

'Budget-balancing' destroyed U.S. defense capabilities

by Marsha Freeman

Contrary to popular opinion, the accumulating massive layoffs in defense and aerospace industries, the wave of mergers and acquisitions and resultant "downsizing" of these industries, and the buy-ups of U.S. high-technology firms by foreign companies, all of which has led to the near-destruction of the defense technological and industrial base, were not caused by the collapse of the Soviet Union. Nor were they caused in the last three years by a Democratic "anti-defense," or "pro-peace" U.S. President. The current, historically unprecedented idling of defense-related human and physical capital is a result of the failed economic policies pursued for over a decade by two Republican Presidents, in conjunction with self-named "austerity Democrats," who were brainwashed by Mont Pelerin Society ideologues.

There are times when military missions change, certainly, in response to changing political realities, such as the fall of the Berlin Wall in 1989, and the dissolution of the Warsaw Pact two years later. And if missions change, no sensible defense policy is based on a "jobs program" for the otherwise unemployed. But the downturn of U.S. defense came on President Ronald Reagan's watch in 1985, before any dramatic political events, when his commitment to rebuild the nation's defense capabilities was superseded by his adherence to quack economic theories which put priority on cutting the budget deficit and getting the government out of the way of the "free market."

Do not be fooled: While the Conservative Revolutionaries in Congress today put themselves forward as "pro-defense," and insist that \$7 billion more than the President requested be added to the Department of Defense budget for fiscal year 1996, such additions will not make a dent in the problem, because these Conservative Revolutionaries continue to push the same economic policies which led to the ongoing disaster. Although they say that national defense is one of the few activities the federal government *should* fund, balancing the budget and leaving the economy to the "free market" will only accelerate the decline in national defense that these policies initiated a decade ago.

More than unemployment at stake

The decline in defense spending, which resulted in more than 1 million jobs lost in industry over 1987-93 (see **Figure**

1), has had a more profound economic impact than simply increasing the rate of unemployment. Because defending an industrial nation depends upon what Lyndon LaRouche has described as "technological attrition," the Department of Defense (DOD) and other government agencies and industries that support it are the reservoir of a large share of this nation's scientific manpower. One-third of all scientists in America outside of the biomedical fields, work on defense-related projects. Of the nation's 1.86 million engineers in 1992, roughly 18% were involved in defense programs, including 73,000 directly employed by the Defense Department.

To support this R&D base, the DOD and the defense programs in the Department of Energy supplied nearly two-thirds of the federal funding for research and development until the early 1990s. Since 1987, R&D funding in the DOD budget has fallen 17%. Ironically, this spending on scientific development and technological application, which has been cut under the guise of "saving money" and balancing the budget, is an example of the kind of government-funded investment that *lowers* the deficit, by creating new, technology-intensive jobs. This kind of new economic activity, transferred into the civilian sector and the overall economy, is the basis for increased revenue flow to the federal treasury.

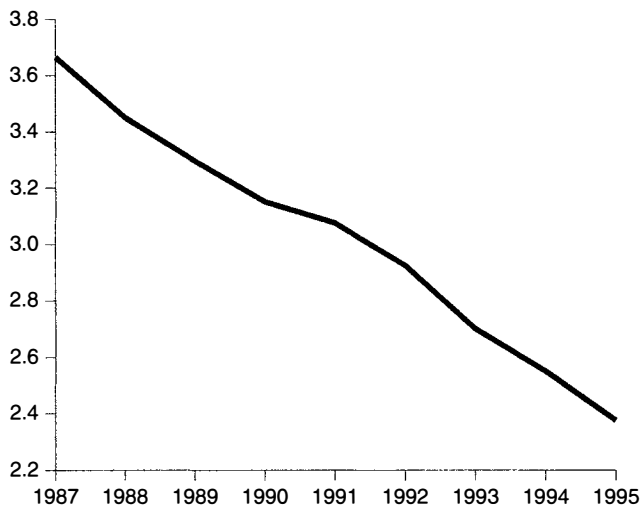
During the 1960s, the federal funding through the space agency for research and development in aerospace and related industries to accomplish the task of landing a man on the Moon, was the best *investment* this nation ever made. A study by Chase Econometrics in 1976, found that for each \$1 spent by the government, more than \$14 was returned to the economy. The Apollo program cost this nation *nothing*.

