

## Pentagon Capitalism

Seymour Melman is remembered as one of the most conscientious critics of the military-industry system. His many books on the subject, ranging from *Our Depleted Society*<sup>1</sup> (1965) and *Pentagon Capitalism*<sup>2</sup> (1970) to *Profits Without Production*<sup>3</sup> (1983) and *The Permanent War Economy*<sup>4</sup> (1985), demonstrate his farsightedness. It is no wonder that this is so, for he was uniquely well suited to research the corporate-military nexus. Melman served as a first lieutenant in the U.S. Army during World War 2 before earning a doctorate in economics and professionalizing as a professor of industrial engineering.<sup>5</sup> According to the *Institute of Industrial & Systems Engineers*, the profession of industrial engineering is “concerned with the design, improvement and installation of integrated systems of people, materials, information, equipment and energy. It draws upon specialized knowledge and skill in the mathematical, physical, and social sciences together with the principles and methods of engineering analysis and design, to specify, predict, and evaluate the results to be obtained from such systems.”<sup>6</sup> Melman applied the technical expertise characteristic of this field to the state-corporate network comprised of the Pentagon, research centers, and defense manufacturers. Over the course of his studies, on both impassioned moral and dispassionate economic grounds, he maintained that the U.S. must demilitarize by converting ‘defense’ enterprises and diverting ‘defense’ spending to socially productive institutions. By all accounts, Melman was sincere in his efforts to affect this change.<sup>7</sup>

Ralph Nader has stated that “sagacious Americans like Seymour Melman will not receive the attention... [they deserve] unless we the people, who own the public airwaves, begin to control and use our own media”.<sup>8</sup> These days, most of Seymour Melman’s work remains underread and *Pentagon Capitalism* is no exception. Nonetheless, the book’s core premise is straightforward and viable. In *Pentagon Capitalism*, Melman’s principle objective is to prove that ostensibly independent research institutions and private defense manufacturers — particularly in aerospace — are assets under the management of “the largest industrial central administrative office in the United States — perhaps in the world”<sup>9</sup>, namely the Pentagon.

Modeled after the central administrative offices of multi-division industrial firms — such as the Ford Motor Company, the General Motors Corporation, and the General Electric Company — the new top management in the Department of Defense was designed to control the activities of subsidiary managements of firms producing... goods and services for the Department of Defense.<sup>10</sup>

Crucially, Melman’s unit of analysis is the ‘management’ as opposed to the state, the corporation, or the ‘complex’ formed of their fusion. Consequently, his analysis hinges on his application of this category. For this reason, it is necessary to reproduce his definition of a management.

For this analysis of the Pentagon, what is crucial is whether the top decision-making group is a true management. A management is defined by the performance of a set of definable functions which give management its common character, whether the enterprise is private or public. A management accumulates capital for making investments. Management decides what

to produce, how to carry on production, how much to produce, and where to dispose of the product at the acceptable price. It is the performance of these functions by the new organizations in the industrial directorate of the Department of Defense which defines it as a bona fide industrial management. In addition, the operating characteristics of this new management are comparable to those of other industrial managements. The special characteristics of the state-management are associated with its location in the government and its control over military production.

While the industrial-management in the Department of Defense actually owns only a minority part of the industrial capital that is used for military production, it exercises elaborate control over the use of all resources in thousands of enterprises. This differentiation between ownership and control is the classic one of the modern industrial corporation. Ever since Berle and Means did their classic study on *The Modern Corporation and Private Property*, it is well understood that the top managers of an industrial corporation do not necessarily wield property rights over the assets used in production, but do control the use of these assets. The differentiation between ownership and control is a central feature of the new state-management.<sup>11</sup>

