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The National Defense Boost in Rural America

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The $660 billion our nation spent on defense in 2007 was the most since 1945, even after adjusting for inflation. Many forecasts call for even higher spending in the years ahead.

This rise in national defense spending has boosted many rural economies, where the military is now sometimes the most important and fastest-growing part of the local economy. Many rural areas should also be well-positioned to capture an increasing share of defense-related expenditures in the future. The largest component of rural defense spending—military personnel expenditures—is expected to grow quickly heading forward, and policymakers are increasingly looking to locate bases and troops away from major population centers.

The recent boom in rural defense spending

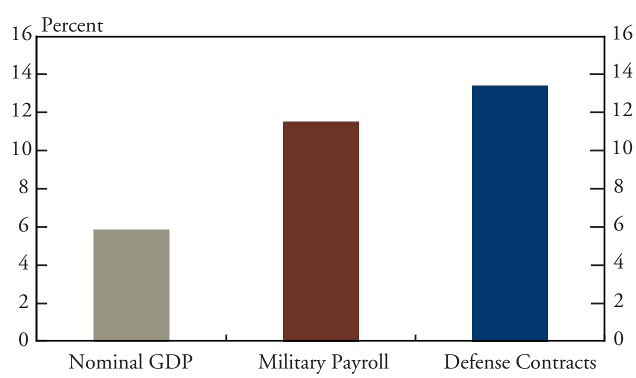
The national defense buildup that began following the terrorist acts of September 11, 2001, has been substantial. Annual growth in U.S. defense expenditures this decade has been nearly twice the rate of growth in the overall economy. By early 2008, national defense's share of U.S. gross domestic product had risen to nearly 5 percent—similar to residential construction's traditional share of GDP and the greatest contribution by national defense to GDP since the early 1990s.

Since 2001, non-metro growth in the two largest components of U.S. defense spending, military incomes and defense contracts, has exceeded overall rural GDP growth by a wide margin (Chart 1). These two aspects of defense spending have accounted for more than 4 percent of total rural U.S. economic growth. The defense sector's contribution to rural growth is likely even higher, since data on some other important segments of defense spending are not available for non-metro areas.[1]

The rapid growth in military incomes in recent years has benefited rural areas near military bases.[2] Several

Chart 1

Annual Growth in Non-Metro Economic and Defense Activity, 2001-06



Source: U.S. Department of Defense, Bureau of Economic Analysis of the largest military installations in the country are in rural areas (Chart 2). These sites, particularly Army posts, employ thousands of individuals directly, both military and civilian. They also support numerous nearby businesses—often entire rural regions. Examples include Fort Riley in central Kansas, Fort Leonard Wood in southern Missouri, Fort Polk in southwestern Louisiana, Fort Drum in upstate New York, Fort Huachuca in southern Arizona, and Fort Rucker in southern Alabama. Each of these forts houses at least 6,500 military and civilian defense personnel, and most forts are much bigger.

Many Air Force bases are also in rural areas. Bases with more than 3,000 personnel include Whiteman AFB in western Missouri, Altus AFB in southwestern Oklahoma, Holloman and Cannon AFBs in New Mexico, Minot AFB in North Dakota, and Mountain Home AFB in southern Idaho.

While Navy and Marine bases tend to be located in or near large coastal cities, several large Navy and Marine air stations can be found outside of metro areas. Large examples include Patuxent River NAS in southern Maryland, Whidbey Island NAS in northwestern Washington, and Cherry Point MCAS in eastern North Carolina.

Like military incomes, defense contracting has grown rapidly since 2001. A number of rural areas across the country have been able to capture major defense contracts. These include, for example, two rural Native American tribes in rural Oklahoma. Companies related to the Cherokee Nation in Stilwell, Oklahoma, were awarded more than $20 million in 2006 to provide medical and dental services to defense personnel. And Choctaw Manufacturing in Hugo, Oklahoma, acquired several contracts to produce a variety of fabricated metal products for the Army and Navy.

