



It was Eddy Moini's first job out of college as a finance officer that brought her and her new husband, Hossein, to Lawton, Okla., 26 years ago—and it was the Army that kept the couple here decades after her military commitment was up.

“I own four businesses in town and they are all affected by Fort Sill,” Hossein Moini says of their travel agency and three eateries.

Whether it's crowds of Army personnel grabbing lunch at Gandolfo's New York-style deli near the main gates, or a deployed soldier e-mailing Adventure Travel to help plan a post-homecoming family vacation, Hossein Moini acknowledges, “Fort Sill is a huge piece of the business in Lawton.”

The city of Lawton, about 90 miles southwest of Oklahoma City near the Texas border, has seen its population grow in the last half century from 35,000 to 110,000 due in large part to Fort Sill. When the final waves of the Base Realignment and Closure (BRAC) Commission's mandates take place in the coming years, the influx of soldiers will increase the city's population by an estimated 10 percent, according to the chamber of commerce. With this boost, Fort Sill's regional economic impact likely will tip past \$2 billion, the chamber predicts.

Economic FORCE

DEFENSE SPENDING HAS SIGNIFICANT PRESENCE IN THE REGION



THE FLEET OF B-2 “STEALTH” BOMBERS are housed at Whiteman Air Force Base in Knob Noster, Mo., along with other aircraft. The base has a \$529 million impact on its surrounding area.

PHOTO BY GARY BARBER



THE MAJORITY OF THE PATRONS IN GANDOLFO'S DELI IN LAWTON, OKLA., are from the nearby Army post. "We get a lot of soldiers," says manager Jeri Anderson. "Fort Sill is very good to us." There are about 16,000 military personnel stationed there, with more on the way as the final waves of the nationwide realignments take place in the coming years.

"There's nothing that comes close to rivaling that," says Dana Davis, president of the Lawton-Fort Sill Chamber of Commerce.

Lawton is just one of many communities in the region heavily affected by federal defense spending.

"The military has long had an important presence in the region's economy," says Chad Wilkerson, an economist and Branch executive at the Federal Reserve Bank of Kansas City's Branch in Oklahoma City.

Wilkerson and Megan Williams, an associate economist also at the Oklahoma City Branch, researched how the recent rise in national defense spending is affecting the Tenth Federal Reserve District's economy. The

District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

National defense accounts for a larger share of the District's economy than in the nation. In fact, only two states in the District, Nebraska and Wyoming, have a smaller defense presence than the country as a whole. However, the defense sector has grown less in this region than in the nation since the buildup began after the 2001 terrorist attacks. This likely can be attributed to more personnel and base-related activity that are concentrated in the District, which haven't grown as much as the defense contracting sector elsewhere.

"The ongoing national defense buildup

probably will help the District economy more in the long run than in the short run," Williams says. "The region is well positioned for future expansion of defense activity."

Because defense spending in the District tends to rise less than the nation during massive national defense buildups, and fall less during cutbacks, the defense sector could potentially have a more stabilizing effect with fewer shocks to the economy than it does in other regions of the country.

"In the years and decades ahead," Wilkerson says, "defense activity is likely to become increasingly concentrated in the District, providing an overall boost to regional economic activity."

national economic growth—findings are largely dependent on the time frame. There may be an economic growth boost in the short term, but other studies show high levels of defense spending to be a drag on economic growth in the long run.

"Theoretically, it could go either way," Williams says. "Defense expenditures could be used elsewhere, private or public, and be more favorable to long-term growth. But, defense spending does have obvious positive benefits, such as the development of infrastructure and technology, which are conducive to economic growth."

This recent massive increase has boosted the U.S. GDP an additional 1 percent per

“ We certainly have a dependence on the military. ”

It's not hard to find folks in Lawton who know that.

Says Gandolfo's manager, Jeri Anderson, "As Fort Sill goes, so do we."

