



Sequester indicates military spending might be too high

By Ray Downs – February 28, 2013

The federal sequester that will cut military spending has spawned concern that hundreds of thousands of jobs will be lost and the country will be less safe. But is that an exaggeration or a sign that the military is an indispensable part of the economy?

One of the major sources of the frightening job loss numbers is a study published by George Mason University and paid for by the Aerospace Industries Association, a lobbying group for several large defense companies, including Lockheed Martin and Boeing. The study says the sequester's defense cuts will cause more than a million jobs to disappear.

Many studies dispute the report, arguing that the job loss claims are exaggerated. However, those are the numbers that are the most cited, and therefore, most believed.

Stephen Fuller, an economics professor at George Mason University, is the author of the 2012 study, and he explains that a major reason so many jobs could be lost is because less defense spending will cause an overall decrease of spending in areas where defense contractors and military bases are important to the local community.

"There are probably a few economies that are too dependent [on military spending]," he said. "You find that around a military base. An economy that grows around a military base has no option when that military base closes down or gets smaller. It takes a lot of other businesses with them."

But Fuller stops short of saying that the overall economy is too dependent. He also says that the question of whether the U.S. spends too much on defense is difficult to answer because of the need for security in what he calls a dangerous world that America needs to police.

"This is the general operating budget that keeps the Chinese from taking over Taiwan and keeps North Koreans north of the border," Fuller said. "It keeps peace in the world and we've taken on that role now for 70 years since World War II. And it's sort of hard not to do that because the world is a mess - and if there isn't a strong military authority in the world then it's going to be much less civilized."

Is the military being used as a jobs program?

Christopher Preble, vice president for defense and foreign policy studies at the Cato Institute and a veteran of the U.S. Navy, says Fuller's findings are grossly exaggerated because it concentrates solely on the loss of government spending while ignoring the gains.

"Everything in the economy that is extracted by the government, whether it's by taxes or by debt, is in lieu of other activity in the economy. And that's the problem with these studies," he said. "They only look at the effects the spending has and not what removing that money from the economy in the first place has."

As an example, Preble says that when the government doesn't spend \$1 billion on defense, that is theoretically \$1 billion less in taxation or \$1 billion that can be paid towards the deficit to prevent future taxation.

Preble also explained that even though job losses are difficult for those who experience them, many defense workers will be equipped to transfer their skills to other markets. As an example, he points to Boeing, which was once highly dependent on military spending, but over time, it diversified enough to become more of a commercial aircraft manufacturer. That means workers once employed to create military aircraft were later able to create commercial airliners.

But not everyone will be able to transfer their skills that easily. However, Preble says that retraining for a changing economy is something that many people have to deal with, and defense workers should not be an exception.

"We accept that in a dynamic economy people will lose their jobs - it's just the nature of a dynamic economy," he said, adding that the military should only spend what it needs to keep the country safe rather than acting as a Great Depression-style jobs program.

"What really should drive how much we spend on the military is how much we need to defend ourselves. And if we don't need those things to defend ourselves, then we should stop making them."

He added: "Why would we [invest more money in the military] if it's not actually needed to defend us? I don't trust the federal government to hire people just to keep them employed by digging holes and filling them in again."

Preble also warns that safety is not necessarily measured by how much money is spent on defense - and spending too much can have severe consequences.

"The Soviet Union invested roughly 25 percent of their economy on their military and it was a disaster. It was a disaster for their people and it didn't ultimately deliver security because their military still wasn't that good," he said.

Not the first time defense cuts have been made

Fuller doesn't have an answer to whether the military should cut back on spending.

"That's for Congress and generals to decide," he said.

But he warns against doing so too quickly, both to lessen the economic impact and to prepare the military for the changes a smaller budget would require.

"They're saying they don't have another half a trillion to give up without threatening the military to be able to perform its required duties," Fuller said.

He added that some cuts have already been implemented with the Budget Control Act of 2011, which required the Department of Defense to reduce spending by \$500 billion.

Despite the seemingly inevitable reductions in defense spending on the horizon, Fuller said that big cuts in defense spending have happened before and despite the possible shock, the economy will adjust.

"We've gone through this before," he said. "We cut back the military in 86 under the Reagan administration and after the Berlin Wall fell. And businesses adjust to it."