Elsewhere, Schutt Industries in Clintonville, Wisconsin, was awarded more than $25 million in 2006 to produce military trailers and other equipment. JLG Industries in central Pennsylvania—a producer of aerial work platforms—won nearly $40 million in defense contracts in 2006. Companies located near military weapons plants in Hawthorne, Nevada, and Crane, Indiana, have also received sizable contracts in recent years.

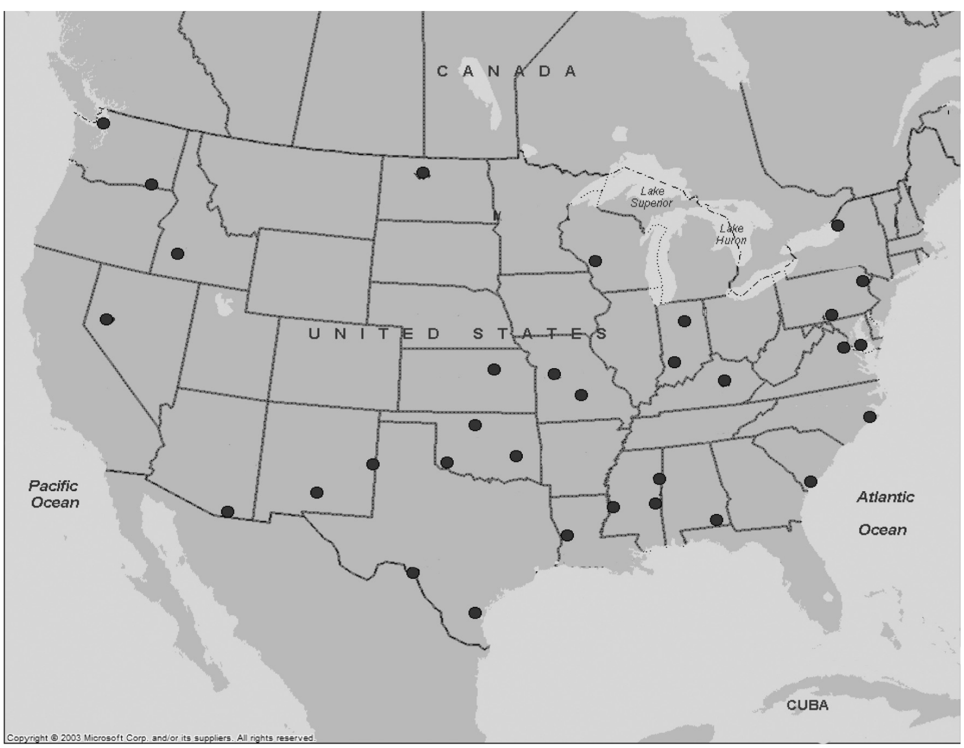
Two rural towns in the southeastern United States have likewise been major recent recipients of defense contracts. Mullins, South Carolina, has long been home to one of the nation's largest military contractors, SOPAKCO, which in 2006 received contracts valued at nearly $100 million to produce military food rations. And Carter Industries in the eastern Kentucky town of Olive Hill has also seen its contracts for producing military uniforms increase substantially since 2001, to about $25 million in both 2005 and 2006.

The recent rise in national defense spending has clearly increased the economic prospects of these as well as other rural areas across the country. But what can rural America expect from national defense in the years ahead?

Chart 2

Rural Defense Strongholds

Non-Metro Department of Defense Concentrations of more than 500 Personnel, 2006



Source: U.S. Department of Defense

Near-term defense spending plans in rural America

National defense is almost certain to maintain an important role in the U.S. economy over the next few years, since many near-term defense spending decisions have already been made. One way in which planned military spending could have implications for rural areas in the near term is through the current round of military base realignments. Another is through the mix of defense spending that will occur over the next year or so, since some types of military expenditures are more heavily concentrated in rural areas.