Defense and the economy

Since the United States entered World War II in late 1941, defense spending has played an important role in the nation's economy. Defense spending rose from 2 percent of the country's gross domestic product (GDP) to more than 33 percent during WWII, effectively ending the Great Depression. The share subsequently rose and fell, and since 2001, has been increasing rapidly—about twice the rate of overall national economic activity—with no signs of slowing in the near future.

National defense spending now accounts for nearly 5 percent of GDP, which is the value of all goods and services produced. In 2007, this equated to more than \$650 billion, which greatly exceeds that of any other country, Williams says.

Research is mixed on whether defense spending has a positive or negative effect on

year during the early years of the buildup. U.S. trade and budget deficits also have risen. Research suggests this rise eventually could have a downward effect on the economy.

"Defense spending remains important to the U.S. economy," Williams says, "and while it provides a short-term boost, long-term benefits to economic growth aren't certain."

In the region

Rick Zimmerman, a sales manager at Phil Long Ford in Colorado Springs, can't help but notice a similarity among many of his customers browsing the rows of cars and trucks: They're wearing a uniform.

"One out of four, one out of five are military," Zimmerman says. "It's huge (business) for us."

Whether they're from nearby Fort Carson, Schriever or Peterson Air Force Bases or the Air Force Academy, there are roughly 45,000 members of the military living—and spending money—in Colorado Springs. Along with their families and defense-related civilian personnel, the defense sector has a multibillion-dollar

DEFENSE IN THE DISTRICT

Compared to the nation, the Tenth Federal Reserve District is much more heavily concentrated in personnel-related and military base defense spending, as well as in the nuclear defense-related activities conducted by the Department of Energy. While the defense presence in the District is large, it also is unique in its composition.

- The Air Force accounts for 43 percent of this area's defense personnel, compared to 23 percent nationally. The District houses 11 Air Force bases.
- The North American Aerospace Defense Command, or NORAD, which controls and surveys U.S. and Canadian airspace, is in Colorado Springs.
- Tinker Air Force Base in Oklahoma City is the nation's largest and has more than 14,000 civilian Department of Defense personnel.
- The Army accounts for almost 50 percent of this area's defense personnel, which is similar to the nation's share. The District includes three of the country's 12 largest bases.
- Offutt Air Force Base near Omaha includes the Defense Department's weather agency.
- Wichita, Kan., is home to the majority of the District's private defense contractors, such as Cessna Aircraft Co., Spirit Aerosystems Inc. and Raytheon Aircraft Co.
- One of the nation's five U.S. Service Academies, the Air Force Academy, is in Colorado Springs.
- The Department of Energy's Los Alamos and Sandia National Laboratories, which oversee the nation's nuclear weapons stockpile and research security issues, are in northern New Mexico. New Mexico has the largest defense presence in the District.
- Wyoming has the largest share of reservists and National Guard members in the District.



PHOTO BY JOSHUA LAWTON

BUSINESSES, SUCH AS THIS CAR DEALERSHIP in Colorado Springs, heavily rely on the 45,000 military members (and their families) who live there. The city's military presence is unique—it includes both Army and Air Force installations as well as one of the nation's five service academy schools.

impact on the local economy, say Fred Crowley and Tom Zwirlen, professors at the University of Colorado-Colorado Springs, who conduct an economic analysis annually. The city of about 600,000 is estimated to see a 2.4 percent boost to its metro employment by 2010 from the nationwide base realignment.

"I think maybe we won the lottery," Zwirlen says of the numerous military installations in Colorado Springs.

So strong is the military presence there, Crowley and Zwirlen can measure its comings and goings based on airport activity and retail sales, which spike when troops return from deployments, for example. Additional benefits include: increased enrollment at the university (Crowley and Zwirlen estimate about 10 percent of their MBA students are service members); diverse skills military spouses bring to the local workforce; military-related visitors; retirees who remain in the area; and private contractors drawn there.

Drawbacks include increased demands on schools, city services and the like. Crime rates tend to be higher in the area immediately around a base, Crowley and Zwirlen say.

"There are pluses and minuses," Zwirlen says, adding the local economy needs diversification.

"We certainly have a dependence on the military," Crowley says.

