



# Military Spending Can Grow the Nation's Economy

Lawrence Korb, Laura Conley, Sean Duggan, and Matthew Merighi February 2009

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## Introduction

Nearly 600,000 Americans lost their jobs last January, pushing unemployment to a 16-year high of 7.6 percent. This announcement is the latest indication of the dire state of the U.S. economy. Without a doubt, the nation's mounting economic crisis will be one of the toughest tests the Obama administration will face in its first term. But times of great economic challenge also present the administration and the country with opportunities to spend on much-needed government projects that will enhance our national interests while stimulating the economy.

The Department of Defense is an ideal government agency to play a role in economic recovery for several reasons:

- **The defense budget is massive.** The Pentagon accounts for a little more than half of U.S. discretionary spending, and the country spends more on defense than the rest of the world combined. In fiscal year 2009, the regular defense budget totaled \$518 billion. When the costs for the wars in Iraq and Afghanistan are added, the budget rises to about \$700 billion. The FY 2010 baseline defense budget is projected to reach about \$587 billion. Importantly, every \$1 billion spent on defense generates close to 10,000 jobs.<sup>1</sup>
- **Only about two-thirds of the defense budget is spent in the years for which it is authorized.** Consequently, some spending can be accelerated without adding to the nation's long-term debt or purchasing items that do not enhance our overall national security. For example, funds authorized for military construction, or MILCON, which includes base facilities and military housing, can be spent over five years.
- **The wars in Iraq and Afghanistan have worn out equipment much more rapidly than anticipated.** When the Pentagon purchases a piece of equipment, be it a truck or tank, it assumes that the equipment will last for a given number of years. However, the harsh envi-

ronmental conditions in Iraq and Afghanistan, as well as combat damage, have destroyed large amounts of equipment much faster than anticipated. This equipment will have to be replaced or repaired, a process the military terms reset. According to Congressman John Murtha (D-PA), Chairman of the House Appropriations Subcommittee on Defense, resetting all of the equipment in need could total \$100 billion. There is no reason that this reset cannot be done much more rapidly.

- **Because of the demands on our ground forces, the Army and Marine Corps plan to add about 48,000 men and women to the active component between now and 2013.** This build-up, like military construction spending, can also be accelerated without increasing the long-term debt that must eventually be accrued to pay for these necessary items.

All of these reasons make strong cases for the DOD to aid economic recovery. Therefore, when policymakers consider how to jumpstart the economy, they should focus on the following three areas in the defense budget:

- Combat rising unemployment by increasing the size of the ground forces to projected levels as quickly as possible
- Accelerate the spending of funds already authorized for military construction and authorize an additional \$25 billion in the FY 2010 budget for construction projects that will be needed in the next five years
- Accelerate Army and Marine Corps equipment reset

These recommendations would cost \$106 billion and would create approximately 1 million jobs.<sup>2</sup> It is also important to note that while defense spending may not create as many jobs as other forms of government spending, over a quarter of the funds that are required to implement the above recommendations have already been authorized and the remaining funds will eventually be authorized.

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## Increase personnel

Several military, economic, and social factors make the current environment an ideal time to recruit ground forces in particular.

First, the Army and Marine Corps have already been authorized to increase their ground forces to approximately 550,000 and over 200,000 active duty troops, respectively. Under current plans, the Army will recruit an additional 7,000 soldiers per year above its normal quota and the Marines will recruit 5,000, for a total of 12,000 per year between 2010 and 2013. Given the fact that this plan is already in place, the new administration should

attempt to speed up the process. In 2010, the Army and Marines should attempt to add all 48,000 troops to their roles without lowering standards. This will increase military personnel expenditures by an estimated \$5 billion in 2010 alone.

Second, today's overall unemployment rate is at a 16-year high. Unemployment is even higher for our nation's youth, who are the prime recruiting pool for the armed forces. While the national unemployment average is 7.6 percent for adults ages 16 years and older, for young men and women ages 16 to 24 the rate is 17.7 percent, and among men and women ages 20 to 24 it is 12.1 percent.<sup>3</sup> With private-sector employment shriveling, military service has become a more attractive option. But while increasing unemployment has created an opening for increasing enrollment, the military must still ensure that its recruits meet high education, aptitude, and moral standards.