Every few years since the late 1980s, the Base Realignment and Closure (BRAC) Commission has made recommendations about the future location of military and civilian Department of Defense personnel. The latest BRAC round occurred in 2005 and will be implemented from 2006 to 2010.

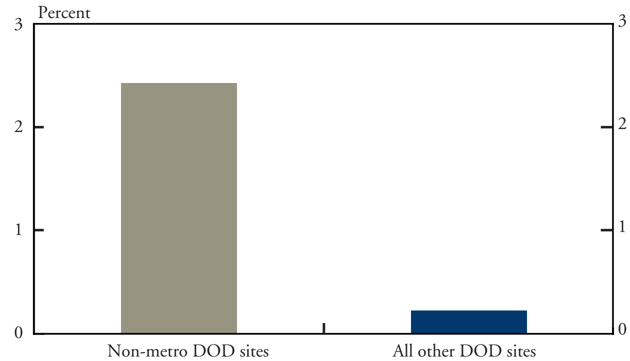
Overall, non-metro military bases fared somewhat better than metro bases in this latest BRAC round. While the overall national impact of the 2005 BRAC recommendations was to only marginally increase U.S. defense personnel levels by 2010, the impact on rural defense installations was much bigger (Chart 3). As such, the spillover, or nondirect, effects of the base realignments will also be larger in rural areas.

Some of the rural bases gaining personnel through the BRAC process were chosen for their greater availability of land, while some metro area bases facing reductions were viewed as being too susceptible to terrorist attacks. Both of these trends could ultimately benefit rural areas. For example, the large expansion of troops expected at Fort Riley in central Kansas was recommended in part "to take advantage of available infrastructure and training land." And one reason cited for moving troops away from Andrews AFB in Maryland, was to "move federal assets out of the National Capital Region, reducing the nation's vulnerability."

To be sure, a number of rural sites are slated to lose defense personnel in coming years, but the losses planned are generally minimal, and no rural bases are slated for closure. The reasons given by the BRAC commission for reducing personnel at rural bases varied widely, but the realignments at many bases—both rural and metro—were often recommended to consolidate operations being conducted at multiple bases into one place.

Chart 3

Increase in Defense Personnel As a Result of Base Realignments, 2006-2010



Source: U.S. Department of Defense

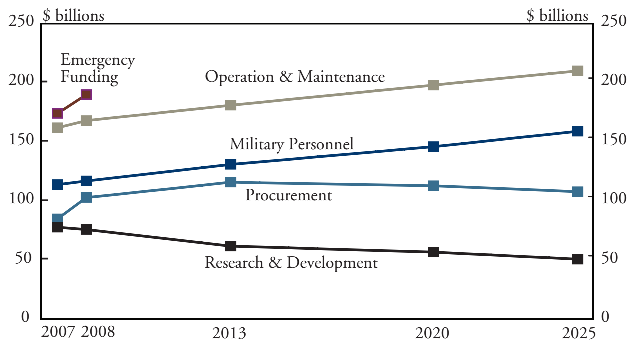
Similar to base realignments, many other near-term aspects of defense spending are largely settled. For 2008, the Congressional Budget Office (CBO) reports that recent trends in defense spending are generally planned to continue. That is, rapid growth in procurement contracts is anticipated to outpace steady growth in personnel and operations spending.

The effects of these near-term spending plans on rural areas depend to a large degree on the types of defense expenditures most concentrated in non-metro areas. Compared to the nation as a whole, rural areas are more concentrated in defense personnel spending and less concentrated in defense contracts. In 2006, the incomes of active military personnel (including reservists and National Guardsmen) accounted for more than 1.25 percent of nonmetro GDP, compared with around 1 percent nationally. By contrast, defense contracts accounted for nearly 2 percent of national GDP, almost twice as much as in non-metro areas.[3]

Since rural areas tend to be much more concentrated in military personnel-related activities than in defense contracts, the defense boost to economic growth is likely to be less in rural areas than in cities this year. This continues a similar trend as in recent years, when metropolitan areas received a bit more of a defense boost. However, the positive rural impacts of base realignments could offset this trend somewhat, and rural areas should continue to see strong growth in defense spending in the year ahead.

