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North Texas economy relies on military contracts, so cuts would hurt

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FORT WORTH – When the [Pentagon](#) has money to spend, so does Mike Ryan.

"Working in the defense field – it pays off. I make good money," the Lockheed Martin worker said.

"I'm going to take that money and go out there and spend it. I'm going to hit the mall. Hire the kid down the street to cut my grass – let him make some money. There's no end to it."

In ways often overlooked, North Texas' economy is buoyed by the billions of taxpayer dollars that pour annually into companies that build military aircraft, missiles and computer systems. But with the U.S. government aiming to reduce budget deficits, defense spending could be headed for a contraction.

The connection between Washington and North Texas, which has grown more significant since 2001, helped rejuvenate a [Tarrant County](#) economy weakened by big defense budget cuts during the 1990s.

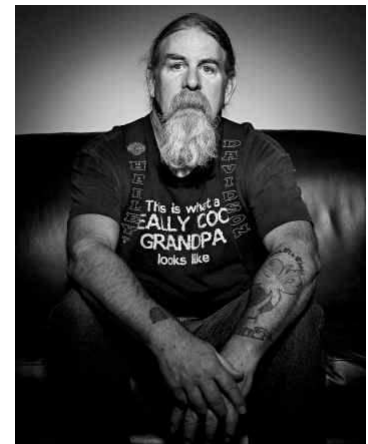
In 2009, the Pentagon spent \$21.5 billion on prime contractors based in North Texas, according to the [Commerce Department](#). That's more than triple the \$6 billion total in 2000.

The economy is even more tied to defense spending in Tarrant County than in [San Antonio](#), a city with three military bases. Defense-related activity accounts for about 5.3 percent of Tarrant's gross product, compared with 4.9 percent for San Antonio, according to Waco economist Ray Perryman.

The [Defense Department's](#) budget has more than doubled since 2001, to \$700 billion. Its growth accounts for nearly two-thirds of the increase in discretionary spending, according to the Sustainable Defense Task Force, a group of researchers who track defense spending.

Pentagon leaders have signaled that leaner times are coming. With several of the Pentagon's most expensive programs centered in North Texas, the fallout from budget cuts would be felt at home. That pressure is already looming in Fort Worth, where Lockheed Martin produces the F-35 Joint Strike Fighter. The British government announced last week that it would drastically cut its purchases of F-35s,

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G.J. McCARTHY/DMN
Lockheed Martin's Mike Ryan embodies the tie between military contracts and the local economy. When he's working, he says, 'I'm going to hit the mall. Hire the kid down the street to cut my grass. ... There's no end to it.'

from 138 to about 40.

[Congress](#) and the Obama administration have yet to propose a cut in defense spending, and Adm. [Mike Mullen](#), chairman of the [Joint Chiefs of Staff](#), recently warned against cutting funding for the uniformed ranks.

At the same time, many lawmakers are likely to oppose cuts to social programs such as Social Security and Medicare if defense, the other major source of federal spending, doesn't take a hit.

"It is impossible to bring down the deficit without doing great harm to the quality of life in this country, unless you include a very substantial reduction in military spending – something in the order of 20 percent," said Rep. [Barney Frank](#), D-Mass.

A national fiscal commission, created by the Obama administration, is studying ways to cut the deficit and is due to report its recommendations by Dec. 1. The report is likely to recommend a cut to future defense budgets, according to Carl Conetta, a defense budget expert who has advised several commissioners and their staff.

"The pressure is going to be felt in procurement," Mullen said. "It will force prioritization, and it will force us to make decisions about programs that are not performing – to either eliminate them or contain them until they can perform. And I worry it's going to get worse before it gets better."

Even as they oppose the stimulus, earmarks and many federal programs, Gov. [Rick Perry](#) and other [GOP](#) leaders have celebrated the rise in defense spending in Texas. Perry has offered incentives to aerospace companies and defense contractors that create jobs in Texas.

Jobs on the line

Perry and other Texas officials are lobbying for [Boeing](#) to win a \$35 billion contract to provide aerial tankers for the Air Force. Vought Aircraft, a division of Triumph Group Inc., would build pieces of the fuselage, doors and other parts in Dallas.

Some smaller communities are dependent on Pentagon contracts. Close to Dallas, military contractor [L-3 Communications](#) employs 5,700 people at its Greenville campus. L-3 is the largest employer in Greenville and the largest source of business property tax income, according to Greenville City Manager Steven [J. Alexander](#).

"There is a real irony in having a governor that rails against federal spending and doesn't want to take money from Washington, and yet some parts of our state are heavily dependent on federal spending for their economic health," said Bud Weinstein, an economist and associate director of the Maguire Energy Institute at [Southern Methodist University](#).

Lucy Nashed, a spokeswoman for Perry, says defense "is different" than other kinds of federal spending.

"It's not just throwing money at a problem," Nashed said. "It's actually creating jobs, allowing people to make a livelihood."

That spending supports more than 36,000 jobs in aerospace manufacturing in North Texas, according to Moody's Analytics. Many of those positions are the kind of skilled manufacturing jobs that lawmakers think are vital to a healthy middle class.

Blow to Fort Worth

When the Pentagon has cut back procurement in Texas, it has taken a big toll. In August, [BAE Systems](#) announced it would lay off as many as 1,300 workers from its Sealy plant after it lost an Army truck contract to a competitor in [Wisconsin](#).

Fort Worth suffered a huge blow in the 1990s, when the end of the Cold War prompted significant cuts in defense spending. The workforce at the [General Dynamics](#) plant in west Fort Worth shrank from more than 30,000 workers in 1985 to 11,000 in 1996.

At the time, defense-related activity represented 30 percent of Fort Worth's economy, according to U.S. Rep [Kay Granger](#), R-Fort Worth.