Recruitment and retention bonuses must also be maintained and in some cases increased. Currently the Army offers \$20,000 to \$50,000 signing bonuses—on top of education and health benefits—to new recruits depending on their professional skills and service specialty. These bonuses have been critical to attracting talented men and women, and they should be maintained. Moreover, these signing bonuses can have an immediate economic multiplier effect since a large portion is given to service members and their families upon enlistment.

Unfortunately, the Army offers significantly lower retention bonuses than other services. According to a 2007 report by the Government Accountability Office, the Navy and Air Force pay about 10 times what the Army pays in retention-related incentives.<sup>4</sup> If a Navy lieutenant commander (O-4), the equivalent of an Army major, were commissioned in 1997, he or she could have received \$121,000 in retention bonuses during a 12-year career. An Army infantry officer over that same time span would not have received any retention pay.<sup>5</sup>

It is critical that Army retention bonuses be brought up to par with other services. This will help the Army retain its most talented and experienced commissioned and non-commissioned officers. And as a matter of equality, Army officers have been more stressed than their counterparts in the other services since 9/11, so their pay should reflect this level of commitment. Fully implementing this plan will add about \$1 billion to the defense budget.

Third, public attitudes toward service in the military have improved over the past year. According to a recent Rasmussen survey, 79 percent of Americans have a favorable opinion of the U.S. military. And according to *The Christian Science Monitor*, 11 percent of young people ages 16 to 21 say they will “definitely” or “probably” serve in the military within the next two years, which is up from 9 percent one year ago.

The reduction in casualties from the Iraq war, the election of Barack Obama—who has pledged to withdraw troops from Iraq—and rising unemployment among today's youth are key reasons enlistment is becoming more appealing to youth. This increased interest in enlistment means that the military can and should be more selective with recruits and reduce the number of criminal and education waivers to pre-Iraq war levels.

Fourth, the military can enlarge its pool of potential recruits by dropping the outdated “don’t ask, don’t tell” policy that prohibits openly gay people from serving in the military, as well as ending the ban on women in combat. Fortunately, the new commander in chief has signaled his intent to repeal “don’t ask, don’t tell,” a move that is now supported by the overwhelming majority of the American people.

Fifth, the recently passed 21st-century G.I. Bill will be a boon to military recruitment. The bill, the largest educational benefit for service members and their families since World War II, goes into effect on August 1, 2009. The *Army Times* notes that, “On average, the combination of payments adds up to more than \$85,000 in college benefits over four years. Pentagon officials believe the option of sharing these benefits with family members could be the most significant across-the-board retention bonus ever offered to military members, and could radically transform the career force.”<sup>6</sup> The bill not only will help to recruit a large

number of talented troops to the force, but it also has the ancillary benefit of investing in the education of our nation’s youth.

### Option

Boosting ground forces and increasing Army bonuses will add about \$6 billion to the FY 2010 budget.

And finally, the new president has called on Americans to embrace national service, which should increase the number of those young men and women willing to consider volunteering for military service.

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## Accelerate previously authorized funding for military construction and increase future funding in the short term

The decision to grow the ground forces will necessitate the construction of additional barracks, headquarters, and other base facilities. Therefore, the Obama administration will face substantial military construction, or MILCON needs in the next four years. Additionally, President Barack Obama and Congress will need to continue to fund the 2005 Base Realignment and Closure process, or BRAC, and this too will require an increase in MILCON spending.

