

Arms Profits Not Reaped

by BRUCE COMPTON

I am compelled to smile whenever I hear voiced the common misconception that "huge" profits are reaped from defense contracts. The origin of such statements lies more in leftist propaganda than it does in an honest search for the truth. A consideration of the origin and present status of defense contracts quickly dashes this common fallacy against the rocks.

First, the development and subsequent production of military equipment is in response to government requests which themselves are the result of military necessity. Military equipment is not first developed and then sold to the government by avaricious arms makers. For example, nearly all tanks, transports, and other heavy motorized equipment are produced by Chrysler, Ford, General Motors, and Kaiser. Over half a century ago, these companies (or those then in existence) were requested by the government to develop motorized vehicles for military use.

Because of the fact that these companies did then and do now possess the technological capabilities necessary for the development of such equipment and its production, they were chosen. None of them has ever gone to the government and begged that they be permitted to produce such equipment.

They assume the burden of

production because it is recognized that they are more capable than anyone else to accomplish the task at hand.

Is there an enormous profit to be derived from producing military equipment on a contract basis? Decidedly not. To begin with, all defense contractors are held by the government to low profits. A research-development and/or subsequent production contract which produces profits beyond a very modest six percent is an exception. Furthermore, it is not at all uncommon for a concern to lose money on such an undertaking.

Why, then, do companies even produce such equipment? Many (Hughes Aircraft Co. is an example) do so in order to retain highly skilled technical and scientific personnel on their payrolls. During a slack business year, many companies find it more wise to make a modest profit or even to lose a small amount of money on a defense contract, rather than to lose these high-caliber personnel to other industries or to government. If they did not have a government contract to tide them over, these personnel would have to be laid off and would quickly find employment elsewhere. Hence, we see that there is SOME benefit to be derived from defense contracts, but it hardly even approximates the monumental proportions many would have us believe.

Another point worthy of

mention is that military-defense business often constitutes such a minute fraction of the overall business activities of our larger industrial concerns, that it is totally unnecessary to them. Moreover, in the case of Chrysler, defense business harms the overall profit picture rather than helps it. For Chrysler, Ford, General Motors, and Kaiser, there are greater profits to be made from peacetime consumer production than from military contracts.