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Defense Spending Would Be Great Stimulus

All three service branches are in need of upgrade and repair.

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The Department of Defense is preparing budget cuts in response to the decline in national income. The DOD budgeteers and their counterparts in the White House Office of Management and Budget apparently reason that a smaller GDP requires belt-tightening by everyone.

That logic is exactly backwards. As President-elect Barack Obama and his economic advisers recognize, countering a deep economic recession requires an increase in government spending to offset the sharp decline in consumer outlays and business investment that is now under way. Without that rise in government spending, the economic downturn would be deeper and longer. Although tax cuts for individuals and businesses can help, government spending will have to do the heavy lifting. That's why the Obama team will propose a package of about \$300 billion a year in additional federal government outlays and grants to states and local governments.

A temporary rise in DOD spending on supplies, equipment and manpower should be a significant part of that increase in overall government outlays. The same applies to the Department of Homeland Security, to the FBI, and to other parts of the national intelligence community.

The increase in government spending needs to be a short-term surge with greater outlays in 2009 and 2010 but then tailing off sharply in 2011 when the economy should be almost back to its prerecession level of activity. Buying military supplies and equipment, including a variety of off-the-shelf dual use items, can easily fit this surge pattern.

For the military, the increased spending will require an expanded supplemental budget for 2009 and an increased budget for 2010. A 10% increase in defense outlays for procurement and for research would contribute about \$20 billion a year to the overall stimulus budget. A 5% rise in spending on operations and maintenance would add an additional \$10 billion. That spending could create about 300,000 additional jobs. And raising the military's annual recruitment goal by 15% would provide jobs for an additional 30,000 young men and women in the first year.

An important challenge for those who are designing the overall stimulus package is to avoid wasteful spending. One way to achieve that is to do things during the period of the spending surge that must eventually be done anyway. It is better to do them now when there is excess capacity in the economy than to wait and do them later.

Replacing the supplies that have been depleted by the military activity in Iraq and Afghanistan is a good example of something that might be postponed but that should instead be done quickly. The same is true for replacing the military equipment that has been subject to excessive wear and tear. More generally, replacement schedules for vehicles and other equipment should be accelerated to do more during the next two years than would otherwise be economically efficient.

Industry experts and DOD officials confirm that military suppliers have substantial unused capacity with which to produce additional supplies and equipment. Even those production lines that are currently at full capacity can be greatly expanded by going from a single shift to a two-shift production schedule. With industrial production in the economy as a whole down sharply, there is no shortage of potential employees who can produce supplies and equipment.

Military procurement has the further advantage that almost all of the equipment and supplies that the military buys is made in the United States, creating demand and jobs here at home.

Increased military spending should involve more than just accelerated replacement schedules. Each of the military services can identify new equipment and additional quantities of existing equipment that can improve our fighting ability in Afghanistan and our ability to protect our military forces while they are in combat.

Military planners must also look ahead to the missions that each of the services may be called upon to do in the future. Additional funding would allow the Air Force to increase the production of fighter planes and transport aircraft without any delays. The Army could accelerate its combat modernization program. The Navy could build additional ships to deal with its increased responsibilities in protecting coastal shipping and in countering terrorism. And all three services have significant infrastructure needs.

Although some activities like ship building cannot be completed in the two year stimulus period, the major part of the expenditures can be brought forward in time by acquiring components and materials quickly and holding them in inventory until they are needed in the ship building process. Such a departure from just-in-time inventory management would be wasteful under normal conditions, but makes economic sense when there is temporary excess capacity.

Now is also a good time for the military to increase recruiting and training. Because of the current very high and rising unemployment rates among young men and women, it would make sense to depart from the military's traditional enlistment rules and bring in recruits for a short, two-year period of training followed by a return to the civilian economy. As a minimum this would provide education in a variety of technical skills -- electronics, equipment maintenance, computer programming, nuclear facility operations, etc. -- that would lead to better civilian careers for this group. It would also provide a larger reserve force that could be called upon if needed by the military in the future.

The budgets for homeland security, for intelligence activities, and for the FBI have increased substantially during the past decade. The greater terrorist threat fully justifies these additional

funds. The current two-year stimulus period provides an opportunity for additional temporary spending increases with high payoffs.

Investments in port security would reduce a major homeland vulnerability. Expanding the government's language training programs for new intelligence community recruits would provide more translators who can monitor the terrorist communications that we are able to intercept. Additional infrastructure for the FBI would remove an important constraint on the number of new FBI agents.

The Obama team's goal of sending a stimulus package to Congress before the end of January may not leave enough time to work out the details of expanded military and intelligence budgets. If so, the stimulus plan should ask the Congress to provide a total of at least \$30 billion a year of increased outlays in these budget categories. A substantial short-term rise in spending on defense and intelligence would both stimulate our economy and strengthen our nation's security.

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