"It could potentially have a devastating effect" on the Colorado Springs economy if defense spending was reduced, Zwirlen says.

For the District, defense spending is sizable and widespread, affecting regional economies somewhat differently than the national economy, Wilkerson says. In terms of its share of GDP, defense spending in the District is about 25 percent more than in the nation. Most District states have a similar composition of defense spending, and many include some of the largest military installations in the country.

Regional effects of defense spending can

differ from each other and the nation as a whole because of differing aspects. Research shows certain types of defense spending, such as research and development, can boost an area's economic activity, especially during short periods of time.

The District's relatively large availability of land and lower labor costs are conducive to national defense needs. Political considerations play a role as well. However, the region's smaller metropolitan area population may limit the number of defense contracts awarded.

Since 2001, real defense spending in the District has risen about 4.5 percent a year compared to 7 percent nationally, while overall economic growth in the District has been slightly faster than in the nation.

Wilkerson and Williams' research shows many types of defense spending that have grown the fastest nationally are not highly

concentrated in the District, while the types that are concentrated here have grown more slowly. In particular, research and development defense spending is weak in the District, but is an area that has lasting effects on a region's future economic growth.

"What drives defense activity in the region is useful in determining the role that the defense sector is likely to play in the regional economy of the future," Wilkerson says.

Future spending

"National defense is likely to continue to have an important presence in the District's economy in the coming years and decades," Wilkerson says.

The BRAC Commission recommendations about the future location of military and civilian Department of Defense personnel and bases made in 2005, and largely approved by

THE COMBINED NATIONAL DEFENSE in the Tenth Federal Reserve District accounts for a larger share of the economy than in the nation. This region is well positioned for future defense growth.

Congress, will benefit the District. A gain of more than 11,500 personnel is expected through 2010. Additionally, the BRAC Commission estimated 8,000 new jobs for District states.

"The reasons that these areas, and others, were recommended for expansion by the BRAC Commission may provide further insights about the future of defense spending in the District," Wilkerson says.

The commission suggested Forts Riley, Sill and Carson (in Kansas, Oklahoma and Colorado, respectively) were selected, in part,

the District—are expected to grow.

"In the years and decades ahead, defense activity is likely to become increasingly concentrated in the region," Wilkerson says, "providing an overall boost to regional economic activity."

In Lawton, there is a sense of excitement as the community prepares for the influx of defense personnel. The downtown is undergoing a major revitalization, four new apartment complexes are complete and a handful of new hotels are under construction.

“ What drives defense activity in the region is useful in determining the role that the defense sector is likely to play in the regional economy of the future. ”

because of available training land, according to its report. The commission also suggested the consolidation of some functions at an air base in Maryland to Tinker Air Force Base in Oklahoma City to reduce vulnerability near the nation's capital.

"The District's availability of open land and distance from possible future targets of terrorist attacks are viewed as assets by the BRAC Commission," Wilkerson says. "But beyond the effects of these base realignments, forecasting the future role of defense spending in this region is difficult."

The Congressional Budget Office's annual report projects generally high levels of Department of Defense spending over the long term, in addition to the ongoing military actions in Iraq and Afghanistan. Plans include purchasing new military equipment, developing weapons systems, and increasing personnel pay and benefits.

Near-term future defense spending likely will grow slightly faster outside of the District, given its minimal defense contracting. Longer-term projections, though, suggest spending on military personnel as well as operations and maintenance—areas heavily concentrated in

Hossein and Eddy Moini hope to expand their business presence there as the Army's presence in Lawton grows.

"Definitely our success has a lot to do with Fort Sill," Hossein Moini says. "When soldiers aren't here (because of deployments or training), you can feel the difference."

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

"HOW IS THE RISE IN NATIONAL DEFENSE SPENDING AFFECTING THE TENTH DISTRICT ECONOMY?"

"THE NATIONAL DEFENSE BOOST IN RURAL AMERICA"

By Chad R. Wilkerson and Megan D. Williams
www.KansasCityFed.org/TEN

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

