

Star-Telegram

Planned defense cuts threaten Fort Worth-area economy

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Come the first week of November, barring what now seems an unlikely shift in the political landscape, roughly 18,000 Dallas-Fort Worth-area employees of Lockheed Martin could receive an unnerving piece of mail.

That would be a WARN notice; a federally required warning that they could be laid off on or after Jan. 1. That's the dire forecast Lockheed CEO Robert Stevens has made about the possible consequences if early next year the Pentagon is forced to chop some \$55 billion from its budget immediately and every year for a decade, as required by last year's budget deal.

That's a 10 percent defense budget reduction. Until somebody informs him otherwise, Stevens told reporters last month, it's only prudent to assume Lockheed will take a big hit and a bunch of people will lose their jobs. Lockheed executives won't know which ones for months to come.

"All that we really know about sequestration is that it is a date certain in the law," Stevens said at Lockheed's June 19 media day in Bethesda, Md. "And we understand that it's almost a half a trillion dollars that [will be] phased in over 10 years."

Unless Congress acts before Jan. 1, the Budget Control Act of 2011 will require the government to slash something like \$110 billion in discretionary spending, half of it from defense.

Excluding war spending, the 2012 defense budget is about \$525 billion. President Barack Obama has said he will exclude military pay and benefits from the forced cuts. Take whatever is left, and the resulting cuts could be 13 percent, by some estimates.

Stevens has done the math. If Lockheed contracts take a big hit, thousands of jobs could be axed from the company's 123,000-person payroll.

That poses another threat to a Fort Worth-area economy already facing fallout from the American Airlines bankruptcy and a significant slowdown in natural gas drilling. Lockheed Martin and Bell Helicopter are among the area's major employers, with Lockheed employing 14,240 in Fort Worth and Bell nearly 7,000. According to Lockheed, the impact of the F-35 program ripples far beyond the west-side plant. The company estimates its payroll at \$1.46 billion and said it spent \$429.6 million on goods and services in North Texas last year. It says 101 Texas suppliers provide more than 41,000 additional jobs.

For months now, Armageddon-like warnings about sequestration have been coming from the Pentagon, the defense industry and some members of Congress. "The Department of Defense is facing a crisis," Defense Secretary Leon Panetta said recently.

One defense industry group, the Aerospace Industries Association, has said a million jobs could be lost throughout the economy if budget sequestration takes effect.

How it will be implemented remains to be seen. Will the F-35 program be cut yet again? Or purchases of the Bell Boeing V-22 Osprey curtailed?

A Defense Department spokesman said the official policy statement is the Pentagon can't plan how to implement the cuts until it gets direction from the Office of Management and Budget. Panetta has pleaded time and again for Congress to fix the budget and avoid mandatory cuts.

"It's more of a public relations strategy than a budget plan," said Loren Thompson, chief operating officer of the pro-defense industry Lexington Institute and a consultant to Lockheed.

The Pentagon, Thompson said, may be holding back on outlining specific areas targeted for budget cuts so it won't hand Republicans a campaign issue.

Some Pentagon officials have said the law requires them to make proportional across-the-board cuts affecting nearly every program. But the Defense Department's own comptroller, Thompson said, has said he will have considerable leeway to order more targeted cuts.

"This is so convoluted and arcane I don't think anybody knows what's going on," Thompson said. Even if the law isn't changed, however, some analysts say the effects of further budget cuts -- spending for 2012 and future years has already been pared back from planned levels by the 2011 act -- would not be draconian. Lots of money is already in the pipeline.

Because the cuts would be applied to "spending authority," tens of billions of dollars already authorized will continue be spent in years to come. When Congress buys an aircraft carrier or F-35 fighters, the money is spread over two, three or more years.

The estimated cuts would roll total defense spending back to about 2007 levels, accounting for inflation, said Christopher Preble, defense analyst with the libertarian-leaning Cato Institute. "It will be a hit, but nobody is talking about shutting the Pentagon down," Preble said.

As for lost jobs, Preble said that if less is being spent on defense and government overall, "I don't think it's unreasonable that some of that money will go back into the private sector" and create or bolster other businesses.

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