Defense cuts have affected not only research and development, but the overall manufacturing base. In the general economy, 4% of the workforce is made up of scientists, engineers, and technicians, compared to 10% of the defense workforce. In defense manufacturing, 7% are precision production workers, compared to 3% in manufacturing overall. Over 1985-94, procurement, or the purchase of military hardware, fell 66%, throwing the defense industry into financial chaos. Successively shutting down whole sections of defense production, without replacing it with other science-driven missions, has lowered the technology-intensity of the entire economy.

FIGURE 1

Defense industry employment

(millions of workers)



Source: *Workforce Quarterly*, Office of Economic Adjustment, U.S. Department of Defense.

The defense establishment is also a significant purchaser of basic industrial materials. The cancellation of programs has an impact outside the defense-intensive industries. For example, according to the Air Force Association, one-quarter of the nation's machine tools are related to national defense. Like cutbacks in any major industry, layoffs and "downsizing" have rippled from defense throughout much of the rest of the economy. In 1990, then-Deputy Secretary of Defense Donald Atwood reported that the DOD buys goods from more than a quarter-million firms in 215 industries. In some cases, such as shipbuilding, it was only defense orders that were keeping producers out of bankruptcy court.

Reagan's pact with the devil

When President Ronald Reagan assumed office in 1981, he pledged to rebuild the defense establishment, which had been "hollowed out" in the aftermath of post-Vietnam military cutbacks. Over fiscal years 1980 to 1985, defense expenditures grew (in constant 1992 dollars) from \$246 billion to \$368 billion. According to the Congressional Budget Office, this was an unparalleled rate of growth in peacetime: a 49% increase.

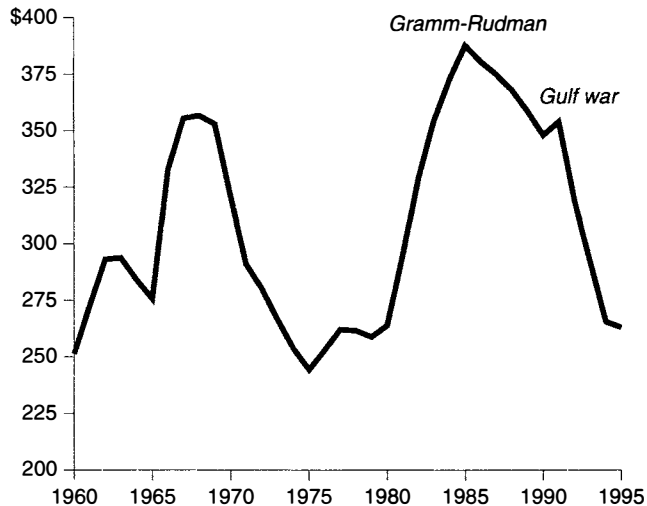
Then, in 1985, came passage of the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act, based on the hoax that economic health depended upon reducing the budget deficit. Cutbacks in government spending became the order of the day, even for President Reagan's coveted defense buildup.

In 1987, President Reagan held a "budget summit" with

FIGURE 2

Total defense outlays

(billions constant 1996 dollars)



Source: U.S. Department of Defense.

congressional budget hawks, and, as the Air Force Association reported in 1991, "made major concessions to Congress and agreed to further reduce the Five-Year Defense Plan by more than 10%. The rationale was not [based on] a calculation of defense requirements, but rather [was] an attempt to reduce the federal deficit" (see **Figure 2**).