Chart 4

Projected U.S. Resources for Defense, 2007-2025



Source: Congressional Budget Office

The longer-term role of the military in rural economies

Beyond these fairly certain near-term plans for national defense spending, forecasting the future size and scope of military expenditures in rural areas becomes more difficult and subject to change. However, an analysis of current long-term expectations for defense spending, along with knowledge of the types of military expenditures that most frequently take place in rural areas, can provide some insights.

Each year, the CBO provides national projections of defense spending over the intermediate- and long-term. Their latest projections were made in December 2007 and go through 2025 (Chart 4). Some adjustments in defense spending priorities are clearly expected over the next two decades based on these forecasts.

Over the intermediate term—through 2013—only modest changes in military-related expenditures are anticipated. Procurement of supplies and equipment is anticipated to continue to expand fairly rapidly, although the rate of growth is expected to slow and become more in line with growth in personnel and operations spending. Meanwhile, military research and development spending is expected to drop off in the near term. Given rural areas' greater reliance on personnel-related activities, their economic boost from defense spending over the intermediate term should therefore begin to more closely match that of metro areas.

Longer-term projections of defense spending—through 2025—suggest a continuation of solid growth in personnel and operations spending but a gradual decline of procurement and R&D contracts. This trend would be consistent with past cycles of military spending—defense contracting rises more rapidly than personnel during defense buildups but falls off more sharply during cutbacks. It is also consistent with other long-term views of U.S. military spending. For example, a recent special report in *The Economist* (2007) suggests that the nature of fighting terrorism as opposed to nation-states lends itself to more of a focus on personnel rather than weapons and equipment spending.

These expectations of a greater emphasis on the use of manpower in the military over the long haul should generally bode well for rural areas with a foothold in defense. Not only are rural areas more concentrated in military personnel than cities, but the recent trend in realignment of troops away from areas more likely to be potential targets of terrorist attack—such as large metropolitan areas on the coasts—could provide an additional boost.

While economic research is mixed on whether devoting sizable resources to the military is beneficial for national economic growth, especially in the long run, the benefits are often clearer for local areas.[4] For one thing, a heavy presence in defense often means more federal tax dollars coming into an area than going out. This money can in turn provide additional spillover benefits—such as new business creation to serve troops and their families, as well as investments in local human and physical capital that may otherwise not have occurred and can have beneficial long-term effects.

To be sure, relying too heavily on military spending for economic sustainability comes with some risks. In particular, any reductions in local defense activity—such as through base realignments—can have devastating effects on smaller areas. In addition, and depending on the area involved, there may potentially be more productive long-term uses of land and other resources than military bases. Still, the more stable expectations for military personnel growth than for other types of defense spending heading forward should provide some assurances for many rural areas involved in defense.

Summary

National defense is an important and growing part of the rural economy—in many places the most important and fastest-growing part. While relying too heavily on the military may pose some risks for local economies, anticipated future trends in military expenditures—in particular national expectations for increased emphasis on defense personnel spending—suggest rural areas may be in a position to increase their share of the national defense expenditure pie in the years and decades ahead.

Endnotes

[1] These other main components include: civilian defense payroll; government investment in bases and other infrastructure; and the nuclear defense activities of the Department of Energy. At the national level, these other components account for over one-third of all defense expenditures.

[2] Active military deployed overseas are counted at their home base in defense statistics. Reserve and National Guard military pay is also counted at the home base of the reservist or Guardsman.

[3] To be sure, subcontracting of these primary contracts may result in rural areas receiving a somewhat greater share of defense contracts, but the non-metro share of contracts still likely remains well below the national average.

[4] See Wilkerson and Williams (2008) for a detailed discussion and review of past research on the effects of defense spending on national and regional economic growth.

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