Tarrant County's economy is more diverse now, but defense remains one of its most important industries. Lockheed Martin, which took over General Dynamics, now employs 14,400 at Naval Air Station Joint Reserve Base Fort Worth. Bell Helicopter [Textron](#) employs about 6,700 people in North Texas, with most of them working on military contracts.

In Tarrant County, a single program is largely responsible for the increase in Pentagon funding since 2001: the F-35. The program supports about 9,100 direct jobs in Fort Worth and 25,000 indirect jobs, according to Lockheed Martin.

Lockheed Martin's Fort Worth facility might have closed had the company not won the contract to build the fighter jet. Employment has increased by about 3,000 workers, mostly engineers, since the contract was awarded in 2001.

The program, which is the Defense Department's largest and most complex, has the potential to buttress the local economy for decades. Lockheed is building three versions of the jet, for the Air Force, Navy and [Marine Corps](#). The U.S. plans to buy 2,457 F-35s through 2035 – at a total projected cost of \$382 billion, according to the [Government Accountability Office](#), the investigative and auditing arm of Congress.

Thirty percent of the fighter jet is built at a government-owned factory in Fort Worth that is so enormous that workers move around it on bicycles. The program uses 104 suppliers in Texas, from small metal shops to large companies that build sophisticated computer systems for the fighter jets.

"For Fort Worth, it was a major win," said Stephen O'Bryan, Lockheed Martin's vice president for the F-35. "This is a long-term project that is very important to the aerospace base not only of Fort Worth, but to the aerospace base of the entire United States."

Many workers are hopeful the F-35 contract will last until they retire. Ryan, 57, was recalled in 2001 after a seven-year layoff. For most of that time, he earned money by driving moving trucks and building houses. His pay dropped from \$18.60 an hour with health insurance and other benefits to about \$7 an hour without insurance, he said.

"Of course, the phone got turned off a few times – you can't get bills paid the way you want," he said. "I had the electricity turned off a few times, but that goes with working here and making a good wage, and then coming down and working out in the real world."

Ryan is now back in the shop that works on the fighter jet's fuel and hydraulic lines. Returning to the

plant meant a big step up in income. Suddenly, he could pay his bills, including his son's tuition at the University of Texas at [Arlington](#).

Ryan, whose son served three tours of duty as a Marine in [Iraq](#), says he sympathizes with the tea parties' message to cut government spending. There is a lot of "wasteful stuff" in the federal government, he says. But not in defense.

"If you have defense, you create jobs," he said. "You maintain jobs."

Pauline Ramos, 53, was more fortunate. She was "next in line" to lose her job in 1994 when layoffs stopped. After 30 years at the company, she's thankful for a job that helped her raise two children as a single mother. Her brother, sister and brother-in-law all work at the plant.

"Some of my friends who are single parents or raising grandchildren, it's been a big struggle for them," she said. "If it hadn't been for this job, I probably would have needed two jobs."

F-35 costs soar

The F-35 cushioned the blow when the Pentagon decided last year to stop buying F-22 fighter planes, which were partly built in Fort Worth. Defense Secretary [Robert Gates](#) praised the F-35 as a more useful, more affordable plane than the F-22.

But like many major weapons programs, the F-35 hasn't lived up to Gates' lofty expectations. In April, the Pentagon announced that each plane would cost an estimated \$93 million to \$112 million, up from \$59 million when Lockheed Martin won the contract.

The higher cost required the Pentagon to restructure the program. And Gates fired the Marine general who ran it.

Lockheed Martin officials say the jet's cost is lower than the Pentagon's estimate, and they intend to deliver the next batch below the Pentagon's estimate.

But there are already signs that the U.S. might reduce its purchase of F-35s. [Senate](#) appropriators have proposed cutting 10 jets from the 2011 budget, citing continued delays.

"This program is not sacrosanct. It's not untouchable," said Christopher A. Preble, director of foreign policy studies at the [Cato Institute](#) in Washington. "It has not delivered on its promise, which was to deliver a relatively inexpensive airframe that would provide for three of the four services in the U.S. and seven countries around the world."

Lockheed officials oppose the Senate's proposal and say it would drive up the per-unit cost of the planes. It could have an impact on jobs in Fort Worth, and might delay the rate at which Lockheed builds toward peak production, when the Fort Worth factory will be producing one plane per day.

Granger said the Senate's decision took her by surprise, but she thinks Lockheed can reduce its costs and get the program back on track. She said Congress should be more focused on cutting entitlement programs to reduce budget deficits. "That is where the enormous continuing costs are, and it really isn't sustainable," she said. "There will need to be some very tough decisions after this election."

Some liberal groups and budget analysts have urged lawmakers to scale back purchases of F-35s and

cancel the V-22, another expensive aircraft that is partly built in Fort Worth. Critics say the aircraft aren't necessary for the conflicts in [Afghanistan](#) and Iraq.

The cuts would save more than \$100 billion over the decade, according to the Sustainable Defense Task Force.

Even with all the talk about reducing the deficit, experts say Congress is still several years away from the actions that [Britain](#) took last week. For the moment, there is no fiscal crisis requiring action. The country can still borrow money cheaply. The U.S. might be less than a decade away from its debt hitting the level that would crimp economic growth.

At the same time, many lawmakers aren't willing to support defense cuts when the country is at war – even if the cuts have little to do with the conflicts.

"Though we are now appreciating that the country needs to address the deficit problem seriously and that means pain across the federal budget, that is still just a mantra," Conetta said. "I don't know we have taken it to heart yet.

"When we do, everyone will have to be more serious. The question for the [armed] services to consider then is – where is it best to make these cuts? Rather than putting up a bulwark and saying, 'Yes, the country needs to deal with the debt, but not us.' I think that will change."

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