



Looming spending cuts already impacting Md. defense business

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From Northrop Grumman to Lockheed Martin, from general contractors in Maryland to their subcontractors and the small businesses that make widgets or provide services to all of the above — for all of them, military contracts are their lifeblood.

And the prospect that some of that lifeblood will stop flowing is spreading jitters throughout the defense sector, which accounts for 4 percent of the state's workforce — some 91,000 employees.

Under mandated cuts that Congress has so far failed to reach a compromise to avoid, the Pentagon is facing \$500 billion in across-the-board reductions to defense spending over 10 years, beginning in January. A similar amount would be cut from nondefense government programs.

This threat to Maryland's economy has come into focus as GOP nominee Mitt Romney and President Barack Obama seek votes before the Nov. 6 election. Romney has vowed to not cut defense spending. Obama says defense spending can be trimmed as the war in Afghanistan is wound down.

Doomsday scenarios abound. Some estimate that more than 100,000 workers could be out of jobs in Maryland because of cuts in defense spending. Others predict fewer workforce casualties. Still others believe Congress will come to its senses between Election Day and Jan. 1.

Some believe the cuts now focused on the Department of Defense could be spread out across an array of government agencies, reducing the blow to companies that deal strictly in defense. But the looming problems have already changed the defense business in recent months.

“There’s a strong sense that this uncertainty has kept a lot of investment on the sideline,” said Vice Admiral Peter H. Daly, CEO of the Annapolis-based U.S. Naval Institute, a nonpartisan professional association with more than 50,000 members.

“I’ve been talking about it since January, but boy, you could really tell people were doubling down on it in June,” Daly said.

Tenuous times

Northrop Grumman, already no stranger to layoffs, has voiced its worries. Lockheed Martin went a step further in June, warning all of its 123,000 employees worldwide of potential layoffs.

Lockheed, headquartered in Bethesda, has thousands of Marylanders on its payroll, with offices in Rockville, Greenbelt, Gaithersburg and Baltimore.

The cuts could also affect men and women in uniform. The Naval Academy will not speculate on its future budgets, said Cmdr. William Marks, an academy spokesman.

But Daly of the Naval Institute, a separate entity from the academy, believes the school and other military organizations have reason to worry.

These other organizations include the Naval Air Systems Command, headquartered at the Patuxent River Naval Air Station, and operations at Fort George G. Meade that have benefited from recent funding for cybersecurity.

If the cuts go through “you’d see projects curtailed across military and across government,” Daly said. “To use a term that people don’t like, I think there will be a trickle down in a negative way. They should be (worried).”

Any cuts are likely to trickle down to a community of small businesses whose survival often depends on military contracts, and on spending by larger firms like Lockheed. One such company is Technology Assessment & Transfer Inc. of Annapolis, certified by the Small Business Administration as a woman-owned small business.

TA&T relies heavily on funds from the Small Business Innovation Research Program, said President Larry Fehrenbacher. The firm specializes in high technology; it develops and commercializes materials, often for defense application. Its founders started the business “in the kitchen,” Fehrenbacher said.

Since then, TA&T has grown to 35 employees. In August it made headlines when a ceramic oven housing it designed landed on Mars aboard the *Curiosity* rover.

That project would never have happened if TA&T didn't get a contract from NASA's Goddard Space Flight Center, which was having a hard time incorporating an oven generating intense heat into its design. TA&T produced an oven-housing design that prevailed, and now can claim it manufactured a piece of history.

Fehrenbacher worries that cuts in defense spending could deprive his company of similar opportunities. TA&T's work has been funded by the Air Force Research Lab, Navy Mantech, the Missile Defense Agency and the Defense Advanced Research Projects Agency.

The company has worked with Northrop Grumman, Lockheed Martin and teams from Honeywell on a lot of proposals, Fehrenbacher said. But with fewer contract opportunities, there will be more competition. And declining budgets for government agencies and less work for larger contractors could mean less money for partnerships.

“I think it's going to hurt,” Fehrenbacher said. “We work our tails off with a whole range of technologies, and it's been harder and harder to win contracts.”

Holding off on hiring

VBP OutSourcing, headquartered in Columbia, provides Department of Defense contractors with accounting and marketing services. The company employs about 10.

Tammy Boggs, who works in sales and marketing for the firm, worries that she may lose clients if the cuts come in January.

“If someone doesn’t have money coming in for a project, they don’t need our services,” she said.

For now, Boggs will have to wait and see.

Small businesses are holding off on decisions on hiring or capital investment because they just don’t know what will happen after Nov. 6, said Bob Burdon, president and CEO of the Annapolis and Anne Arundel County Chamber of Commerce.

“Would they cut back on some of the subcontracting and perhaps try to pull it more in house?” Burdon asked. “There’s a game of chicken going on with these elections. Nobody’s showing their hand and it is really keeping this in limbo. People are waiting to see who the winners are.”

Some claim automatic spending reductions would wreak havoc on the U.S. economy in 2013.

The predictions of how many jobs would be lost vary greatly. It could be 2.1 million jobs, according to a study released in July by George Mason University economist Stephen Fuller and Chmura Economics and Analytics, a Richmond, Va., research firm.

That study was conducted for the Aerospace Industries Association, a Virginia-based organization backed by defense suppliers. It concluded that the broad-based loss of jobs could boost U.S. unemployment by 1.5 percent.

The study estimated that Maryland would lose 114,795 jobs and nearly \$5.9 billion in labor income from the automatic budget cuts. Of the jobs lost, 75,400 would be non-Defense Department positions.

But other studies indicate less dramatic consequences if the defense cuts start in January.

A study released in August by Benjamin Zycher of the Cato Institute, a libertarian think tank based in Washington, D.C., contradicts Fuller’s assertions. Zycher

claims a reduction in defense outlays could actually bolster the economy down the road.

In a Project On Government Oversight special report, “Defense Contractor Time Machine: Less Spending, More Jobs, Analysis Reveals,” national security investigator Ben Freeman found that between 2006 and 2011 the top five defense contractors collectively cut jobs even while they were being awarded more taxpayer dollars.

And according to the Congressional Budget Office, if you adjust for inflation, the Department of Defense’s base budget would still be larger than it was in 2006, even after the cuts.

Even if cuts were shifted by Congress and the Department of Defense didn’t take the brunt of the blow, there would still be damage, said Christopher Summers, president of the nonpartisan Maryland Public Policy Institute.

“A very small cut would be dramatic,” Summers said. “Even something as small as 2 percent would be dramatic.”

Job losses “would be in the thousands. And when this stuff happens, the private sector very quickly reacts, so they let people go.”