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### Small Wars, Big Defense: Living in a World of Lower Tensions

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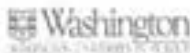
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## Small Wars, Big Defense: Living in a World of Lower Tensions

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Center for the  
Study of  
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## Small Wars, Big Defense: Living in a World of Lower Tensions

Murray Weidenbaum

National policies for the 1990s — both for military and civilian needs — must be developed for a world that is vastly different from the past. It has become clear that decisions affecting war and peace cannot be made in isolation from the civilian economy.

The willingness as well as the ability of a nation to support military preparedness is determined by the complex interaction of a host of factors — domestic and international, political, economic, and social. After all, the collapse of the Soviet Bloc's Warsaw Pact did not result from military action.

The events since 1989 — at home and abroad — reenforce the need for a "new look" by the United States in setting national military strategy. Moreover, the way that national security policy is carried out strongly affects the civilian economy.

The history of the past half century shows frequent start-and-stop cycles of defense spending. Those wasteful alternations often occurred as a result of hasty responses to dimly perceived changes in our national security position.

On the positive side, it makes good sense to cooperate with the Russians to cut back on the size of both military establishments. Yet the United States should be prepared to reverse course for a variety of reasons. Parts of the former Soviet Union's arsenal may fall into the hands of terrorist groups. Alternatively, a new Russian leadership could take a more aggressive position. Moreover, serious military

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threats may arise elsewhere, notably the Middle East.

Effective reversibility requires a strong defense industrial base as well as alert and well-motivated reserve components. Clearly, the U.S. continues to live in a dangerous world, even though the nature of the danger changes.

### Adjusting to Lower Levels of Defense Spending

The most reasonable basis on which to plan our own national security is to expect continued and substantial reductions in U.S. military spending for at least five years. The cutbacks will be more than the very modest 1-2 percent annual declines experienced in the late 1980s. Defense reductions of 5 percent a year or more are likely. Another way of looking at it is that a high level of military spending will continue for the indefinite future, but it will be much lower than peak rates experienced in the 1980s.

This substantial, but curtailed, level of defense outlay necessitates a variety of adjustments, mainly painful to the people directly involved. Yet, the general magnitude of the change will be less (as a share of the GNP) than was the case following the end of the Korean War or the Vietnam War.

Five key policy decisions need to be made to facilitate these defense cutbacks. The longer these decisions are delayed, the more difficult the adjustments will be.

#### Reduce Military Programs

To fit within fiscal reality, President Bush and Secretary of Defense Richard Cheney have to take those difficult actions that the Pentagon has avoided since the mid-1980s — substantially reducing the number of aircraft, missiles, and ships the Defense Department buys and the number of people in uniform. The mismatch between the military's wishes and congressional appropriations can only be resolved in one way — by cutting the planned spending to fit the budget cloth.

Coming to grips with the budgetary challenge also will reduce the great uncertainty that currently hangs over planning in the defense industry — an uncertainty that affects the businesses, their employees and families.

Some of the cuts that should be made are obvious. It is only bureaucratic inertia that has blocked them. For example, the Navy is still planning to spend \$1 billion to build and outfit a series of additional "home ports" originally designed to support a 600-ship fleet.

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The current fleet is less than 500 ships and further reductions are clearly in the cards. The support for continuing this expensive and needless effort comes from the cities where the new ports are scheduled to be built. We must be on our guard against born-again military enthusiasts. Local interest groups find it easy to confuse pork with patriotism. Do you want to convert a congressional dove to a hawk? Easy, just try cancelling a defense contract in his or her district.

In voting lower appropriations for defense, the Congress should avoid setting in motion a new stop-and-go cycle in military spending. Serious threats to the national security are changing in form but they surely continue — whether in the Middle East or elsewhere (such as the nuclear buildup of North Korea).

Visions of peace dividends should not obscure the need to maintain an adequate corps of professionals in the armed forces and key reserve units. While serving on the President's Military Manpower Commission in 1981-82, I learned what it takes to attract a quality military force without bringing back the draft: pay

and perks at levels competitive with the civilian economy. The effectiveness of the large amounts of money and resources devoted to defense will be enhanced by lowering the peaks in the military budget and raising the valleys.

### Maintain the Social Safety Net

There is a great deal of uncertainty and considerable fear in many localities concerning the future of the employees at defense plants and military installations. Yet, the most likely outlook is for the great majority of the people involved to keep their current jobs. Defense spending is going to continue at a high level, albeit much lower than now.

Significant increases in unemployment are occurring in centers of defense production. More layoffs are expected. Being told by your employer that you no longer have a job, especially if you have worked for that company for a long period of time, is a traumatic experience.

