



Defense Stimulus:

A Key to American

Recovery and Reinvestment

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The Obama Package: Political Realities

Barack Obama [GMU Speech, 1/8/09]

- Create 3 million jobs, 'overwhelming majority' in private sector
- New jobs 'that pay well and can't be outsourced'
- Save public-sector jobs of those who 'provide vital services'
- Infrastructure 'to keep us strong and competitive in the 21st century'

Axelrod [Face the Nation, 12/28/08]

- \$675 to \$775B over two years

Republican responses

- Boehner: 'I do believe Washington has to act,' achieve 'right balance' of tax cuts and spending
- McConnell: 'The question is: How big and what form?'

Bottom line: \$ 800B package; \$300B tax cuts, \$500B spending

Stimulus Spending Principles

Consensus of mainstream economists [Feldstein, Lindsey, Winston]:

- Finance now: government zero interest rate
 - Spend where resources are slack
 - Expand employment
 - Domestic content
 - Nationwide effect
 - Spend funds in a timely fashion
 - Bring forward or extend proven and previously funded projects
 - Strengthen economy for the future
 - ‘Things that should be done anyway;’
 - Stimulus should produce other public goods: ‘large social return’
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- **Bottom line: All stimulus spending should meet these benchmarks**

The Defense Stimulus

Up to \$25 billion per year in new defense spending

- Less than 7 percent of total estimated stimulus package; 10 percent of 'spending stimulus'
- Easily 'digestible' in context of defense budget

Create thousands of new American jobs

- Build upon current defense-sector growth
- 20,000 additional soldiers
- Preserve stable and efficient union workforce [approx one-third of total]

Proven and previously funded programs

- Extend 'hot' or 'warm' procurement lines
- Bring forward advanced research to development or procurement

Preserve American jobs soon at risk

- Terminating programs will create dislocation within defense workforce

Promote American exports

- Foreign military sales reduce U.S. units costs, improve trade balances, strengthen alliances
- American systems in high demand: C-17, Aegis, Patriot, CH-47, F-22

The Case for Targeted Defense Spending

Domestic content

- ‘Aerospace’ direct employment more than 655,000; U.S. auto and parts employment about 827,000 [BLS, November 2008]
- All major programs manufactured in U.S. [F-18 program relies on 445 suppliers; creates 110,000 direct and indirect jobs in 44 states; estimated total economic impact of \$4.6 billion per year]

Nationwide effect

- All major programs depend upon national manufacturing base [F-22 program and 1,000 suppliers employ 95,000 in 44 states]
- Even imported major designs manufactured in U.S. [VH-71 Presidential helicopter will be built by 200 firms in 41 states]

Bring forward or extend previously funded projects

- C-17 subcontractor ‘stop work’ orders set for 2009; will affect 700 suppliers in 42 states, employing 25,000
- TSAT program: \$800M per year in DOD research funding, but DOD budget problems and restructuring prevent development, procurement from going forward [~\$22B through 2023]; program scaled back or replaced by less-secure commercial derivative

Timely spending

- Defense spending meets ‘shovel-ready’ test
- Mature defense procurements can sustain high ‘spend’ rates; personnel spending occurs in year of appropriation

The Case for Defense Spending, II

Strength for the future

- Highly competitive U.S. manufacturing sector; \$32B in FMS in 2008; \$123B from 2000-2007, more than twice Russia and 5 times UK, France
- Source of technological innovation
- Preserving highly-educated American workforce; TSAT problems put 5,000 high-quality, advanced technology jobs, averaging \$70,000 per year, at risk
- Potential for further export growth [\$24B in 2007 to \$32B in 2008]

'Should be done anyway'

- Enduring strategy-resource mismatch since 1990s [More than \$150B in deferred procurements through 1990s; baseline budget falling to 3.6 percent of GDP; 4 percent mainstream expert consensus]
- Too-small force [1.4 million active v. 2.1 million in 1990], aging major weapons systems
- Stretched force: Two wars, global presence; "surge" in Afghanistan offsets drawdown in Iraq

Larger public good

- Maintaining American leadership in era of economic and geopolitical uncertainty
- Security of commerce through 'global commons' [sea, air, space, cyberspace]
- Preserving access to natural resources, reassuring allies and trading partners

Bottom line: Defense should be part of sensible stimulus spending

- Adjusting 'baseline' budget a separate issue, to be addressed in normal budget and appropriations process

The Right Defense Stimulus: Aircraft

F-22 Raptor

- World's only operational 'fifth-generation' fighter; key to continued U.S. air dominance for decades
- The Threat returns: Russia, China developing fifth-generation aircraft; developing and exporting improved air defenses
- Original requirement: 750 F-22s; program set to end in 2009 at 183
- Export opportunities: Japan, Australia
- Renew three-year contract for 20 F-22s at \$4 billion per year
- 95,000 American jobs, 1,000 suppliers in 44 states, 99.9 percent U.S. jobs

