

The U.S. economy will not survive proposed defense budget cuts

by Andrew D. Rotstein and Anthony K. Wikrent

The proposed termination of \$28.2 billion in military programs will cripple the U.S. industrial base, especially technologically key areas of specialized capital goods production. Starry-eyed, dollar-short politicians are proclaiming that military budget cuts will produce savings which can be used to retool industry, rebuild public infrastructure, and meet other pressing needs. These fools have done nothing to halt the erosion of crucial goods-producing sectors of the economy, and the actions they now propose will obliterate the last sector of the American economy that is a world leader in technology. If what remains of the defense component of that economy is further dismantled, the physical basis of recovery will have been foolishly and criminally thrown away.

In real, inflation-adjusted terms, defense spending has been declining since FY1985. Because of these cuts, and the explosive growth of overhead costs associated with "procurement reform" and compliance with environmental regulations, many firms have opted out of the defense business altogether. A 1989 study by the Center for Strategic and International Studies estimates that the number of companies in the defense industrial base declined from 138,000 in 1982 to fewer than 40,000 by 1987.

And while the media peddle the line that the nation's best scientists and engineers are drawn into the defense industry, thus "wasting" their precious skills, the fact is that defense companies have been and are experiencing great difficulties in attracting and retaining highly skilled technical personnel. This is because the industry—buffeted by an uncertain and shrinking market, and beset with arbitrary bureaucratic delays and an adversarial relationship with government regulators—is unable to offer job security comparable to other industries.

In recent weeks, Boeing announced that it will eliminate 5,000 jobs this year due to dwindling orders. Chairman Frank Shrontz said that the company had hoped to transfer most of the workers to the B-2 Stealth bomber program, for which Boeing is a major subcontractor to Northrop, but that the Air Force has cut back production of the bomber. General Electric Aerospace, the country's third-largest defense contractor, will cut 14% of its workforce, or 5,600 jobs, over the next two years, on top of 4,775 trimmed in 1989. Most

of the cuts will take place at GE facilities in the Philadelphia area, including the communications plant in Camden, which now employs 2,600. McDonnell Douglas will lay off 10% of its helicopter workforce. The Allison Gas Turbine Division of General Motors announced that it was laying off 10% of its 2,650 white-collar workers.

Secretary of Defense Richard Cheney and the Bushmen propose to cut the military budget by 20% over the next five years, while the Democratic leadership in the Congress presses for even greater cuts. Since defense spending accounts for about 5% of GNP, what is being proposed is the elimination of 1% of the U.S. economy. But nowadays the GNP figures are mostly fluff, so the portion of the real economy that will be affected by the proposed defense cuts is much larger. In fact, 6.25%, or 1 of every 16 American workers relies directly on defense spending for his or her paycheck.

In the two states most dependent on military spending, Hawaii and Virginia, defense contracts and local military payrolls combined account for approximately 12% of State Domestic Product. Massachusetts, Maryland, and Connecticut have about 8.5% of their SDPs accounted for by military spending, while Missouri has about 7.5%. St. Louis is a particularly endangered area, since the aerospace operations of McDonnell Douglas and General Dynamics are both located there. California has just under 7% of SDP accounted for by defense spending. Almost one-fifth of the facilities on the proposed base-closing list are in California. Arizona has almost 6.4% of its SDP tied to defense, with the major amount coming from various missile contracts held by Hughes.

The large defense contractors read the handwriting on the wall years ago, and have already begun cultivating other customers, diversifying product lines, and moving into entirely new areas of business. For instance, Sikorsky Helicopters, of United Technologies, now relies on the government for 25% of its sales, down from 75% ten years ago. Overseas sales account for 25%, up from 6% in 1984. Another division of United Technologies, jet engine maker Pratt and Whitney, now has only 35% of its sales from the military. Grumman, the largest defense contractor in New York with \$2.8 in contracts and 18,400 workers (down from 25,000 workers three years ago), has so diversified that only half its sales are

now related to defense. The former maker of Navy fighter planes now plans to turn half its 500-acre headquarters into a shopping center and hotel complex, since Long Island tourism brings in \$7.9 billion a year, compared to \$3.8 billion for defense.

Smaller high-tech companies endangered

But in addition to the loss of defense jobs and the multiplier effect on suppliers and hard-hit localities, key sections of technologically leading manufacturing capacity may be totally idled, or lost to the nation.