Many of the people involved went straight to work after graduation from high school or college. Involuntary unemployment is a new experience for them and often they are not even aware of the public and private mechanisms already in place to help them with the search for a new job and to provide some income to supplement the savings they have accumulated.

As a compassionate society, the United States provides a great variety of help to people caught in that situation. Experience with previous defense cutbacks tells us that the knowledge that the government and particularly the community cares and is standing by to help is very important to the newly unemployed.

Nevertheless, there is no justification for providing special benefits to unemployed defense workers. They should be treated as generously as — but no more or less than — people who lose their jobs because of sluggish housing sales resulting from a change in the government's monetary policy.

The scientists, engineers, and technicians that constitute a large fraction of the defense

industry do not need federal "make work" programs. They are among the most mobile members of the labor force — geographically, industrially, and occupationally. While defense is a national problem, economic adjustment is largely local. In any event, adjustment to defense cutbacks is best initiated in the private sector.

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Many defense-oriented communities take the position that the nation owes them something special because of their "contributions" to the national defense. When we recall the vigorous lobbying efforts those same communities made to get the Pentagon to locate the defense contract in their locality in the first place, we must dismiss such obviously self-serving views.

Government decision makers must learn to refrain from jumping every time a constituent gripes. The experience at Fort Wolters in central Texas furnishes a cogent case in point. When the base closing was announced in 1973, the *Fort Worth Star-Telegram* headlined the story as "Economic Rape." Looking back now, several thousand new jobs were created by businesses moving into the base. The current local reaction is very different. The mayor of the nearby town, Mineral Wells, was recently quoted as saying, "That post couldn't be reactivated now. The people here wouldn't stand for it."

The unpleasant fact is that recessions (albeit mild and short) followed the end of the Korean and Vietnam Wars and have accompanied the current defense cutback. The defense cutbacks likely in the next several years are relatively modest — a fraction of one percent of GNP in any one year. We should rely on the Federal Reserve System to offset that economic void. The Fed is the most effective mechanism for influencing short-term economic developments.

Neither of these fears — employment cuts or recession — should deter the movement to a lower level of defense spending. The prosperity of the United States does not require any particular amount of military activity. The productivity and competitiveness of the American economy will suffer if defense spending is used to prop up the prosperity of any region or industry.

#### Maintain Support for R & D

Because the military is such a large promoter of science and technology, a reduction in defense spending means a cutback in total federal support for research and development (R&D). That curtailment of investment in science and technology is troublesome for reasons that extend far beyond the military. Study after study shows that R&D is a major contributor to economic growth and rising living standards. Moreover, the high-tech industries, which in many cases are almost synonymous with the major defense contractors, are unique in providing a surplus of exports over imports, year after year.

There are some sensible things that government can do to shore up the high-technology sectors without spending a lot of money. The Department of Defense should reduce the barriers it has erected between defense and commercial technology. Greater consolidation of military and industrial product specifications would be especially helpful. Increasing the procurement of commercially produced high-tech products will strengthen the private-sector base for innovation.

The one area where some additional government spending is justified is research, especially basic research. Because so much of the results show up in the open literature, the firms doing and paying for the work rarely have rights to the knowledge being generated. Yet society as a whole benefits substantially. Under the circumstances, universities, research institutes, and civilian government agencies need to be encouraged to fill the funding gap opened by defense budget reductions.

#### Remove Government Obstacles

We need a viable group of experienced companies and highly skilled people to meet current defense needs and to provide a base for expansion should the international outlook worsen substantially. The major defense prime contractors and subcontractors as a group also constitute a key part of this nation's capability for industrial innovation.

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How do we do that without massive subsidies? The Congressional Joint Economic Committee held a hearing in September 1991 on proposals to do just that. I repeated my standard advice to Capitol Hill, "Don't just stand there, undo something." It is ironic that Congress continues to tighten its regulation of defense companies, and of business generally, just as Eastern European nations throw off the shackles of governmental controls so that they can move closer to that free economy that they associate with the United States.

The sad fact is that American business, military and civilian, is faced with a major expansion of expensive and burdensome regulatory legislation. A major decline in the size of the military market is the proper time to administer a massive dose of deregulation to the military procurement process. That would reduce the overhead costs of defense contractors. It would also increase their ability to transfer new technology between civilian and military products.

Congress should strip out the host of special provisions that require military contractors to act more like government bureaus doling out benefits to designated classes of beneficiaries than private enterprises that are expected to provide innovation and technological progress.

As an alumnus of the military-industrial complex, I feel obliged to report that the Pentagon is the place where Franz Kafka meets Alice in Wonderland. For sugar cookies, military specifications run to fifteen pages. For a cargo plane, companies vying for a contract wrote a total of 240,000 pages of material — weighing three-and-a-half tons.