In this troubled economy, construction workers have been hit especially hard. The industry lost 101,000 jobs in December 2008 alone, pushing unemployment among construction workers to 15.3 percent.<sup>7</sup> Although seasonal fluctuation in this industry should be expected, this year’s numbers represent a significant rise over last December’s industry rate of 9.4 percent unemployment.<sup>8</sup> Lawmakers have an opportunity to alleviate some of this burden by aggressively promoting and funding military construction jobs for these civilian workers. These jobs would be comparatively easy to create, as many construction workers can learn skills on the job and may not require specialized education and training.<sup>9</sup>

## Opportunities for investment in military construction

Both the BRAC process and efforts to increase the size of the armed forces offer an opportunity to create additional MILCON jobs. For example, as a part of the 2005 BRAC process, Walter Reed Army Medical Facility will be moving from Washington, D.C. to share the current campus of the National Naval Medical Center in Bethesda, Maryland. Construction and renovation for relocating Walter Reed's staff and operations to Bethesda and one other site in Virginia are estimated to cost \$1 billion, and all relocation is scheduled to be complete by mid-September 2011.<sup>10</sup>

This project and other BRAC initiatives are already planned, so Congress should use this opportunity to fully fund all of these projects in FY 2010. Moreover, the Pentagon should spend the money as quickly as possible. Not only will this have an impact on jobs, but it will allow communities to begin putting the vacant land to productive use much more quickly.

Increasing the size of the Army and Marines has created an additional need for increased MILCON spending. The GAO reported in September 2008 that due to efforts to grow the ground forces some bases are currently oversubscribed. These facilities would not be able to support all of the soldiers assigned to them if it were not for current overseas deployments.

The report notes that, "installation management officials are concerned that, in the event of a major reposturing of units out of Iraq and the concomitant return of Army units to their home stations, there will not be enough room to accommodate all of the equipment, unit headquarters staff, and soldiers stationed at an installation."<sup>11</sup> Under the Status of Forces Agreement signed by President George W. Bush and Iraqi Prime Minister Nouri al-Maliki, all U.S. forces must leave Iraq by the end of 2011, and President Obama has pledged to withdraw all combat units by April 2010. The military should prepare aggressively for this influx of troops by investing in the necessary military construction now. Given the downturn in housing construction, there exists plenty of excess capacity in the housing industry.

MILCON funds should also be used to reduce the environmental footprint of military facilities. Not only will this create jobs in an important sector of the economy, it will also yield long-term energy savings. The Pentagon aims to have 25 percent of its electricity provided by renewable energy sources by 2025, yet Defense News reported in January of this year that "no additional money has been allocated for the effort."<sup>12</sup> Additionally, all new Army buildings are required to follow U.S. Green Building Council guidelines.<sup>13</sup> Extra MILCON funding could be used to update old facilities as far as is practicably possible to meet these guidelines.

Moreover, improved bases, offices, and living quarters will enhance the overall quality of life for our service members and their families. These improvements are a small gesture in light of the sacrifices we have asked of our troops over the past eight years, and they

will need to be done eventually. Moreover, new and improved living quarters and other MILCON projects such as schools on bases will be a boon to recruitment and retention. There is no reason not to build them now.

## Case study: North Carolina MILCON opportunities

In November 2008, Army, Navy, and Marine Corps officials speaking at the 2008 North Carolina Military Construction Summit outlined substantial construction needs in the coming years. They argued that projects at Fort Bragg, Camp Lejeune, Camp Mackall, and other facilities in the state were expected to “create \$5 billion to \$7 billion in military construction projects” for the Army and Marines. Brigadier General Joseph Schroedel, from the Army Corps of Engineers, noted that the military had “more work than we can handle” to complete these jobs.<sup>14</sup>

As of December 2008, North Carolina had the eighth highest state unemployment rate in the United States at 7.9 percent. Congress should work with the Department of Defense and state and local officials in North Carolina to promote the jobs available at military facilities. This could be particularly helpful in bringing economic recovery to the state, as some of its construction needs are the result of the 2005 BRAC process. As such, the projects must quickly be completed by September 15, 2011.

## Funding sources

An analysis of the FY 2009 Green Book, the Department of Defense’s compendium of national defense budget estimates, reveals that funding is already available for many military construction projects. From FY 2006 to FY 2009, the total budget authority for military construction projects, including money for the active services, reserves, and BRAC-mandated construction, outpaced outlays by about \$24 billion (see Chart 1 below).

Because military construction funding may be spent for up to five years following authorization, unspent money from FY 2005 through the current fiscal year could be funneled to short-term or immediate construction projects as a mechanism to aid in economic recovery. Including the FY 2005 funding, this pot is in excess of \$25 billion.

