ECONOMIC IMPACT OF DEFENSE PROGRAMS*

The economic impact of the defense budget may be broadly defined as the degree to which defense programs utilize scarce resources (labor, machines and material) at the national, state and local (labor market area) levels. Impact varies with the change in size and composition of the defense budget. In recent years, the budget has represented approximately 8 percent of the gross national product; however, this percentage increased during the Vietnam buildup in fiscal year 1966. The increase in defense expenditures represented approximately 12 percent of the increase in the gross national product for that period. Expressed in defense-generated employment, the increase represented approximately 25 percent of the increase in civilian labor force during fiscal year 1966. This was a sharp reversal of the trend exhibited from 1963 to June 1965 when concern over defense impact revolved around procurement cutbacks.

Because of the changing size and composition of the defense budget, DOD has initiated continuing studies to determine the economic impact of its spending on geographic areas and industries. Although information delineating the economic impact of the defense budget will not influence procurement decisions, it is desirable that DOD develop the information that will permit it and other Federal, State, and local agencies to take actions to alleviate the adverse consequences of shifts in defense procurement programs. At the industry level such statistics are useful not only to provide information on where the defense dollar goes and for what products, but to better assess future trends and resource demands of the defense budget.

DOD IMPACT STUDY

This article presents a summary of a DOD study prepared by the Economic Impact Studies Division with the assistance of Arnold Franseen, Israel Rubin, and Dr. Roger Riefler. Because of the need to protect military security and proprietary information, the data presented here are highly summarized and are largely statistical and descriptive in nature. The study was based on data collected from large defense contractors during 1966 under the economic information system (EIS) developed jointly by DOD and NASA. These data were supplemented by impact statistics developed from other sources.

EIS is one of several DOD projects designed to measure the economic impact of defense programs. It originated in 1961 as part of an effort to assess the economic impact of defense procurement on plants and communities.

*The author, Col. Vernon M. Buehler, U.S. Army, is the Director of the Economic Impact Division of the Office of the Deputy Assistant Secretary of Defense (Economics), Office of the Assistant Secretary of Defense (Systems Analysis). Prior to his present assignment, Colonel Buehler served as a faculty member of the Industrial College of the Armed Forces, Fort McNair, Washington, D.C. He holds a bachelor of science in accounting from Utah State University, a master of business administration from Harvard University, and a Ph. D. degree in economics from George Washington University. He is a certified public accountant.