The Pentagon does not own the firms it contracts with, but it effectively manages them. In view of this operationalization of the term 'management', perhaps *Pentagon Capitalism* isn't the most befitting title. After all, it is the absence of typical market relations that characterizes private defense firms' relationships with one another and the state, as they are filtered through an intricate managerial prism emanating from the Pentagon. Melman continues,

the creation of the state-management marked the transformation of President Dwight Eisenhower's 'military-industrial complex'<sup>12</sup>, a loose collaboration, mainly through market relations, of senior military officers, industrial managers, and legislators. Robert McNamara, under the direction of President John Kennedy, organized a formal central-management office to administer the military-industrial empire. The market was replaced by a management. In place of the complex, there is now a defined administrative control center that regulates tens of thousands of subordinate managers... By the measure of the scope and scale of its decision-power, the new state-management is by far the largest and most important single management in the United States. There are about 15,000 men who arrange work assignments to subordinate managers (contract negotiation), and 40,000 who oversee compliance of submanagers of subdivisions with the top management's rules.

The state-management has also become the most powerful decision-making unit in the United States government. Thereby, the federal government does not 'serve' business or 'regulate' business [as against Marxist and liberal theories of the state]. For the new management is the largest of them all. Government is business...<sup>13</sup>

This thesis is elaborated in the first half of *Pentagon Capitalism*.<sup>14</sup> In the book's most substantive and second chapter, which is on the topic of 'How the State-Management Controls its Empire',

Melman draws on the Defense Supply Agency's *Armed Services Procurement Regulations (ASPR)* and *The Defense Procurement Handbook*. The Defense Supply Agency<sup>15</sup> is an administrative arm of the Department of Defense (DoD). These manuals are produced by the DoD for branch personnel and contracting firms. Melman's close reading of this material evidences his central claim that "the Pentagon's top managers have evolved an elaborate network of regulations and practices by which they provide fixed and working capital to sub-managements under their control, thereby penetrating deeply into the decision-processes of the subordinate managements"<sup>16</sup>. For instance, private firms contracted by the Pentagon cannot engage in the standard practice of subcontracting without authorization from the state-management (as per *ASPR* 1-707; 1-808) in accordance with procedures stipulated in *ASPR* 3-9000. More to the point, defense contracts include provisions (e.g., *ASPR* 7-103.2; 7-602.2) that give Administrative Contracting Officers the right to review a firm's designs and order changes on a whim. These officers report to the Defense Contract Administration Services (DCAS), a division of the Defense Supply Agency. The DCAS headquarters in Alexandria, Virginia is responsible for regional, district, area, and plant offices, some of which are located within military-industrial firms.<sup>17</sup>

In addition, Administrative Contract Officers, in fulfilling the control requirement of top management, are directed to conduct progress evaluation conferences and reviews and to superintend the installation and operation of special scheduling and cost control systems, as required...<sup>18</sup>

Through this network, the buyer-seller and contractor relationship has been converted into a relationship of top management to subsidiary management... [Where] compliance with central management policy is policed by special administrative units established in the central administrative office. The result is that a central office can set policy for an indefinitely large number of sub-units.<sup>19</sup>

In essence, the relationship between the Pentagon and the nominally private manufacturers it contracts resembles the relationship between "the central office of a multi-division firm, as in Ford, General Electric, and others, to the several divisions of that firm"<sup>20</sup>, rather than the relationship that obtains between buyers and sellers in nondefense industries. Not only do DoD manuals prescribe, and DCAS officers police, the production process, but defense contractors 'sell' to one customer, the Pentagon, conferring obvious advantages upon the would-be 'buyer'. Furthermore, defense firms rely on the Pentagon to initiate the projects that ensure their viability. What's more, the Pentagon can contract for any one product from one or another firm. By force of circumstance, the commodity that defense contractors are in the business of selling to the Pentagon is the "competence to perform operations in accordance with specifications given by the top management"<sup>21</sup>, which further reinforces the Pentagon's control over these 'submanagements'.