The attack on Reagan's defense budget helped to kill the *only* potentially positive *economic policy* to emerge during his Presidency—the Strategic Defense Initiative. While Reagan's March 23, 1983 announcement of the SDI program drew immediate attacks from the Soviet Union and the liberal anti-science establishment in the United States, the death knell of the effort was delivered by the supposedly pro-defense "conservatives" (precursors to today's Conservative Revolutionaries, and, in fact, their trainers), who claimed that deploying a multi-layered defense to make nuclear missiles "impotent and obsolete," as the President had requested, would cost a hundred billion dollars, and bankrupt the country. However, that level of funding was the same as that of the 1960s Apollo program to land a man on the Moon and return him safely to Earth, in today's dollars.

A week after Reagan's speech, LaRouche warned that opponents of the policy would try to "budget-cut it to death." A year before President Reagan's announcement, under LaRouche's direction, a task force from the Fusion Energy Foundation, which included this author, began a study of the economic effect that an SDI program, based on the development of defensive systems using "new physical principles," such as laser and other directed-energy technologies, would

have on the overall economy. LaRouche had been tirelessly explaining that only this "science-driver" approach would reverse the ongoing economic decline.

This study found that just the large-scale introduction of lasers in basic manufacturing industries, which would be made economical through the research, development, and production effort for the SDI, could increase productivity in the metal-forming industries by orders of magnitude. Using the NASA funding for the Apollo program in the 1960s as a model, it was demonstrable that whatever was spent to develop new beam weapon technologies, combined with Kennedy-era financial policies such as investment tax credits and preferential low-interest, long-term credit for industry, would pay back 10 times what had been spent, in additional revenue to the federal Treasury. The SDI would not have "cost" the country anything!

Instead, President Reagan and his advisers swallowed, hook, line, and sinker, the hoax that economic health depended upon cutting the budget, and getting the government out of the economy, rather than gearing federal spending to invest in a national science-driver effort. Even though Research, Development, Testing and Evaluation (RDT&E) budgets increased under President Reagan, according to an analysis by the Aerospace Industries Association of America, from fiscal year 1981 to fiscal year 1990, some 90% of the growth in the

RDT&E budget was for development, testing, and evaluation, not basic science and technology. With the advanced, "new physical principles"-based technology for the SDI the first funding to be cut, the Reagan defense buildup became mostly technology demonstration.

Left to the 'free market'

If cutbacks in the defense budget had been the only problem faced by the aerospace-defense industry during the 1980s, the situation might have been manageable. But at the same time that federal support for R&D and defense manufacturing was declining, the industry was told it was now going to have to make it in the "free market." By 1992, the free market-driven deregulation of the commercial airlines had resulted in such financial chaos in the industry that orders for new planes dropped to 380, from 1,281 two years before. In 1992, the aerospace industry posted its first decline in sales in 20 years.

As early as 1987, the Defense Science Board sounded the alarm concerning the vulnerability of the defense industrial base. One study pointed to the increasing noncompetitiveness of U.S. high-technology industry, and concluded that the United States was losing international leadership in electronic component design and manufacture.

A year later, the board's summer study report, "The Defense Industrial and Technology Base," came up with some startling recommendations. The board's members counseled that the diminishing of the national technology base, which includes the DOD, the Department of Energy, NASA, and the National Science Foundation, had already led to the loss of U.S. leadership in numerically controlled machine tools and precision optics.

The report recommended that the secretary of defense recommend to the President that he sign an Executive Order, or National Security Decision Directive, to require the creation of an Industrial Policy Committee for defense, chaired by the national security adviser, that would develop specific legislation to protect the industrial base. It also said that the secretary should request formal membership in the Economic Policy Council.

The board stated that the DOD needs an "in-house capability to assess regulations, legislation, and acquisition strategies which affect capital formation and long-term investment," which it showed had deteriorated, without identifying the deregulation and pro-speculation financial policies that produced the problem.