In addition, Congress could also increase total MILCON funding by \$25 billion over the projected level in FY 2010 as a short-term boost to aid economic recovery and pay for the needed but unfunded military

**Chart 1: Total MILCON spending (in current \$ measured by millions)**

|                   | 2006  | 2007   | 2008   | 2009   | FY06-09 Total |
|-------------------|-------|--------|--------|--------|---------------|
| Budget authority  | 9,530 | 13,961 | 17,763 | 21,196 | 62,450        |
| Outlays           | 6,245 | 7,893  | 10,207 | 14,114 | 38,459        |
| Available funding | 3,285 | 6,068  | 7,556  | 7,082  | 23,991        |

All data excerpted from the FY 2009 Green Book.

construction projects at bases around the country. The DOD has already been receiving some funding above baseline levels through supplemental appropriations bills. For example, the DOD requested approximately \$3.5 billion in MILCON funding in the second FY 2008 supplemental appropriation, and Congress enacted \$4.2 billion.<sup>15</sup>

### Option

Increase total MILCON funding to \$50 billion in FY 2010 and redirect funds that have not been spent since FY 2005 to projects resulting from BRAC decisions, service size increases, and environmental sustainability initiatives. This will result in putting approximately an additional \$50 billion into the economy over the next two years.

While an added \$25 billion would bring the MILCON budget to \$50 billion and would represent a significant increase over the sum of the baseline and supplemental appropriations, the country's declining economic health and rising construction sector unemployment both suggest this increase is desirable.

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## Accelerate Army and Marine Corps equipment reset

Although effective personnel are the foundation of any strong military, proper equipment allows personnel to accomplish their objectives. Prioritizing and accelerating defense spending to reset equipment that has been damaged or destroyed in Iraq and Afghanistan is another opportunity to spur medium- to long-term economic growth.

But in order to use reset funding for economic recovery, the Department of Defense and Congress must first work together to determine what kinds of equipment are essential for the military to successfully defeat current and future threats.

The wars in Iraq and Afghanistan have depleted the supply of battle-ready, essential equipment. These shortfalls have created ripple effects throughout the military in the form of repair backlogs. Over the course of the last eight years, it has been common practice for deploying units to siphon equipment from non-deployed units—a process known as cross-leveling. In its most extreme form, this process has resulted in combat brigades deploying to war zones without essential equipment or full combat readiness. Congressman Murtha, the Chairman of the House Appropriations Subcommittee on Defense, has estimated that resetting all of this equipment will cost about \$100 billion.

These problems can be partially mitigated by making equipment reset a part of an economic recovery plan. The vehicles most in need of reset are those seeing service in Iraq and Afghanistan. These include M1 Abrams tanks, M113 Armored Personnel Carriers, Stryker combat vehicles, military Humvees, and various support vehicles. These vehicles are largely produced and repaired in the United States in states such as Texas, California, Oregon, Utah, Ohio, Michigan, Pennsylvania, and Alabama, where they provide continuous employment for mechanics and machinists. Accelerating reset will provide much-needed employment opportunities in the midst of these difficult economic conditions.

## Option

Add \$50 billion to equipment reset in FY 2010 as part of the economic recovery package to create jobs and improve military personnel functioning.

Spending federal money on equipment reset at this time would have several ancillary benefits. It would buoy our economy with government spending and reverse damages caused by eight years of war. Both of these effects would fundamentally contribute to our nation's security and prosperity.

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## Conclusion

The federal government should not be spending defense dollars for the sole purpose of stimulating the economy. For example, some have argued that the Obama administration should continue purchasing unnecessary F-22 fighters because close to 100,000 potential jobs would be lost from stopping production at 183 fighters—a recommendation of Secretary of Defense Robert Gates.

Instead, the DOD should spend funds that would have to be spent eventually on people, projects, and reset that would enhance our overall security while enabling the economy to recover. While this would mean a temporary increase in the overall defense outlays for FY 2010 and FY 2011, it would also mean that in 2012 and 2013, defense spending on items such as military construction would tail off sharply when the economy should be back to its normal level of activity.