Melman is concerned to demonstrate that this state of affairs leads to irrational and dangerous outcomes. To this end he quotes a *Washington Post* report on the peculiar case of the F-111 (TFX) warplane contract, which was granted to General Dynamics (GE) as against a considerably more qualified bid from Boeing. Clark R. Mollenhoff reports that "General Dynamics, deeply in debt, had

a vital interest in the multi-billion-dollar TFX warplane contract. With that TFX contract, General Dynamics could recover from the shattering [\$400 million] financial loss by the Convair airplane division. If General Dynamics failed to win the award of the TFX contract, the huge defense complex faced the possibility of more serious trouble.”<sup>22</sup> Melman advances the argument that the Pentagon awarded GE the TFX contract in order to ensure “its continued availability in the family of industrial managements working for the Pentagon”<sup>23</sup>. This behavior is in keeping with the self-fulfilling logic of managements. For Melman,

all large managerial organizations, whether private or governmental, carry on planning and calculate choices among alternatives. When confronted with an array of different ways to solve a particular problem, members of a managerial team are impelled by their particular professional-occupational requirements to select those options that will maintain and extend the decision-power of the managerial group, and improve their own professional standing in the managerial hierarchy. This sort of selective preference by managers is operative in industrial management whether private or public.<sup>24</sup>

In the second half of *Pentagon Capitalism*, Melman draws a line from this managerial rationality to such seemingly irrational pursuits as the hopeless ‘Vietnam wars program’<sup>25</sup>, the profitless ‘preemptive sale’<sup>26</sup> of arms to foreign states, and the endless iterations on bacteriological, chemical, and nuclear weapons. As to the latter, Melman asks readers to consider the fact that, even allowing for a 50 per-cent failure to deliver warheads, the U.S. in 1963 could have destroyed all of the U.S.S.R.’s population and industrial centers 1,250 times over.

When you vary the assumption, you change the estimate of overkill. But these differences are meaningless: there is no significant difference in human terms between an overkill of 2, or 200, or 2,000. The existence of an overkill buildup was finally confirmed by the Department of Defense itself, but there was no response in terms of cutting off new money for these purposes. That would have meant cutting down the industrial empire. Clearly, it is always possible to develop a more accurate missile, a more powerful warhead, a more efficient fuel in power-weight ratio, and the like. As these ‘improvements’ operate in the overkill range, these changes are without military meaning.<sup>27</sup> However, as contributions toward maintaining the decision-power of the state-management, such ‘improvements’ in military technology are obviously serviceable.<sup>28</sup>

In view of the fact that each of the major powers enjoy overkill capacities, ‘defense’ and ‘superiority’ are meaningless catchphrases in the context of military capabilities. Despite this, the military-industrial establishment continues to use them as rallying cries to the end of accumulating capital in the form of assets under management. But there is an important distinction here. Private industrial management depends on the “processes of conversion of money from investment funds to products sold on the market place and to new capital funds for further investment”<sup>29</sup>. In the civilian sphere, the extension of managerial control occurs by and through profits and thus requires as a precondition market stability.

For private industrial management, this [stability] is a highly desirable condition, because this makes possible predictability in the ongoing. Where costs, prices, and the value of the dollar in purchasing power are highly unstable, the investment-recoupment process of capital for private management is rendered extremely difficult to operate — it is put ‘out of control’. These limiting conditions are not operative for the administrators of the state-management, for they deal directly with the conversion of capital funds into decision-orders on industrial operations. Also, their products need not be designed to be salable at a price producing a profit which they may accumulate for further investment. Their investment funds have been constantly acquired in the name of defense from a willing Congress and nation [who have been indoctrinated to fear ‘communists’ and technological ‘gaps’<sup>30</sup>]. Accordingly, instability in costs, prices, and profits are no major constraint for the managers of the state machine. And so, when military outlays at home and abroad become the traceable cause of danger to the value of the dollar relative to other currencies, it is not a source for alarm among the Pentagon managers...<sup>31</sup>

The state-management gets the effect of profit-accumulation and investment (i.e., enlarging its decision-power) without an intervening process of selling products and accumulating an actual money profit. This management draws on the continuous flow of fresh capital granted to it by the Congress of the United States...<sup>32</sup>