A series of reports by the Air Force Association has been a bit more straightforward, and less diplomatic.

'Lifeline adrift'

In "Lifeline in Danger," published in 1988, the Air Force Association reviewed the dangers of the "globalization" of U.S. defense capabilities. It warned that American firms were being bankrupted by foreign competition, foreign corporations were buying U.S. companies, domestic firms were mov-



LaRouche Campaign Is On the Internet!

Lyndon LaRouche's Democratic presidential primary campaign has established a World Wide Web site on the Internet. The "home page" brings you recent policy statements by the candidate as well as a brief biographical resumé.

TO REACH the LaRouche page on the Internet:

<http://www.clark.net/larouche/welcome.html>

TO REACH the campaign by electronic mail:

larouche@clark.net

Paid for by Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee.

TABLE I

Mergers and acquisitions in the defense industry during 1994

Buyer	Seller	Division	Cost
Martin Marietta	Lockheed	merger	\$10 billion
Northrop	Grumman	Grumman	\$2.2 billion
Loral	IBM	IBM Federal Systems	\$1.5 billion
Rolls Royce	General Motors	Allison (jet engines)	\$525 million
Alliant Techsystems	Hercules	Aerospace	\$465 million
Raytheon	British Aerospace	Corporate Jets	\$390 million
Allied Signal	Textron	Lycoming (tank engines)	\$375 million
Martin Marietta	General Dynamics	Space Systems	\$209 million
General Motors	CAE (Canada)	Link (simulators)	\$155 million
Northrop	Carlyle Group	Vought Aircraft	\$130 million
Westinghouse	United Technologies	Norden Systems	\$130 million
Tracor	Carlyle Group	GDE Systems	\$98 million
Orbital Sciences	Matra (France)	Fairchild Space Systems	\$80 million
Litton	Teledyne	Electronic Systems	\$40 million
FMC (Joint Venture)	Harsco-BMY (JV)	Armored Vehicles	

Other major defense industry M&As

Buyer	Seller	Division	Year
Lockheed	General Dynamics	Aircraft	1993
Martin Marietta	General Electric	GE Aerospace	1992
Loral	LTV	Missiles	1992
Hughes	General Dynamics	Missiles	1992
Textron	General Dynamics	Cessna Aircraft	1992
Renco Group	LTV	AM General	1992
Northrop/Carlyle	LTV	Vought Aircraft	1992
Loral	Ford	Ford Aerospace	1990
CAE	Singer	Link	1988
Loral	Goodyear	Goodyear Aerospace	1987
General Motors	Hughes Aircraft	Hughes Aircraft	1985

Source: Defense Budget Project, 1994 Year-End Review

The past decade has seen a breathtaking number of mergers and acquisitions in the aerospace-defense industry, in an attempt to help keep financially declining companies afloat. At the same time that defense budgets were contracting, the industry was supposed to cut loose from government support, in order to "increase competition." What the cutbacks have done is, in fact, created defense monopolies—just the opposite of what was claimed would happen.

By the end of 1995, the United States had consolidated capacity to the point where there is now only one producer of main battle tanks, one shipbuilder that can build aircraft carriers, two companies that can compete for fighter aircraft contracts, and three producing tactical missiles.

With the consolidation of Lockheed and Martin Marietta, and the purchase by Northrop of Grumman and Vought Aircraft, two new "mega-defense" firms were created overnight, becoming the largest and third ranking defense contractors, respectively.

ing their production offshore to developing nations, and other countries were outspending the United States in R&D.

Why? Not because of an "uneven playing field," caused by cheap labor and other countries' subsidies for their industries, which became the typical gripe of the aerospace-defense industry, but because of the decline in capital investment by U.S. industry due to the shift to short-term gain. This failure to invest in new technology and plant and equipment, the report stated, has led to low increases in productivity, which in turn has raised U.S. manufacturing costs and made industries noncompetitive.