F-18 Hornet

- Strike/fighter is backbone of Navy carrier air wings; bridge to F-35
- Navy short 1 wing in 2010, 2 in 2012, 3 in 2016; shortfalls persist until JSF full production
- "G" model needed for electronic warfare, suppression of enemy air defense
- Current plan leads to termination of production line in 2013
- Renew current multi-year contract, 35 aircraft per year at approx. \$1.8B

C-17 Globemaster

- Large load, global reach, short-field capacity key to U.S. power projection, sustainment
- U.S. requirement: Chronic airlift shortfall
- Proven export: Britain, Australia, Canada, NATO, Qatar; civilian potential
- Line to end in 2009
- Restore procurement to 12 per year, \$3 billion per year

The Right Defense Stimulus: Aircraft II

V-22 Osprey

- Proven tilt-rotor technology now in use in Iraq; critical to Marine ship-to-shore, and on-land mobility, speed, range; replaces Vietnam-era CH-46, now in full-rate production
- Increase procurement from 36 to 42 per year; approx. \$500M

Other investments

- CH-47 “Chinook” heavy-lift helicopter, workhorse of Afghanistan: Increase CH-47 procurement from 16 to 24 per year; \$225M;
- Predator/Reaper UAV: Key to GWOT ‘global manhunt’: Increase from 60 to 75 per year, \$200m;
- Global Hawk UAV from 5 to 6 per year, \$125M

The Right Defense Stimulus: Ships

Arleigh Burke-class DDG-51 destroyer

- Premier sea-based air and missile defense platform; excellent anti-submarine warfare capabilities
- Plans and additional potential for radar, missile and ASW improvements
- Chinese missile, air, and submarine, Russian submarine capabilities provide increasing threat
- New Zumwalt DDG-1000 optimized for onshore fire support, inadequate air, missile and ASW capabilities, excessive cost (\$3.2B per ship)
- Extend Arleigh Burke production, accelerate upgrade, cancel DDG-1000; net spending increase \$1.5B per year
- Proven export: Aegis used by Japan, Australia, South Korea, Norway, Spain
- Two shipyards: GD Bath Iron Works, Northrop Grumman; Aegis: Lockheed Martin, 335 suppliers in 31 states and five countries, 5,000 shipyard employees

Littoral Combat Ship

- Multi-mission platform for littoral and 'blue-water' operations
- Key to maintaining fleet size, U.S. Navy global presence, anti-piracy and GWOT missions, additional ASW platforms and capabilities
- Accelerate procurement to 3 per year, competitive procurement between Lockheed Martin and General Dynamics; \$1.5B per year

SSN-774 Virginia-class attack submarine

- Advanced-generation attack submarine, replaces aging Los Angeles class, maintains SSN fleet size, responds to rapid Chinese submarine fleet increase, Russian submarine modernization
- Expand program to 3 per year ASAP, compete between General Dynamics Electric Boat & Northrop Grumman Shipbuilding Newport News

The Right Defense Stimulus: Land

Army 'Grow the Force' initiative

- Current land-force expansion [Army from 510,000 to 547,000] nearly complete, two years ahead of schedule
- Demand for land forces remains high [Iraq, Afghanistan, other missions]
- Continue expansion at rate of 20,000 per year; \$3.5B per year

Stryker combat vehicle

- Medium-weight vehicle proven in Iraq; mobile, survivable, lower operational costs vis-à-vis tacked vehicles
- Real-world requirement exceed Army plans for 6 Stryker Brigade Combat Teams
- Continue and expand Stryker procurement for 4 additional brigade sets [2 active component, 2 Army National Guard]; 250 per year at \$550M per year

Family of Medium Tactical Vehicles

- Family of 14 vehicles essential for Army logistics; common chassis ease maintenance
- Timely deployment and improved small-unit sustainment key to land force power projection, especially in austere theaters, irregular warfare
- Expand procurement from 3,000 to 4,500 per year [approx \$600M]

Stimulus Spending, Future Returns

Employment returns

- Job creation: Tens of thousands of defense industry jobs; \$1B in procurement spending correlates to 6,500 jobs [Per 2008 industry employment statistics; FY 2009 budget]; plus increase in Army end-strength
- Job preservation: 'Warm' and 'hot' production lines at budgetary risk
- Quality of jobs: high-tech, high-skill, high pay, efficient manufacturing workforce

Economic and technological returns

- Close connection between defense and larger aerospace industry
- Center of American engineering prowess
- 'Spin-off' technologies: Internet, earth observation, radar, space-based communications

Security and prosperity

- Security is elemental 'public good'
- American global guarantees frame post-Cold War boom
- Can a globalized economy fully recover absent global security?