losses and company closures. Infrastructure is also a factor in the viability of companies. A transport system that works would help a lot.

Weapons cost so much to develop that they need a long production run which means for Britain they have to be exported. The same dynamics apply to some aspects of civil production. If, for instance, there was significant investment in the rail network it would mean that Britain would be producing rail signalling equipment and rolling stock on a significant scale, which in turn would mean we would be in a position to export it.

Spending by government in a way aimed at stimulating and supporting industry would be of immense benefit for companies wishing to move into civil markets. It would mean they would be able to plan development in a significant way.

iv) The "free market" philosophy, so ardently advocated by our government is a misnomer. Our government have consistently intervened to support and encourage both arms production and the export of weapons. Also the philosophy can only work where the bulk of the other countries in the market do the same - and none of them do.

France regards European legislation inhibiting the support for industry as something to get round; Britain regards it as something to be enhanced.

One factor often forgotten is that the shape of industry in Britain is, more than any other country in the world, a product of direct government intervention. Almost all of our major industries have been through a process of nationalisation and denationalization. The government chose the shape of the companies when they denationalized, often breaking the industry up into a number of small parts. The result has been companies without a substantial enough capital base to engage in large scale developments. Our government intervene in a profoundly potent way from the cradle to the grave of industry. The problem is that the form of their intervention has been extremely damaging.

Mitsubishi Heavy Industries doesn't have a problem over cashflow, or interest rates on its investment programme, or insurance because it's a bank and an insurance company as well as a manufacturer. It builds its own ships. In Britain the shippers and shipbuilders fought each other because of the way the government structured those industries. Or at least they did before they virtually disappeared.

To undo the damage the 'Free Market' philosophy has done to our economy will take a range of different measures and careful reconstruction. That means a range of measures supporting specific aspects of the economy. An example is the package of measures the Clinton administration have put in place to try and rebuild their shipbuilding industry, called the National Shipbuilding Initiative. It includes a range of support measures such as tax concessions and support with training, a large amount of money, support with research and development, some subsidies. This is on top of existing legislation which subsidises shipping and discriminates against foreign owned vessels, and a fairly clear commitment to structure their warship procurement in a way which will support the industry. The administration have decided that shipbuilding is an essential part of the heavy engineering base within any major manufacturer and they clearly intend to make it work. Not all the measures mean money, but clearly some do and the administration hasn't balked at providing it.

There isn't anything magic about the way this works. The difficulty is the scale of the problems we face and the amount of cash it will require to get to a position where our industry can begin to function effectively.

THE NEED FOR SOCIAL SPENDING

There are two basic reasons why it is so important for the trade union and peace movement to campaign for our government to create a commercial environment within which manufacturing can flourish. It is not just to create jobs in those industries. One is that we need it to create the wealth for an expansion of our welfare provision; the other is that the consequences of not doing so involve social deprivation on a massive scale in the not too distant future.

i) Britain depends on manufacturing to create wealth. The fabric of our welfare support is dependent upon a healthy manufacturing economy producing the wealth to

support it. One of the reasons why our welfare support is crumbling is that our government cannot afford to maintain it, because it no longer has the wealth creating capacity within our economy.

ii) To bring pensioners' living standards up to the European average would take an additional £24 billion per year. The current government and, to some extent, the opposition have decided they can't do it. But there are currently 4.2 million pensioners living on or below the poverty line as the EU define it. 50,000 people die of hypothermia or related illness every year. This could double because of VAT on fuel. In some senses our government's solution to the funding crisis for pensions is to bump off pensioners.

You can't turn an aircraft factory into a pension scheme or a hospital, but you can fund pensions and hospitals from a healthy civil aircraft manufacturer from the tax on people who work in it, the benefit to our balance of trade, from taxing the share dividends and from the tax on the sale of the product.

CONCLUSION

Disregarding the morality of selling weapons abroad, sticking with high defence spending and a high rate of weapons production is no longer an option, which it was in the mid 70's. For instance even if the EFA is built, there will be no other aircraft of its type developed in Britain. The decline of key parts of our economy is happening, there is no way round it. The current government are allowing the industries to collapse. If this continues unabated the social deprivation we are currently experiencing will develop apace.

The shipbuilding industry, for instance, is not a luxury we can do without, it is key to the possibility of Britain's economy functioning in any coherent form. Yet, with the decline in orders for warships it is being systematically closed down. The long term effect on our economy of this alone will be devastating.

Using the skill base and the productive capacity, the technology base that the arms industry represents as a springboard for an expansion of the rest of the manufacturing base is, on the other hand, a runner.

The option of not rebuilding our manufacturing base and of not redirecting the manufacturing capacity currently making weapons is not really open to us, unless we are prepared to accept poverty and deprivation dominating the lives of most of our population. The defence budget is not a pile of coins which can be put wherever we would wish. What we can do is redirect the productive capacity which the arms industry represents.

In effect we either change or sink.

NOTE ON SOME OF THE EFFECTS OF DEFENCE PROCUREMENT

The United States Government has complained bitterly in the past about subsidies given to the European Airbus by European governments. The EC have responded by pointing to significant subsidies given the US aerospace industry by the support given in the production of military aircraft.

It is, therefore, a well established concept that support for military aircraft projects can filter to the civilian market. The "Fly By Wire" technology, for instance, developed for the Eurofighter is already being built into the latter versions of the Airbus. This is where the pilot indicates what he or she would like the aircraft to do and a computer makes the adjustments - in effect the computer does the flying, clever stuff. This is an example of 'technology spin-off' often used to justify military spending. The most famous example of this was the development of Teflon in the Apollo programme. Technology spin-off is significant but its also important to keep it in perspective. Developing an ICBM is not a very efficient way of developing a non-stick frying pan.

There are areas where the cross over of technology is more direct and far more significant. For instance Britain is currently considering a new fleet of transport aircraft for the RAF - referred to as the Future Large Aircraft (FLA). Since such aircraft would be vital to humanitarian relief projects, which the peace movement and trade unionists alike would be supportive of, depending on the context, there should not be too much a problem arguing that this is a justifiable use of the military budget. But the RAF are arguing that they should have these immediately, which means that they want to buy American aircraft. Waiting 2 years and buying the newer Airbus transport aircraft would mean that the what is essentially a civilian aircraft would be subsidised by the military expenditure. It would also mean the aircraft would be built in Britain, the skill base and technology base in the industry would be maintained if not enhanced and the money to pay for them would not be exported abroad. The idea that the MOD could consider a decision so damaging to our own industry and our economy as importing the aircraft is quite remarkable.

How the MOD spends its budget should be an issue for both the peace and trade union movements. The FLA could provide a boost for Airbus or it could seriously undermine it. The protection of the economic interests of the USA is part and parcel of the criteria the US DoD use in procurement decisions and this should be the case in Britain too.