Government policies, it warned, have pushed the Defense Department to make the industry upon which it depends to be

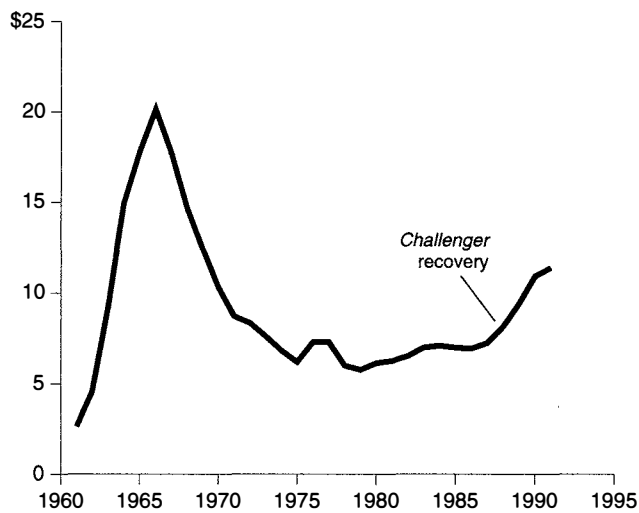
more like commercial industry, competing among themselves, with the chips falling where they may. The government stepped out, "but Wall Street didn't step in and the industry is unable to." In a 1991 update, entitled "Lifeline Adrift," the Air Force Association launched a scathing attack on Reagan-Bush economic policies. Do not be wowed by television, it warned. "The Persian Gulf war in many ways reflected a defense industrial base that no longer exists. . . . The companies that produced the impressive weapons were releasing workers, closing plants, and searching for non-defense business."

While the cry of the Bush administration became that there should be free market forces, and no government-direct-

FIGURE 3

NASA outlays

(billions constant 1987 dollars)



Source: Aerospace Industries Association.

ed “industrial policy,” the report stated that “to considerable extent, policy is being established by default.” As companies close their doors, the “administration staunchly opposes ‘industrial policy’ and believes that the shape of American industry should be left for market forces to decide. This doctrine—which applies not only to the domestic consumer economy but also to the defense industry and international trade—essentially allows the defense industry to drift where the market takes it.” And where “the market” was taking the defense industry was becoming painfully clear.

Over 1986-91, defense industry debt grew by 80%, while earnings dropped 40%. Debt increased because of policies such as changes in the tax laws, and the 1986 cut in progress payments to industry, from a rate of 90% of the contract, to 70%, in order to meet Gramm-Rudman reduction ceilings. The cutback in these payments, which allow a company to receive partial payments from the DOD for hardware during the years it is being produced, rather than be paid a lump sum when the product is delivered, forced companies to increase their borrowing.

By 1992, the number of aerospace-defense suppliers had fallen from 120,000, to 30,000. Numerous companies simply refused to take on new defense work, waiting to see where the downward-spiraling budget would finally land. Mergers and acquisitions among the largest contractors in the defense industry occurred at a dizzying pace, as companies tried to find ways to cut their losses and sell off their defense and aerospace divisions (see **Table 1**).

The Economic Strategy Institute estimates that over 600 U.S. high-technology firms were acquired by foreign entities

in 1988-92. By 1993, some 1 million jobs had been eliminated in the defense industry, overlapping with the 400,000 jobs lost in the aerospace industry, which includes military, civilian space, and commercial aircraft production.

During the Bush administration, the “no industrial policy” policy was followed with particular venality. The Air Force Association report stated: “Not everyone in government shares the administration’s faith in market forces, but dissent to the official philosophy has been muted if not absolutely silenced by the belief—which appears to have some basis in fact—that it can be hazardous to one’s career to speak up for anything that sounds like industrial policy.” This is undoubtedly a reference to the firing of Craig Fields as the director of the DOD Defense Advanced Research Projects Agency (DARPA) in April 1990, for exercising his agency’s mandate to promote dual-use technology to try to give financial support to a failing firm in the critically important semiconductor industry.

