The Economic Costs of Arms Sales Curbs

By

Mr. William Bajusz
and
Dr. David Louscher

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While Congress considers the administration's request for a $1 billion arms sale to Saudi Arabia, a vigorous public discussion of the cost to the U.S. economy of curbing military arms sales to certain nations is urgently needed. More than ever before, critical questions must be asked.

To what extend have recent U.S. decisions to block the sale of F-15s to Saudi Arabia, F-16s to Jordan, and Maverick antitank missiles to Saudi Arabia, among others, adversely affected the U.S. economic and defense industry? What domestic price has the United States paid as a result of these, and other, "lost" arms sales? What will be the domestic economic loss if the impending $1 billion sale to Saudi Arabia is blocked?

To raise these questions now is not to argue, or even to imply, that the United States should base arms transfer decisions solely or preponderantly upon cold economics. Foreign policy considerations have been the principal determinants of U.S. security assistance in the past, and that is as it should be for the future. However, neither it is prudent to ignore the domestic consequences of blocked sales. This is all the more true today, given fears about worsening U.S. trade imbalances, their impact on the U.S. economy, and the implications for U.S. industry's global competitiveness.

Unfortunately, there has not been a reliable, widely accepted method for calculating the domestic economic impact of U.S. arms sales abroad. The political community has proponents and opponents of particular sales who claim damage or benefits with little apparent concern for demonstrating how such arguments were developed. Surely, Congressional and other debates over the wisdom of blocking or permitting particular sales are ill-served by this state of affairs.

Having recently completed an independent study of the impact on the domestic economy of restricting military sales to the Middle East, we are well aware of how difficult it is to calculate with confidence the economic costs of restraints on U.S. arms sales. (We are equally well aware of the need to quantify how costs are measured.) While the difficulties are formidable, particularly as economic impact is calculated at the state and local level, they are not insurmountable.

Our research suggests that the following estimates of the economic impact of arms sales at the national level are methodologically conservative and empirically substantiated.

- Every $1 billion in Foreign Military Sales (FMS) generates roughly 35,000 man-years of direct employment for U.S. industry and another 26,250 man-years of indirect employment in surrounding communities. In other words, every man-year of employment directly associated with the production of defense equipment for overseas sales creates an additional 0.75 man-year of employment in the surrounding community.

- Looked at somewhat differently--from the standpoint of income generated by overseas sales--every dollar in overseas sales that flows into the United States generates, on [a] national average, another 96 cents for the communities in which defense firms are located. Some states such as Texas or Arizona, have income multipliers that are much higher. Moreover, tax revenue generated for the federal government is roughly 25 percent of the total income generated by overseas sales.

To apply these calculations for purposes of illustration, consider what it could cost the United States to deny prospective Middle East clients such as Jordan, Saudi Arabia, Oman, Bahrain, and the United Arab Emirates, Kuwait, and Qatar, the sale of selected military equipment. Using different projection methods, our research indicates that the prospective market through the year 2000 for U.S. combat aircraft, naval fast-attack craft and main battle tanks in these countries ranges between roughly $17 billion to $31 billion (in constant 1986 dollars). This estimate assumes that U.S.-manufactured equipment would prevail over foreign competitors--a debatable, although we believe, generally defensible, assumption.

Should all such prospective sales be denied by the United States, and the demand be fulfilled by other nations, the total income lost to the U.S. economy could range between $34 billion and $60 billion. In employment terms, the total cost would be between 1,027,000 and 1,878,000 man-years. The brunt of this impact would be borne by aerospace firms and the communities in which they exist.

Even if the United States was quite selective in denying sales, the impact still would be significant. If only future sales of modern combat aircraft to Jordan and Saudi Arabia were denied, total "lost" income could range roughly between $8 billion and $18 billion with corresponding foregone employment opportunities between 270,000 and 571,000 man-years.

Alternatively, consider the likely economic impact of blocking the $1 billion arms package for Saudi Arabia reportedly under consideration. The total income generated by this sale would be almost $2 billion with a corresponding total employment opportunity of roughly 61,000 man-hours for the U.S. defense industry and the surrounding communities.

Our purpose in painting this portrait is to illustrate that empirically based estimates of economic costs can be applied to begin to measure the domestic economic dimension of prospective arms sales. It should be noted that the foregoing estimates are based upon national averages. These estimates do not purport to reflect other benefits to the U.S. government (such as production savings or recoupment costs) that could be associated with future sales. Moreover, these estimates of possible economic costs to the United States assume that prospective sales to these Middle East countries will be reimbursable. With the exception of Jordan, this has largely been the case in the past. As for the future, if offset arrangements are a condition of the sale, clearly the net economic impact of restraint in a particular sale--given that an offset arrangement was not necessary--must be considered.

Measuring the economic impact of curbs on future U.S. arms sales must be made on a case-by-case basis. Further, such measurement must take into account both the costs of extending assistance as well as the cost of limiting assistance. As the executive and legislative branches, labor and industry consider security assistance issues, we believe greater resources should be devoted to developing and refining tools for assessing the domestic impact. Certainly, there should be a broad national discussion of this issue.

Obviously, economic impact should be fully understood when arms sales decisions are made. Certainly, if economics does come into play, it should do so based upon sound empirical, rather than impressionistic grounds.