

## Unfounded Hand-Wringing Over Military Spending Cuts

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Speaking to an audience of veterans the day before he accepted the Republican nomination, Mitt Romney said of the looming sequestration cuts to the Pentagon budget: "The devastation will be felt here at home, where up to 1.5 million jobs could be lost. GDP growth could fall significantly." And during his acceptance speech: "Trillion dollar cuts to our military will eliminate hundreds of thousands of jobs."

Romney seems to understand well the fiscal crisis facing America, but his "jobs" and "GDP" focus in the debate over defense spending is incorrect. The correct size of the military budget for the defense of U.S. national security is an important and worthwhile discussion. But this economic argument is little more than a political pitch to particular group of voters. The large body of available evidence tells us that the economic and employment effects of military spending cuts are not relevant for policy choices, will not be significant in any event, and a reduction in defense outlays in fact may yield substantial benefits to the economy over the long run.

Politicians' fearful response to the loss of military dollars in their districts is neither surprising nor inappropriate, but policy formulation should not be driven by it. Instead, the focus should remain on the future security environment and the defense budget needed to deal with it. Consider a rough analogue to national defense: private security services. If crime rates fall, the demand for private security services would fall as well. This would lead to increased unemployment among those working in that industry, an example of a "structural" economic shift, as price signals induce the owners of resources (including labor) to find their most valuable uses under changed economic conditions.

This process is difficult for those suddenly finding themselves out of work, but it is a necessary feature of a dynamic economy that maximizes productivity in the satisfaction of consumer preferences. That is why no policymaker should ask whether a change in the international security environment that allows for a smaller defense budget will yield more unemployment. The appropriate policy questions are about the prospective threats to national security and about the defense outlays needed to confront them.

Notwithstanding the irrelevance of the employment issue in the context of the defense budget, some of the answers now being advertised are not to be taken seriously. Among the most prominent is recent analysis from Prof. Stephen Fuller of George Mason University, who argues that a reduction in procurement spending of \$45.1 billion in 2013 would result in a GDP reduction of \$86.456 billion and the loss of 1,006,320 jobs.

Apart from the spurious precision of these projections, they are inconsistent with the large body of available data and peer-reviewed analysis. Data provided by the Department of Commerce show that the defense contribution to GDP growth has been effectively zero for many years. This is not very surprising in that an annual reduction in defense outlays of, say, \$100 billion (sequestration anticipates about half of that -- \$55 billion) would have been only about 0.66 percent of GDP in 2011. That proportion would decline each year thereafter as GDP grows. It simply is not plausible that a cut of that magnitude would have large aggregate effects. Moreover, the simple correlation between quarterly percent changes in real GDP and percent changes in real defense spending is less than 0.09 for the period 2000-2011; that is, it is close to zero economically, and does not differ from zero as a matter of statistical significance.

There is the further matter that Fuller's implicit GDP "multiplier" effect of defense outlays -- 1.92 -- is implausibly high. The estimates reported in the peer-reviewed literature range from about 0.6-0.8, suggesting strongly that changes in defense spending have effects on GDP that are offset by changes in other economic activity -- private investment in particular.

Conservatives, quite properly, are dubious about the purported GDP and employment benefits of federal domestic spending, as illustrated by the meager effects of the Obama stimulus fiasco. There is no particular reason to believe that defense spending is different. An effort to criticize the former while arguing the latter is reminiscent of John Kerry's "for-and-against" comedy routine from the 2004 election. The debate over defense is too important to be afflicted with such silliness.

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