The report also cited the fact that the Reagan administration thought that defense spending could be preserved despite budget cuts, by curbing waste and fraud. “An immeasurable amount of harm has been done by a fiercely negative attitude toward the defense industry on the part of the public, some members of Congress, and some officials in the Department of Defense,” the report stated. Its conclusion was reinforced by Justice Department attacks on the DOD, such as Operation Ill Wind, in June 1988. That FBI raid on the Pentagon, supposedly to root out “white collar crime,” was carried out with what the Air Force Association characterized as a “vigilante spirit.” Little fraud was ever found.

Remember the ‘peace dividend’?

Near the end of the Bush administration, when the dissolution of the Warsaw Pact and of the Soviet Union had become a factor in reducing defense spending, the Congressional Budget Office (CBO) produced a study which zeroed in on a solution to the downward spiral of job loss and plant closings. The CBO report advised that the “peace dividend” that was to result from defense cutbacks due to the changed world political situation, “if applied to deficit reduction could adversely effect the economy, lowering GNP and employment.” But, if these funds “are spent to improve the nation’s stock of productive physical or human capital, these resources can ultimately be expected to lead to an increase in the GNP.” The report recommended increased spending for public infrastructure, education, and job training.

As the defense cuts increased, a number of congressional representatives championed that approach, suggesting that some of the “dividend” be invested in job training and the civilian space program. Spending by NASA, measured in constant dollars, had been held to under \$8 billion since the end of the Apollo program of the 1960s, except for the influx of funds to build the Endeavour orbiter and other expenditures to recover from the Challenger accident in January 1986, and

some gear-up for the international space station. But a visionary program for space exploration would be the perfect place to employ the scientists and engineers being made "redundant" by cutbacks in defense programs.

In July 1989, at the ceremony celebrating the 20th anniversary of the first manned landing on the Moon, on the steps of the National Air and Space Museum in Washington, President Bush announced that the United States should go back to the Moon, and on to Mars. But his grandstanding was in no way serious. He had no intention of ditching "budget deficit economics" to fight for a visionary space program. In 1990, the Budget Enforcement Act, which amended the 1985 Gramm-Rudman law, was passed by Congress and signed into law by the President. It stated that none of the defense cuts could be moved to any other discretionary spending. The NASA budget went flat, as seen in **Figure 3**. So much for a Moon-Mars program.

The Omnibus Budget Reconciliation Act of 1993 set limits on total discretionary spending, with separate caps for defense, international, and domestic appropriations. For 1994-98, there is a single limit for all discretionary spending, with defense slated to take 80% of those cuts.

Three months after he took office, President Clinton stated that he planned to spend almost \$20 billion over five years to retrain workers, promote dual-use technologies for defense

and industry, and provide "transition assistance" for communities suffering because of defense cutbacks. Such programs have been under attack in the past year, by the Republican congressional majority which classifies such aid as "social program" and "corporate welfare" funding.

There is no "overcapacity" in the aerospace-defense industry. There are no redundant scientists, engineers, and skilled defense industry workers. There is an opportunity to redeploy the human and physical capital that was created for the national defense into the great projects that are the only pathway out of economic collapse.

Just to complete the international space station, return people to the Moon to live there in the first decade of the next century, and then move human civilization to Mars beginning in the following decade, will require a mobilization of a significant share of the precious resources that the budget balancers have thrown onto the scrapheap. When the rebuilding of rotted U.S. infrastructure and the industrialization of the developing nations is added into the equation, this nation will quickly find it has a deficit of scientists, engineers, skilled workers, and modern plant and equipment.

What defines the state of the nation's resources is its mission. If the national goal is to try to balance the budget, not only the defense industry, but most of us, will become "excess" and "redundant."

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