Piecemeal procurement changes have failed. The place to start is a sweeping overhaul of the entire process. The Pentagon should eliminate the 2,000 pages of existing procurement regulations, including 500 pages of standard clauses and the 300 pages of forms.

Review authority over procurement programs (mainly to say no) is dispersed among 40 contract officers, staff experts, senior military executives, auditors and inspectors. None of these "second guessers" has responsibility for the program's success and most of these positions should be eliminated.

Comprehensive reform means dividing military procurement into two categories: items available in the private sector and weapons. The great majority of military purchases should be made without all the rigamarole.

The nation pays for bureaucratic wheel-spinning in many ways — such as unnecessary delay. As a result, 8-12 years are now required to develop and produce a new military aircraft. Not surprisingly, much of the equipment is out of date before the plane goes into use. The Pentagon should award the contracts to the firms that do well on earlier production programs — rather than those that are skillful at drawing up proposals or merely "buying in" at initial low prices.

Most important, we can raise the effectiveness of the money that is spent on military procurement by removing the myriad of restraints and directives imposed by members of Congress anxious to protect the defense jobs located in their states or districts. Forcing the military to buy weapons they do not need is the most inefficient way of providing benefits to constituents. It sets the wrong tone for all that

follows. After all, how can the people responsible for military acquisition be expected to follow the highest ethical principles when the entire process is designed by members of Congress who treat the military budget as the nation's biggest pork barrel?

### **Defense Companies Must Downsize**

Defense companies need to continue the substantial and painful downsizing now underway. They must maintain the financial ability to operate in a different market environment — or they will go under.

Most economic conversion proposals, sad to say, are characterized by naiveté and wishful thinking. At best they are a diversion. At worst, they will dissipate the remaining assets of defense contractors. The numerous past attempts by defense contractors to use their factories and people to penetrate civilian markets have resulted in few successes. The abandoned projects literally run the gamut from canoes to coffins. Most of the undertakings have failed, either being closed down or sold at a loss. Defense companies are different from civilian companies. Procter & Gamble cannot make missiles and General Dynamics cannot produce soap or potato chips (at least not at competitive prices).

Trying to get commercial payoffs from military technology is invariably an enticing concept. But the past sad history of the attempts of the major military contractors to enter commercial markets underscores the need for government to refrain from trying to forcefeed that process.

Individual defense firms need to understand that, like companies in other industries, they have no particular claim to maintaining their present size, or even to their continued existence — nor do their employees possess any special rights to the jobs now generated by defense spending. Most of these firms will find that a more modest scale of operations is also a more efficient scale in the decade ahead.

This advice is consistent with the response of the chairman of Martin Marietta when asked

by the Soviets how to convert a tank plant into a refrigerator factory: tear down the tank plant and build a new refrigerator factory.

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*The federal government should focus on developing sensible monetary and fiscal policy and reducing tax and regulatory obstacles to economic activity.*

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Forcing defense contractors to try to penetrate markets that are alien to them is no favor to their employees — who would find themselves abruptly laid off when those ventures visibly failed. Those now out of work are better advised to seek employment elsewhere. It is foolhardy to ignore the evidence. As a typical study of past experience by Battelle Memorial Institute concluded: "Detailed research has not identified even one successful product in our economy today which was developed through a military-to-civilian conversion approach."

### Conclusion

The American economy can adjust successfully to the defense cutbacks likely to occur in the 1990s. Defense is a minor player in the overall American economy. It accounts for one-fifteenth of the GNP and an even smaller portion of the work force. Economic activity in the U.S. marches to the beat of civilian drummers.

Key economic changes will occur in the private sector as people and capital move from military to civilian production. The major defense contractors face a reduction of about one-third from their present size.

In an economy such as that of the United States, organized primarily along the lines of private enterprise, the basic responsibility for adjusting to losing a job or suffering a reduc-

tion of business income falls on the individuals directly affected. Given the incentives (positive and negative) provided by the marketplace, those adjustments will best be made if that basic responsibility is not shifted to someone else.

The best national economic policy to accompany future reductions in defense spending is for the federal government to focus on the important responsibilities which are uniquely its own — developing sensible monetary and fiscal policy and reducing tax and regulatory obstacles to economic activity.

Erecting that appropriate economic framework is challenging in itself. Moreover, it creates the conditions that make it possible to achieve a truly meaningful peace dividend. After all, the real peace dividend is not really a matter of changing federal budget priorities; it will occur when individual workers, companies, and communities successfully shift from military to civilian activity.

The basic lesson that the nation learned after World War II, Korea, and Vietnam is still pertinent: Once the federal government erects an adequate framework in terms of a growing economy with expanding job opportunities, it should get out of the way!