[In consequence] no conventional rationale justifies or explains either the existence of a profit category or the escalation of costs and profits under Pentagon top-management control. The profit category must be understood here as another form of payment by the federal managers to their submanagements. This is exactly the way in which it is discussed in the Defense Procurement Handbook — as a regulated (cost) way of controlling contractor performance (p. 63). From this standpoint, profit is a payment to submanagement for something, that is, for accepting and complying with decisions made by the top managers in the Office of the Secretary of Defense...<sup>33</sup>

While the state-management itself earns no profit, selected submanagements are granted capital funds — in excess of costs — by the central office. These capital grants are termed ‘profit’ in the conventional accounts of the subfirms, although this ‘profit’ is surely not the entrepreneur’s reward for risk-taking...<sup>34</sup>

People accustomed to thinking about the activities of managers and firms in terms of a free-market economy are often aroused at apparently large military-industry profits. But these practices do not produce a similar reaction from the government top managers, because they have different priorities. Their major end-in-view is not the minimization of cost for particular military goods, but rather the maintenance and enlargement of the entire military-industrial empire and their control over it.<sup>35</sup>

A point of emphasis in *Pentagon Capitalism* is that the growth of the military state-management is ‘parasitic’, rather than ‘productive’, in the sense that it is “based upon preemption of a lion's share of

federal tax revenue and of the nation's finite supply of technical manpower"<sup>36</sup> for asocial purposes that are pursued at the expense of civilian programs requiring the services of comparable manpower and capital. In Melman's own words,

Parasitic growth refers to products which are not part of the current level of living and cannot be used for further production. Productive growth refers to products that are part of the current level of living, or that can be used for further production. The activities of producing for and operating the military establishment fall in the category of parasitic growth. This holds despite the fact that the people who do the work are paid wages and salaries, and that these are used, in turn, to supply their own level of living. The crucial point is that the product of the military-serving workers, technicians, and managers is a product that does not enter the market place, is not bought back, and cannot be used for current level of living or for future production.<sup>37</sup>

Therefore, Melman contends that "the true cost [of the military establishment for the nation] is measured by what has been foregone, by the accumulated deterioration in many facets of life..."<sup>38</sup> His evidence for this ranges from tabulations of DoD cost overlays and calculations respecting the age of metal working machinery, to estimates of the quality and quantity of 'manpower' dedicated to military purposes and the fact that he recorded the first draft of *Pentagon Capitalism* on a tape recorder made in Japan.<sup>39</sup> Conceding that military technology and organizations do unlock new possibilities in the interconnected realms of American foreign and domestic policy, Melman insists that as a result of military growth these new possibilities tend to be military ones "that actually impose severe limitations on United States policy choices. That is, since the state-management has the largest share of the federal budget, attention is focused on military options at home and abroad, while the preemption of resources further limits the development of non-military policy capability"<sup>40</sup>, which is the only viable path to security in the age of weapons of mass destruction.

Patchworking passages from *Pentagon Capitalism* composes a suitable conclusion.

Failing evidence that, as a group, major industrial firms had a stake in Vietnam that might be served by large-scale U.S. military intervention one might fall back on the possibility that perhaps the largest Pentagon sub-firms gain from the war and, therefore, perhaps, pressed for the war. But this speculation falls afoul of the evidence given in Chapter 2, which establishes the Pentagon as their top management. The available evidence points to the direction of major formal control coming primarily from the Department of Defense to these firms, not in a reverse direction. This is not to gainsay the undoubted impact of ex-contractor personnel on the functioning of the Pentagon itself. But this effect must be seen in the context of who manages and who controls. Thus, in multi-division firms, the central office typically co-opts personnel from the divisions. That fact does not lead to the inference that the divisional managers are thereby controlling the central office. Similarly, the movement of sub-managers into the state-management itself does not alter the essential location of control—at the Pentagon and not among the subdivisions...<sup>41</sup>



On September 3, 1968, *The Washington Post* headlined an article on Pentagon industrial procurement with 'Much of Pentagon's \$45 billion spending buys nothing'. I do not agree with the judgment contained in that headline. Decision-power is being purchased by the state-management's industrial expenditures, even where these are related to goods that are finally scrapped...<sup>42</sup>