**Our recovery package would create, in a short amount of time, over \$100 billion in defense spending. It would be broken down as follows:**

**Personnel:** Accelerating the addition of 36,000 soldiers and Marines and increasing Army officer retention bonuses. **Amount: \$6 billion**

**Military construction:** Accelerating the spending of already approved projects and authorizing more projects now. **Amount: \$50 billion**

**Reset:** Accelerating the spending for resetting items damaged or destroyed in Iraq and Afghanistan. **Amount: \$50 billion**

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**Total: \$106 billion**

According to some economists, increasing military spending by this amount could create an additional 1 million jobs.<sup>16</sup> Moreover, accelerating the recruitment effort would provide jobs for 36,000 men and women in the next year, providing employment at a time when it is sorely needed.



# Endnotes

- 1 Economists for Peace and Security Newsletter, November 2008, p. 11, available at: <http://www.epsusa.org/publications/newsletter/2008/nov2008/nov2008.pdf>
- 2 Based on calculations from: Economists for Peace and Security Newsletter, November 2008, p. 11, available at: <http://www.epsusa.org/publications/newsletter/2008/nov2008/nov2008.pdf>.
- 3 United States Bureau of Labor Statistics, National Unemployment Rate, available at: <http://www.bls.gov/data/#unemployment> (last accessed January 15, 2009).
- 4 Government Accountability Office, "2007 Strategic Plan Needed to Assess the Army's Emerging Officer Accession and Retention Challenges" (January 19, 2007).
- 5 Effective upon the signing of the FY 06 Defense Appropriations Act, the \$25,000 Junior SWO Critical Skills Retention Bonus was authorized. This brings the total "SWO Bonus" to \$75,000. SWO LCDRs are eligible to receive SWOCS commencing October 1, 2002. The program is designed to be an incentive, paying an eligible SWO LCDR up to \$46,000 to stay in the Navy, and SWO community, through the 15th year of commissioned service. Available at <http://www.npc.navy.mil/Officer/SurfaceWarfare/PayIncentives/SWOCP/>.
- 6 Rick Maze, "New GI Bill Rules," Army Times, January 19, 2009, available at <http://armytimes.va.newsmemory.com/default.php?token=7f4fdf64638d672b720a3172151ba1af&pSetup=armytimes>.
- 7 David Goldman, "Worse year for jobs since '45," CNN Special Report, January 9, 2009, available at [http://money.cnn.com/2009/01/09/news/economy/jobs\\_december/?postversion=2009010912](http://money.cnn.com/2009/01/09/news/economy/jobs_december/?postversion=2009010912).
- 8 Note: These figures are not seasonally adjusted. Bureau of Labor Statistics, "Unemployed persons by industry and class of worker, not seasonally adjusted," Table A-11, available at: <http://www.bls.gov/news.release/empst11.htm>.
- 9 Bureau of Labor Statistics, "Construction Laborers," Occupational Outlook Handbook, 2008-09 Edition, available at <http://www.bls.gov/oco/ocos248.htm>.
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- 11 Government Accountability Office, "Actions Needed to Enhance DOD Planning for Reposturing of U.S. Forces from Iraq" (September 2008), available at <http://www.gao.gov/new.items/d08930.pdf>, p. 35.
- 12 Tim Kauffman, "U.S. Bases Turn to Wind, Solar, Water Power," Defense News, January 12, 2009, p. 20.
- 13 Haya El Nasser, "Designers of U.S. Military Bases Going Green," Defense News, January 12, 2009, p. 20.
- 14 Henry Cuningham, "Military construction book prompts pleas for help," Fayetteville Observer, November 20, 2008, available at <http://www.fayobserver.com/print?id=310920&type=article>.
- 15 Daniel Else, Christine Scott, and Sidath Viranga Panangala, "Military Construction, Veterans Affairs, and Related Agencies: FY2009 Appropriations" (Congressional Research Service, October 2008), available at <http://www.fas.org/sgp/crs/natsec/RL34558.pdf>, pg. CRS-6.
- 16 Economists for Peace and Security Newsletter, November 2008, p. 11, available at <http://www.epsusa.org/publications/newsletter/2008/nov2008/nov2008.pdf>