There are tens of thousands of small companies, with workforces typically in the scores or hundreds at most, that work primarily, and in some cases almost exclusively, for a single weapons system contractor. These are the workhorses of innovation and invention. Gus Comstock, who has been detailed by the governor of Ohio to implement a program to help small defense contractors find other areas of work, said, "I've been impressed with these small contractors. They're working right on the outer edges of technology, unlike their commercial counterparts." Comstock notes that 80% of new technology is developed by these small businesses, which then sell it for large-scale application by the comparatively slow and bureaucratic large defense companies.

This is comparable to the role of the German *Mittelstand* (moderate-sized firms) which Lyndon LaRouche has recently identified as crucial in the economic reconstruction of Eastern Europe. Such companies are a vital part of the productive economy of any robust industrial nation. They are a storehouse of skilled workers and engineers, and are more directly oriented to production of real goods than to speculative profits through financial chain-letter schemes.

Some analysts believe that because of their lack of ponderous bureaucracy, such small contractors may be relatively less reliant on military business, or will more easily adapt than the mammoth firms. But these small companies seldom have the administrative and marketing forces able to identify, cultivate, and service alternative customer bases. In Ohio, a center of U.S. machine tool capacity, firms making precision castings for McDonnell Douglas's F/A-18 Hornet and F-15 Eagle, hydraulic assemblies and pumps for tanks, and parts for GE's engine plant near Cincinnati, all rely almost totally on defense orders. They have been hit unexpectedly by a drastic drop in orders, and it is doubtful whether alternative markets even exist in "post-industrial" America for the products and services they can provide.

The Tilt-rotor aircraft

A good example of the desperately needed technology drivers that U.S. elites are proposing to throw away is the V-22 Osprey, the largest program slated for the ax. The V-22 is a tilt-rotor aircraft, a hybrid of a helicopter and an airplane. It is capable of vertical lift-off, and thus has all the advantages of small-space take-off and landing of any helicopter, with

the attendant flexibility. It can also function like a turboprop, capable of cruising speeds up to 345 mph, and a range of over 1,000 nautical miles—twice the speed and range of helicopters. Seventy-five percent of the craft is made from composite materials that resist the propagation of cracks and are 25% lighter than comparable metals. The V-22 is designed to be twice as reliable as the most advanced helicopters.

The V-22 is to be produced jointly by Boeing Helicopter in Philadelphia and the Bell Helicopter division of Textron in Fort Worth. About 2,000 people have been working on V-22 preliminary development over the past several years. Original plans called for 1,200 to be produced, for all four armed services. Over the years, the program has been whittled down to 657, mostly for the Marines, with the Army having dropped out altogether. If the program is canceled, some 12-15,000 jobs Bell anticipated in Fort Worth will go by the boards.

In addition, a civil version of the V-22 would be ideal for commuter flights in crowded corridors like the Boston-Washington metroplex. It could travel directly between downtown areas, bypassing overcrowded airports and saving commuting time on congested highways. An experimental flight from Manhattan's Battery Park, a short walk from Wall Street, to Bolling Air Force Base, outside of Washington, took 45 minutes. It could accommodate 31, and potentially up to 39 passengers, with other tilt-rotor designs possibly carrying up to 75. A Japanese concern has already developed a plan for building a network of 3,300 "vertiports" for tilt-wing aircraft in Japan. Eurofar, a European consortium, and a group of Japanese investors that has employed some former Bell Helicopter engineers in Texas, are both eyeing the field.

The V-22 is also an ideal solution to one of the more perplexing problems of drug interdiction, since it would be able to pursue smugglers' aircraft, unlike slower helicopters, and insert law enforcement personnel exactly where needed, once the smuggler lands.

The potential civil and foreign military markets are vast. In fact, widespread enthusiasm for the V-22 persuaded Congress to restore funding for the program last year, over vehement administration opposition. But while test craft have performed well over several years, the concept is untried on a production scale. No commercial U.S. effort is likely, in current economic circumstances, if the military program is abandoned.

If short-term thinking about international conditions and the exigencies of the Gramm-Rudman budget-balancing act hold sway, the United States may permanently relinquish the dominant role in an industry that American ingenuity developed to begin with. As a particularly bitter note, General Motors' Diesel Allison Division, which is scheduled to build the turbine engines for the V-22 at its Indianapolis plant, recently announced that it will instead be producing engines for a Soviet light civilian helicopter.