In all of this, the controlling factor is not a political party or a single political theory, not a personality, not a conspiracy: the existence and normal operation of the Pentagon's management-institution dominates and gives continuity of direction.<sup>43</sup>

- 1 <https://archive.org/details/ourdepletedsocie0000seym>
- 2 <https://archive.org/details/pentagoncapitali0000melm>
- 3 <https://archive.org/details/profitswithoutpr0000melm>
- 4 <https://archive.org/details/permanentwarecon0000melm>
- 5 <https://web.archive.org/web/20250519175157/https://www.latimes.com/archives/la-xpm-2004-dec-20-me-melman20-story.html>
- 6 [https://web.archive.org/web/20250614000120/https://en.wikipedia.org/wiki/Industrial\\_engineering](https://web.archive.org/web/20250614000120/https://en.wikipedia.org/wiki/Industrial_engineering)
- 7 See his 1969 ‘Memorandum to the U.S. Senate Armed Services Committee’ in Appendix C of *Pentagon Capitalism*
- 8 <https://web.archive.org/web/20250519175157/https://www.latimes.com/archives/la-xpm-2004-dec-20-me-melman20-story.html>
- 9 *Pentagon Capitalism* p. 2
- 10 *Pentagon Capitalism* p. 4
- 11 *Pentagon Capitalism* p. 20-21
- 12 *Pentagon Capitalism* Appendix A is a reproduction of General Eisenhower 1946 *Memorandum for Directors and Chiefs of War Department General and Special Staff Divisions and Bureaus and the Commanding Generals of the Major Commands* on the subject of ‘Scientific and Technological Resources as Military Assets’. This document had the same effect on the foundation of the ‘Military-Industrial Complex’ as the ‘Powell Memo’ had on the consolidation of business power in the U.S. Fifteen years later, President Eisenhower famously cautioned against complacency in the face of the military-industrial complex in his farewell address, which appears in *Pentagon Capitalism* as Appendix B.
- 13 *Pentagon Capitalism* p. 2
- 14 See also the chapter on ‘The American Corporate-State Regime’ in his last book *War, Inc* (2008):  
<https://ejournals.library.vanderbilt.edu/index.php/ameriquests/article/view/126/135>
- 15 The Defense Supply Agency has since been renamed ‘The Defense Logistics Agency’
- 16 *Pentagon Capitalism* p. 50
- 17 See *Pentagon Capitalism* Appendix D for a tabulation of DCAS offices.
- 18 *Pentagon Capitalism* p. 67
- 19 *Pentagon Capitalism* p. 35
- 20 *Pentagon Capitalism* p. 37



- 21 *Pentagon Capitalism* p. 45
- 22 *Pentagon Capitalism* p. 54
- 23 *Pentagon Capitalism* p. 54
- 24 *Pentagon Capitalism* p. 20
- 25 See *Pentagon Capitalism* Chapter 6 'The Vietnam Wars Program and Its Consequences' for discussion.
- 26 *Pentagon Capitalism* p. 94
- 27 It is worth noting that Melman's position on the inability of nuclear stockpiling to confer advantages in the era of overkill capacity appears to be at odds with his accounting of the Cuban Missile Crisis concluding on page 135.
- 28 *Pentagon Capitalism* p. 83
- 29 *Pentagon Capitalism* p. 24
- 30 *Pentagon Capitalism* p. 225-226
- 31 *Pentagon Capitalism* p. 24
- 32 *Pentagon Capitalism* p. 177
- 33 *Pentagon Capitalism* p. 65
- 34 *Pentagon Capitalism* p. 218
- 35 *Pentagon Capitalism* p. 65
- 36 *Pentagon Capitalism* p. 2
- 37 *Pentagon Capitalism* p. 30
- 38 *Pentagon Capitalism* p. 3
- 39 See *Pentagon Capitalism* Chapter 8 'The Cost of the Para-State to American Society' for discussion.
- 40 *Pentagon Capitalism* p. 168
- 41 *Pentagon Capitalism* p. 156
- 42 *Pentagon Capitalism* p. 181
- 43 *Pentagon Capitalism* p. 34